

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

**BUDGET AND LEGISLATIVE ANALYST**

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**REVISED 11/29/12**

November 29, 2012

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst  
**SUBJECT:** December 5, 2012 Budget and Finance Committee Meeting

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<b>Item 6</b> <b>File 12-1086</b>	<b>Department:</b> Controller
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• Resolution establishing the City and County’s Appropriations Limit for FY 2012-13 pursuant to Article XIII B of the California Constitution.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would establish the City’s Appropriations Limit in FY 2012-13 at \$2,634,687,668 pursuant to Article XIII B of the California Constitution.</li> <li>• California Government Code Sections 7901 and 7902(b) define the terms and the calculation to be used in setting the Appropriations Limit, respectively.</li> <li>• According to Article XIII B, the Appropriations Limit does not apply to any tax proceeds appropriated due to (a) voter approved indebtedness, (b) federally mandated services, (c) qualified capital outlays, and (d) various hazardous waste programs administered by the Department of Public Health.</li> <li>• For FY 2012-13, based on the Controller’s calculation, the City’s net tax proceeds subject to the FY 2012-13 Appropriations Limit is \$2,466,068,485 or \$168,619,183 less than the City’s Appropriations Limit of \$2,634,687,668 as calculated by the Controller.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• In calculating the cost of living adjustment to the Appropriations Limit, the Controller can use either (a) the percentage change in California per-capita income from the preceding year or (b) the percentage change in the local assessment roll from the preceding year due to the change in local non-residential new construction. In using the change in California per-capita income, the City’s Appropriations Limit is calculated at \$2,634,687,668. Instead, if the change in non-residential new construction assessment is used, the City’s Appropriation Limit is calculated as \$2,549,124,428, or \$85,563,240 less than the proposed Appropriations Limit of \$2,634,687,668 based on the percentage change in California per-capita income from the preceding year. Using either cost of living adjustment, the City’s FY 2012-13 net tax proceeds of \$2,466,068,485 is below the FY 2012-13 Appropriations Limit.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

On November 6, 1979, California voters approved Proposition 4, known as the Gann Initiative, which added Article XIII B to the California Constitution. Article XIII B (later amended by State Proposition 111, as approved by the voters in June of 1990) limits the annual growth in appropriations from the proceeds of Property Taxes to the percentage change in the cost of living and the percentage change in population. According to Article XIII B, the Appropriations Limit does not apply to any Property Tax proceeds appropriated due to (a) voter approved indebtedness, (b) federally mandated services, (c) qualified capital outlays, and (d) various hazardous waste programs administered by the Department of Public Health.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish the City's Appropriations Limit in FY 2012-13 at \$2,634,687,668 as calculated by the Controller, pursuant to Article XIII B of the California Constitution. The City's Appropriations Limit for FY 2012-13 is based on the amount of the FY 2011-12 Appropriations Limit multiplied by a cost of living adjustment and a population adjustment (defined below).

Table 1 below shows how the City's FY 2012-13 Appropriations Limit of \$2,634,687,668 was calculated by the Controller's Office.

**Table 1: Proposed Appropriations Limit**

FY 2011-12 Appropriations Limit	<b>\$2,527,091,225</b>
Adjusted by:	
Increase in Cost of Living	3.77%
Increase in Population	.47%
<b>FY 2012-13 Appropriations Limit</b>	<b>\$2,634,687,668*</b>

\*\$2,527,091,225 x 1.0377 x 1.0047 equals \$2,634,687,668.

California Government Code Sections 7901 and 7902(b) define the terms and the calculation to be used in setting the Appropriations Limit, respectively.

The change in population is defined in California Government Code Section 7901(b) as the population growth for the calendar year preceding the beginning of the fiscal year for which the appropriations limit is to be determined. According to the California Department of Finance, in calendar year 2011, San Francisco's population growth was 0.47 percent.

The cost of living is defined by California Government Code Section 7902(b) as either (a) the percentage change in California per-capita income from the preceding year or (b) the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local non-residential new construction. The Controller's Office, at their discretion, used the increase in California per-capita income from FY 2011-12, or 3.77 percent, as the cost of living adjustment.

## FISCAL IMPACTS

The City's FY 2012-13 total tax proceeds, as determined by the Controller, are \$2,703,064,723. As shown in Table 1 above, the proposed resolution would establish the City's Appropriations Limit in FY 2012-13 at \$2,634,687,668, as calculated by the Controller, pursuant to Article XIII B to the California Constitution. According to Article XIII B, the City's Appropriations Limit does not apply to tax proceeds appropriated due to (a) voter approved indebtedness, (b) federally mandated services, (c) qualified capital outlays, and (d) various hazardous waste programs in the Department of Public Health. As a result of these exclusions, as shown in Table 2 below, \$236,996,238 is excluded from the City's total FY 2012-13 tax proceeds of \$2,703,064,723. Based on the Controller's calculations, an estimated total of \$2,466,068,485 is the City's net tax proceeds that would be subject to the City's FY 2012-13 Appropriations Limit.

<b>Table 2: Tax Proceeds Subject to the Proposed Appropriations Limit</b>	
Total FY 2012-13 Tax Proceeds	\$2,703,064,723
<b>Exclusions</b>	
Voter Approved Indebtedness	(171,601,000)
Federally Mandated Services	(59,595,647)
Qualified Capital Outlays	(2,546,908)
Hazardous Waste Program	(3,252,683)
<b>Subtotal Excluded</b>	<b>(\$236,996,238)</b>
<b>FY 2012-13 Net Tax Proceeds Subject to Appropriations Limit</b>	<b>\$2,466,068,485</b>

Therefore, the City's FY 2012-13 net tax proceeds of \$2,466,068,485, as shown in Table 2 above, are \$168,619,183 less than the City's FY 2012-13 Appropriations Limit of \$2,634,687,668, shown in Table 1 above.

In accordance with the Administrative Provisions of the Annual Appropriations Ordinance, any FY 2012-13 tax proceeds in excess of current estimates must be appropriated to the City's General Fund General Reserve, which is used as a revenue source (a) to fund supplemental appropriations during the current fiscal year, and (b) to fund the City's budget for the next fiscal year.

## POLICY CONSIDERATION

As noted above, to calculate the cost of living adjustment to the City's Appropriations Limit, the Controller has the discretion to use either (a) the percentage change in California per-capita income from the preceding year, or (b) the percentage change in the local assessment roll from the preceding year due to the addition of local non-residential new construction. By using the change in California per-capita income, this results in a cost of living adjustment of 3.77 percent, thereby resulting in the City's Appropriations Limit being calculated at \$2,634,687,668. If the alternative cost of living adjustment, the change in non-residential new construction assessments is used, which is .40 percent, instead of the 3.77 percent, the City's Appropriations Limit would be calculated at \$2,549,124,428 ( $\$2,527,091,225 \times 1.0047 \times 1.0040$ ) or \$85,563,240 less than the proposed Appropriations Limit of \$2,634,687,668. Under either cost

of living adjustment, the FY 2012-13 net tax proceeds of \$2,466,068,485, as shown in Table 2 above, would be less than the City's FY 2012-13 Appropriations Limit.

## **RECOMMENDATION**

Approve the proposed resolution.

<b>Item 9</b> <b>File 12-1127</b>	<b>Department:</b> Public Utilities Commission (PUC)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objective</b></p> <p>The proposed resolution would (a) approve San Francisco Public Utilities Commission's (PUC) issuance of Wastewater Revenue Bonds in a total not-to-exceed amount of \$670,000,000, including (1) \$250,000,000 to refund outstanding Wastewater Revenue Bonds pursuant to the Charter of the City and California Government Code Sections 53580 et seq., and (2) \$420,000,000 to finance various capital projects under the PUC Sewer System Improvement Program (SSIP), (b) affirming covenants contained in the indenture pursuant to which the Wastewater Revenue Bonds are issued; and (c) related matters.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The PUC's Wastewater Annual Capital Improvement Program (CIP) identifies and prioritizes capital and renewal and replacement needs. The Wastewater Enterprise is now in the process of completing the \$386.3 million CIP and is in the beginning stages of the \$6.9 billion Sewer System Improvement Program (SSIP).</li> <li>• The Board of Supervisors has previously authorized the PUC to issue up to \$820,566,235 in Wastewater Revenue Bonds. However, the Wastewater Revenue Bond issuance in the proposed resolution would be the first such issuance under this authority.</li> <li>• The proposed resolution would authorize the issuance of up to \$250,000,000 in Wastewater Revenue Refunding Bonds ("2013A Refunding Bonds"), which the PUC would use to refinance outstanding Wastewater Revenue Bonds and State Revolving Fund loans at a lower interest rate, generating an estimated a net total present value savings of \$30,470,560.</li> <li>• The proposed resolution would also authorize the issuance of up to \$420,000,000 in Wastewater Revenue Bonds ("2013B New Money Bonds"), which the PUC would use for the purpose of financing or refinancing, through the retiring of commercial paper, various CIP and SSIP projects.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The PUC estimates that the debt service for 2013A Refunding Bonds would total an estimated \$222,873,102 over a 13-year period, including \$192,215,000 in principal and \$30,658,102 in interest. This new debt service would reduce the average single-family's residential wastewater bill by \$0.60 per month over the repayment period. The PUC would fully repay the 2013A Refunding Bonds in FY 2025-26.</li> <li>• Debt service for the up to \$420,000,000 Wastewater Revenue Bonds issuance would total an estimated \$750,909,805 over 30 years, including \$355,060,000 in principal and \$395,849,805 in interest. The PUC estimates the average annual debt service for the Refunding Bonds would be \$25,156,875 per year for 30 years. According to Mr. Brown, 2013B New Money Bonds would increase the average single-family's residential wastewater bill by \$5.03 per month over the 30-year repayment period. These projected costs are already assumed in adopted sewer rates through FY 2013-14 and projected rates included in the PUC's 10-Year Financial Plan.</li> </ul>	

- The PUC has proposed delaying repayment of the principal on the 2013B New Money Bonds for the first 10 years of the repayment period, paying only the interest. The purpose of this repayment structure is to create smaller, stabilized rate increases for San Francisco residential and commercial ratepayers through the SSIP period financing period. According to the PUC's financial analyst, delaying repayment of the principal on the 2013B New Money Bonds will result in an additional total cost of approximately \$58 million over the 30-year life of the bonds, saving the average single-family's residential wastewater bill \$0.71 per month in the first 10 years of bond repayment, but costing \$1.03 per month more in the final 18 years of repayment.

### **Recommendation**

- Approve the issuance of the \$250,000,000 2013A Refunding Bonds, affirming covenants contained in the indenture pursuant to which the Water Revenue Bonds are issued, and related matters.
- Because the \$420,000,000 proposed 2013B New Money Bond repayment structure stabilizes wastewater utility rates while increasing the overall debt service, approval of the 2013B New Money Bond issuance is a policy matter for the Board of Supervisors.

## **MANDATE STATEMENT & BACKGROUND**

### **Mandate Statement**

Under Section 9.109 of the City Charter and California Government Code Sections 53580 et seq., the Board of Supervisors is authorized to approve the issuance of bonds for the purpose of refunding any outstanding revenue bonds without voter approval, provided that such refunding is expected to result in net debt service savings to the City on a present value basis.

Under San Francisco Charter Section 8B.124 (Proposition E, November 5, 2002), the PUC is authorized to issue revenue bonds, including notes, commercial paper or other forms of indebtedness for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities, subject to approval by two-thirds of the Board of Supervisors. The Board of Supervisors authority to authorize an issuance of debt under Charter Section 8B.124 is subject to (a) certification from an independent engineer that (i) the projects to be financed by such debt meet utility standards and (ii) estimated net revenue will be sufficient to meet operating, maintenance, debt service coverage and other indenture or resolution requirements, and (b) certification by the San Francisco Planning Department that facilities under the PUC's jurisdiction that are to be funded by the debt will comply with the California Environmental Quality Act (CEQA).

### **Background**

The PUC's Wastewater Enterprise is responsible for the operations, maintenance, capital improvements and repair/replacement of the following wastewater facilities and assets:

- Four Water Pollution Control Plants including: Southeast Treatment Plant, Oceanside Treatment Plant, North Point Wet-Weather Facility, and Treasure Island Treatment Plant;
- 27 Pump Stations in San Francisco and 29 on Treasure Island;
- Eight Transport/Storage Facilities for combined sewage;
- Three Bay/Ocean Outfalls off of San Francisco;
- One Outfall off of Treasure Island;
- 36 combined Sewer Discharge Structure;
- 50 stormwater outfalls on Treasure and Yerba Buena Islands;
- 993 miles of Sewers, Tunnels, and Force Mains; and
- The Southeast Community Facility.

The PUC's Wastewater Annual Capital Improvement Program (CIP) identifies and prioritizes capital and renewal and replacement needs. The CIP also includes the development of Wastewater Enterprise asset management objectives, standards, policies, and procedures. The Wastewater Enterprise is now in the process of completing the \$386.3 million CIP and is in the beginning stages of the Sewer System Improvement Program (SSIP), which will be constructed from 2011 through 2040 at an estimated cost of \$6.9 billion

As is noted in the Mandate Statement section above, on November 5, 2002, San Francisco voters approved Proposition E, authorizing the PUC to issue revenue bonds and other forms of financing for water and clean water facilities and services, subject to approval by two-thirds of the Board of Supervisors. The Wastewater Revenue Bond debt is financed from sewer fees charged by the PUC to San Francisco's residents and businesses.

The Board of Supervisors approval of appropriation and bond issuance legislation related to the proposed resolution is summarized in Table 1, below. As shown in Table 1 above, the Board of Supervisors has previously authorized the PUC to issue up to \$820,566,235 in Wastewater Revenue Bonds. However, according to Mr. Mike Brown, Capital Finance Analyst for the PUC, the wastewater bond issuance proposed in the subject resolution would be the first such issuance under this authority.

Furthermore, to date the SFPUC has been able to take advantage of its \$300 million Wastewater Commercial Paper program to provide interim financing at an average financing cost of approximately 1% per year. That program will continue, but refunding of the Wastewater Commercial Paper is now needed to provide encumbrance capacity for other approved and appropriated sewer projects.



**Table 1. Relevant Wastewater Capital Improvement Program and Sewer System Improvement Program Appropriation and Debt Issuance Legislation Previously Approved by the Board of Supervisors**

Item No.	Approval Date	Summary of Board Action	Amount
<b>Appropriation Authority</b>			
10-0339	4/27/2010	Appropriation of \$348,064,054 to fund wastewater capital improvements in FY 2010-11 and FY 2011-12	\$297,756,235
11-0284	3/29/2011	Approval of the City's Ten Year Capital Expenditure Plan, including PUC Wastewater Capital Projects	N/A
11-0626	7/26/2011	Approved Citywide Consolidated Budget and Annual Appropriation Ordinance, including \$30,000,000 for bond-funded wastewater capital improvements.	30,000,000
12-0428	6/12/2012	Appropriation of \$587,756,000 to fund wastewater capital improvements in FY 2012-13 and FY 2013-14	587,756,000
<b>Total Appropriation Authority</b>			<b>\$915,512,235</b>
<b>Bond Issuance Authority</b>			
10-0340	4/27/2010	Authorization for the PUC to issue \$297,756,235 in Wastewater Revenue Bonds for wastewater capital improvements.	\$297,756,235
12-0469	6/12/2012	Authorization for the PUC to issue \$522,810,000 in Wastewater Revenue Bonds for wastewater capital improvements.	522,810,000
<b>Total Revenue Bond Issuance Authority</b>			<b>\$820,566,235</b>

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (a) approve San Francisco Public Utilities Commission's (PUC) issuance of Wastewater Revenue Bonds in a total not-to-exceed amount of up to \$670,000,000, including (1) up to \$250,000,000 to refund outstanding Wastewater Revenue Bonds pursuant to the Charter of the City and California Government Code Sections 53580 et seq., and (2) up to \$420,000,000 to finance various capital projects under the PUC Capital Improvement Program (CIP) and Sewer System Improvement Program (SSIP), (b) affirming covenants contained in the indenture pursuant to which the Wastewater Revenue Bonds are issued; and (c) related matters.

The proposed resolution would authorize the issuance of up to \$250,000,000 in Wastewater Revenue Refunding Bonds ("2013A Refunding Bonds"), which the PUC would use to refinance

(refund) outstanding Wastewater Revenue Bonds and State Revolving Fund loans<sup>1</sup> at a lower interest rate, generating savings. Any issuance of Wastewater Revenue Refunding Bonds would need to meet the City's minimum refunding bond standards of 3% savings at the time of sale. At this time, the PUC's objective is to use Wastewater Revenue Refunding Bonds to refinance the PUC's outstanding Series 2003A Wastewater Revenue Bonds and State Revolving Fund loans, in an amount totaling up to \$250,000,000, including costs of issuance. The PUC estimates it will be able to achieve more than the 3% required savings by refunding the Series 2003A Wastewater Revenue Bonds and State Revolving Fund loans, as discussed in the Fiscal Impacts section below.

The proposed resolution would also authorize the issuance of up to \$420,000,000 in Wastewater Revenue Bonds, which the PUC would use for the purpose of financing or refinancing, through the retiring of commercial paper, various CIP and SSIP projects. These capital projects were previously approved by the Board of Supervisors under the four pieces of appropriation authorization shown in Table 1 above (Files 10-0339, 11-0284, 11-0626, and 12-0428). A list of the individual projects and costs is shown in Attachment I to this report.

As is noted in the Mandate Statement section above, the Board of Supervisors authority to authorize an issuance of debt under Charter Section 8B.124 is subject to (A) certification from an independent engineer that (i) the projects to be financed by such debt meet utility standards and (ii) estimated net revenue will be sufficient to meet operating, maintenance, debt service coverage and other indenture or resolution requirements, and (B) certification by the San Francisco Planning Department that facilities under the PUC's jurisdiction that are to be funded by the bonds will comply with the California Environmental Quality Act (CEQA). According to Mr. Brown, these documents will have been filed with the Clerk of the Board prior to the December 5, 2012 Board of Supervisors Budget and Finance Committee meeting.

## FISCAL IMPACTS

The proposed resolution would approve San Francisco Public Utilities Commission's (PUC) issuance of Wastewater Revenue Bonds in a total not-to-exceed amount of up to \$670,000,000, including (a) up to \$250,000,000 in Wastewater Revenue Refunding Bonds ("2013A Refunding Bonds") and (b) up to \$420,000,000 in new Wastewater Revenue Bonds ("2013B New Money Bonds").

### **Series 2013A Refunding Bonds**

The 2013A Refunding Bonds would enable the PUC to refund up to \$250,000,000 of Wastewater Revenue Bonds and State Revolving Fund loans, including bond issuance and related costs, if market rates were favorable to such an exchange. According to PUC Deputy Chief Financial Officer Mr. Charles Perl, the PUC estimates that the refunding of the outstanding 2003A Bonds would allow for an average annual debt service savings of \$2,980,047, and a net

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<sup>1</sup> The PUC used State Revolving Fund loans to finance various capital projects benefiting the Wastewater Enterprise.

total present value savings of \$30,470,560, as shown in Attachment II. Although the PUC's estimates are based on a borrowing cost of 5.0%, according to Mr. Perl, the PUC estimates that its borrowing cost will be closer to 2.0% on the Series 2013A Refunding Bonds.

As is shown in Attachment II, the PUC estimates that the debt service for 2013A Refunding Bonds would total an estimated \$222,873,102 over a 13 year period, including \$192,215,000 in principal and \$30,658,102 in interest. According to Mr. Brown, this new debt service would reduce the average single-family's residential wastewater bill by \$0.60 per month over the repayment period. The PUC would fully repay the 2013A Refunding Bonds in FY 2025-26.

### **Series 2013B New Money Bonds**

The PUC proposes to sell up to \$420,000,000 in 2013B New Money Bonds in mid-to late January 2013, after the sale of the 2013A Refunding Bonds. Proceeds from the 2013B New Money Bond sale would be used to fund in Wastewater Capital Projects previously approved by the Board of Supervisors (Files 10-0339, 11-0284, 11-0626, and 12-0428), plus bond issuance and related costs. The proceeds will also be used to reimburse the PUC's Wastewater Enterprise for allowable expenditures as authorized by the Reimbursement Resolution approved by the PUC Commission on August 28, 2012. Although the PUC's estimates are based on a borrowing cost of 5.0%, according to Mr. Perl, the PUC estimates that its borrowing cost will be closer to 4.0% on the Series 2013B New Money Bonds.

As is shown in Attachment III, debt service for the up to \$420,000,000 Wastewater Revenue Bonds issuance would total an estimated \$750,909,805 over 30 years, including \$355,060,000 in principal and \$395,849,805 in interest. The PUC estimates the average annual debt service for the Refunding Bonds would be \$24,222,897 per year for 30 years. According to Mr. Brown, the 2013B New Money Bonds would increase the average single-family's residential wastewater bill by \$5.03 per month over the 30-year repayment period.

### *Proposed Delay in Repayment of Principal for 10 Years*

The PUC has proposed that the 2013B New Money Bonds would be structured in such a way that reduces the initial impact on ratepayers, but that will ultimately cost more over the 30-year borrowing period. As is shown in the "Principal" column in Attachment III, the PUC has proposed delaying repayment of the principal for the first 10 full years of the Bonds, paying only the interest on the 2013B New Money Bonds until 2024, rather than beginning to repaying the principal immediately. As a result, gross debt service for the first 10 full years of repayment of the 2013B New Money Bonds would be \$17,553,700, increasing to more than \$27,000,000, on average, from 2024 to 2041, and increasing again to \$41,394,625 in 2042 and 2043, the final two years of repayment. Additional discussion of the structure of the 2013B New Money Bonds is considered in the Policy Considerations section, below.

## Debt Service Reserve Fund Savings

According to Mr. Perl, refunding all of the PUC's outstanding 2003A Bonds will legally allow the PUC to re-calibrate the debt service reserve fund (DSRF) requirement for all wastewater revenue bonds, which will provide ongoing savings to PUC ratepayers. The PUC's financial advisors have indicated that the PUC can issue the proposed 2013A Refunding Bonds and the proposed 2013B New Money Bonds with zero DSRF, which would result in an estimated savings of \$13,500,000, including approximately \$1,600,000 of the \$30,470,560 estimated savings from the 2013A Refunding Bonds, and an additional \$11,900,000 in savings for the proposed 2013B New Money Bonds.

## POLICY CONSIDERATION

### **As Proposed, the PUC Would Not Begin Paying Down the Principal on the \$420,000,000 2013B New Money Bonds Until the 11<sup>th</sup> Year of Repayment**

As is noted above and shown in Attachment III, the PUC has proposed that the 2013B New Money Bonds would be structured in such a way that reduces the initial impact on residential and commercial ratepayers, but that will ultimately cost more over the 30-year borrowing period. As is shown in the "Principal" column in Attachment III, the PUC has proposed delaying repayment of the principal for the first 10 full years of the Bonds, paying only the interest on the 2013B New Money Bonds until 2024, rather than beginning to repay the principal immediately. By delaying repayment of the principal, the 2013B New Money Bonds will incur more interest expense over the lifetime of repayment. According to the PUC's financial analyst, delaying repayment of the principal on the 2013B New Money Bonds will result in an additional total cost of approximately \$58 million over the 30-year life of the bonds, saving the average single-family's residential wastewater bill \$0.71 per month in the first 10 years of bond repayment, but costing \$1.03 per month more in the final 18 years of repayment, than repaying the principal immediately.

Mr. Brown provided the following explanation for the 2013B New Money Bond repayment structure:

"To minimize pressure on Wastewater ratepayers, the SFPUC is recommending that the 2013B bonds be structured so that principal repayment begins after year 10 when there's a falling off of overall debt service. Deferring principal will result in more level overall debt service going forward. Although this will result in a higher TIC (true interest cost) for the 2013B Bonds due to the back loading of principal in the later years where interest rates are higher, given the very low interest rate environment, this would be a prudent time to execute this capital financing strategy. This is commonly done by other utilities for the financing of their large, long-term capital programs, and was done for the same reason by the SFPUC's Water Enterprise in the recently-issued 2012A and 2012B Water Bonds.

"The Wastewater Enterprise is about to embark on a large capital improvement program - Phase 1 of the Sewer System Improvement Program (SSIP) is \$2.7B alone. Leveling the Enterprise's overall

debt profile allows for predictable and smaller rate increases through the SSIP financing period, and provides generational rate relief to future ratepayers who will also be asked to pay for these long-life capital assets.”

Because the City’s proposed 2013B New Money Bond repayment structure stabilizes wastewater utility rates while increasing the overall debt service, approval of the proposed resolution is a policy matter for the Board of Supervisors.

## RECOMMENDATION

1. Approve the issuance of the \$250,000,000 2013A Refunding Bonds, affirming covenants contained in the indenture pursuant to which the Water Revenue Bonds are issued, and related matters.
2. Because the proposed \$420,000,000 2013B New Money Bond repayment structure stabilizes wastewater utility rates while increasing the overall debt service, approval of the 2013B New Money Bond issuance is a policy matter for the Board of Supervisors.

Project Category	Project Code	Project Description	Budget
<b>Fiscal Year 2010-11</b>			
ICIP	CENMSCIC23	SUNNYDALE SEWER IMPROVEMENTS	\$7,000,000
ICIP	CENMSCIC31	SEWPCP 620 & 680 DIGESTER COMPRESSOR	180,000
ICIP	CENMSCIC34	FOLSOM ST SEWER REPLACEMENT	70,000
ICIP	CENMSCIC36	WWE FACILITY SECURITY/EMERGENCY RESPONSE	3,750,000
ICIP	CENMSCIC37	WWE FACILITY RELIABILITY IMPROVEMENTS	11,609,200
ICIP	CENMSCIC38	SEP SOLIDS HANDLING IMPROVEMENTS	2,625,000
ICIP	CENMSCIC39	OCEANSIDE SOLIDS HANDLING IMPROVEMENTS	11,671,815
ICIP	CENMSCIC40	MARIPOSA/NORTHSHORE RELIABILITY	5,904,100
ICIP	CENMSCIC42	SWOO STABILIZATION EMERGENCY WORK	215,000
ICIP	CENMSCIC43	RICHMOND DRAINAGE PH. 2	465,000
ICIP	CENMSCIC44	CESAR CHAVEZ PH. 2	100,000
ICIP	CENMSCIC48	CHANNEL PUMP STATION PH. 3	5,405,385
ICIP	CENMSCIC50	AS-NEEDED SEWER REPLACEMENT CONTRACT #1	3,116,012
ICIP	CENMSCIC51	SPOT SEWER REPAIR CONTRACT #25	4,310,000
ICIP	CENMSCIC53	DOWNTOWN DISTRICT SEWER REPAIR	840,000
ICIP	CENMSCIC55	CHURCH ST/DUBOCE SEWER REPLACEMENT	1,035,000
ICIP	CENMSCIC56	POWELL/MASON SEWER REPLACEMENT	510,000
ICIP	CENMSCIC57	SEWER STAFF FACILITY IMPROVEMENTS	376,400
ICIP	CENMSCIC58	VACTOR WASTE STAGING AREA	198,600
ICIP	CENMSCIC59	SPOT SEWER REPAIR #26	4,230,718
ICIP	CENMSCICSR	SEWER REPAIR (Sunnydale Sewer Improvement Project)	2,242,270
ICIP	CENMSCICTF	TREATMENT FACILITIES IMPROVEMENTS	9,367,500
OCIP	CENMSCSP06	CLEAN WATER MASTER PLAN	6,212,000
OCIP	CWP11001	TREASURE ISLAND CAPITAL IMPROVEMENTS	3,000,000
SSIP	CWWBAE01	BIOFUEL ALTERNATIVE ENERGY PROJECT	2,560,000
SSIP	CWWLID00	LOW IMPACT DESIGN PROJECT	29,019
SSIP	CWWLID01	LOW IMPACT DESIGN PROJECT	1,970,981
R&R	CWWRNRCS04	VARIOUS SEWER LOCATIONS #1	468,000
R&R	CWWRNRCS22	BAKER/BLAKE/COOK-SEWER REPAIR/CPFRNR	277,000
R&R	CWWRNRCS23	AUBURN ST SEWER REPLACEMENT	170,300
R&R	CWWRNRCS25	21ST/23RD/24TH-HAMPSHIRE/YORK	2,762,000
R&R	CWWRNRCS26	BALBOA ST SEWER REPLACEMENT	340,000
R&R	CWWRNRCS27	SOMA ALLEY SEWER IMPROVEMENTS	238,000
R&R	CWWRNRCS28	18TH ST EMERGENCY SEWER REPAIR	839,000
R&R	CWWRNRCS29	BUCHANAN/PIERCE/FILBERT/ MARINA	2,047,182
R&R	CWWRNRCS30	VARIOUS LOCATIONS SEWER REPL#3	1,685,518
R&R	CWWRNRCS31	POST ST EMERGENCY SEWER REPAIR	680,000
R&R	CWWRNRCOI01	OUTFALL INSPECTION/RECEIVING WATER	3,192,000
SSIP	CWWSIPPL01	PROGRAM MANAGEMENT	5,413,000
Fiscal Year 2010-11 Subtotal			\$107,106,000
<b>Fiscal Year 2011-12</b>			
ICIP	CENMSCICSR	SEWER REPAIR	\$37,261,000
ICIP	CENMSCICTF	TREATMENT FACILITIES IMPROVEMENTS	52,050,000
OCIP	CWP11001	TREASURE ISLAND CAPITAL IMPROVEMENTS	3,000,000
SSIP	CWWBAE00	BIOFUEL ALTERNATIVE ENERGY PROGRAM	2,000,000
SSIP	CWWLID00	LOW IMPACT DESIGN PROJECT	1,500,000
R&R	CWWRNRCS00	WWE RNR COLLECTION SYSTEM	7,445,550
OCIP	CWWRNRIOI01	OUTFALL INSPECTION/RECEIVING WATER	3,500,000
SSIP	CWWSIPCT00	CENTRAL BAYSIDE SYSTEM IMPROVEMENTS	15,000,000
SSIP	CWWSIPDP00	BIOSOLIDS/DIGESTER PROJECT BUDGET	13,000,000
SSIP	CWWSIPNC00	NORTHSHORE TO CHANNEL FORCE MAIN	15,000,000
SSIP	CWWSIPPL00	SSIP PLANNING PROJECT	8,300,000
SSIP	CWWSIPPS00	BAYSIDE & WESTSIDE PUMP STATIONS	1,020,000
SSIP	CWWSIPRB00	RICHMOND BASIN IMPROVEMENTS	1,000,000
SSIP	CWWSIPUW00	URBAN WATERSHED ASSESSMENT PROJECT	4,000,000
Fiscal Year 2011-12 Subtotal			\$164,076,550
<b>Fiscal Year 2012-13</b>			
OCIP	CWWFAC-01	WWE COLLECTION SYSTEM DIVISION FACILITIES CONSOLIDATION	\$ 20,000,000
OCIP	CWWFAC-02	SECF IMPROVEMENTS	\$ 2,500,000
SSIP	CWWSIPPRPC	SSIP PROGRAM WIDE PROGRAM MANAGEMENT	\$ 9,000,000
R&R	CWWRNRCSCA	WWE R&R COLLECTION SYSTEM COND ASSESSMENT	\$ 3,000,000
R&R	CWWRNRCS5R	WWE R&R COLLECTION SYSTEM SEWER IMPRVMNTS	\$ 40,323,000
R&R	CWWRNRCS5S	WWE R&R COLLECTION SYSTEM SPOT SEWER RPR	\$ 8,000,000
R&R	CWWRNRRTF00	WWE R&R TREATMENT PLANT IMPROVEMENTS	\$ 8,595,000
Fiscal Year 2012-13 Subtotal			\$ 91,418,000
<b>PROJECT COST SUBTOTAL</b>			<b>\$362,600,550</b>
Estimated Issuance Costs			\$57,399,450
<b>COMBINED TOTAL</b>			<b>\$420,000,000</b>

San Francisco Public Utilities Commission  
Wastewater Revenue Bonds, 2013 Series A & B  
Summary of Debt Service and Savings by Fiscal Year

Series 2013A, SRF Loan & Series 2003A Refundings

Fiscal Year	Current Principal	Current Interest	Current Receipts	Current Net Debt Service	New Principal	New Interest	Projected Debt Service After Refunding	Cash Flow Savings	Present Value Savings
6/30/2013	\$ 1,442,136	\$ 5,000,960	\$ (1,442,136)	\$ 5,000,960	\$ -	\$ 1,210,277	\$ 1,210,277	\$ 3,790,682	\$ 3,781,292
6/30/2014	32,587,094	9,602,393		42,189,486	33,125,000	6,076,100	39,201,100	2,988,386	2,946,337
6/30/2015	31,476,004	8,068,671		39,544,675	31,285,000	5,275,575	36,560,575	2,984,100	2,905,475
6/30/2016	32,162,012	6,503,518		38,665,529	31,350,000	4,336,050	35,686,050	2,979,479	2,865,704
6/30/2017	15,254,991	5,386,459		20,641,450	14,075,000	3,584,300	17,659,300	2,982,150	2,834,940
6/30/2018	14,137,178	4,708,168		18,845,345	12,815,000	3,046,500	15,861,500	2,983,845	2,798,129
6/30/2019	14,922,481	3,983,252		18,905,733	13,405,000	2,522,100	15,927,100	2,978,633	2,756,648
6/30/2020	15,774,098	3,216,466		18,990,564	14,035,000	1,973,300	16,008,300	2,982,264	2,724,080
6/30/2021	16,662,066	2,405,147		19,067,214	14,690,000	1,398,800	16,088,800	2,978,414	2,684,997
6/30/2022	15,835,000	1,567,213		17,402,213	13,760,000	829,800	14,589,800	2,812,413	2,496,528
6/30/2023	15,005,000	796,213		15,801,213	12,685,000	300,900	12,985,900	2,815,313	2,466,004
6/30/2024	2,610,000	359,100		2,969,100	110,000	45,000	155,000	2,814,100	2,431,933
6/30/2025	2,745,000	231,919		2,976,919	120,000	40,400	160,400	2,816,519	2,401,445
6/30/2026	3,510,000	83,363		3,593,363	760,000	19,000	779,000	2,814,363	2,367,498
6/30/2027									
6/30/2028									
6/30/2029									
6/30/2030									
6/30/2031									
6/30/2032									
6/30/2033									
6/30/2034									
6/30/2035									
6/30/2036									
6/30/2038									
6/30/2039									
6/30/2040									
6/30/2041									
6/30/2042									
6/30/2043									
<b>Total</b>	<b>\$ 214,123,059</b>	<b>\$ 51,912,840</b>	<b>\$ (1,442,136)</b>	<b>\$ 264,593,762</b>	<b>\$ 192,215,000</b>	<b>\$ 30,658,102</b>	<b>\$ 222,873,102</b>	<b>\$ 41,720,660</b>	<b>\$ 38,461,011</b>

Average Annual Debt Service Savings	\$ 2,980,047
PV of savings from cash flow	38,461,011
Less: DSRF Release	(7,993,813)
Plus: Refunding funds on hand	3,362
<b>Net Present Value Savings</b>	<b>\$ 30,470,560</b>

**San Francisco Public Utilities Commission  
Wastewater Revenue Bonds, 2013 Series A & B  
Summary of Debt Service and Savings by Fiscal Year**

<b>Series 2013B, New Money</b>					
Fiscal Year	Principal (No DSRF Scenario)	Interest (No DSRF Scenario)	Gross Debt Service (No DSRF Scenario)	Capitalized Interest (No DSRF Scenario)	Net Debt Service (No DSRF Scenario)
6/30/2013	-	\$ 2,633,055	\$ 2,633,055	\$ 2,633,055	-
6/30/2014	-	17,553,700	17,553,700	17,553,700	-
6/30/2015	-	17,553,700	17,553,700	17,553,700	-
6/30/2016	-	17,553,700	17,553,700	8,776,850	\$ 8,776,850
6/30/2017	-	17,553,700	17,553,700		17,553,700
6/30/2018	-	17,553,700	17,553,700		17,553,700
6/30/2019	-	17,553,700	17,553,700		17,553,700
6/30/2020	-	17,553,700	17,553,700		17,553,700
6/30/2021	-	17,553,700	17,553,700		17,553,700
6/30/2022	-	17,553,700	17,553,700		17,553,700
6/30/2023	-	17,553,700	17,553,700		17,553,700
6/30/2024	\$ 9,770,000	17,358,300	27,128,300		27,128,300
6/30/2025	10,160,000	16,959,700	27,119,700		27,119,700
6/30/2026	9,995,000	16,506,625	26,501,625		26,501,625
6/30/2027	11,305,000	15,974,125	27,279,125		27,279,125
6/30/2028	11,885,000	15,394,375	27,279,375		27,279,375
6/30/2029	12,495,000	14,784,875	27,279,875		27,279,875
6/30/2030	13,135,000	14,144,125	27,279,125		27,279,125
6/30/2031	13,810,000	13,470,500	27,280,500		27,280,500
6/30/2032	14,520,000	12,762,250	27,282,250		27,282,250
6/30/2033	15,265,000	12,017,625	27,282,625		27,282,625
6/30/2034	16,050,000	11,234,750	27,284,750		27,284,750
6/30/2035	16,870,000	10,411,750	27,281,750		27,281,750
6/30/2036	17,730,000	9,546,750	27,276,750		27,276,750
6/30/2037	18,640,000	8,637,500	27,277,500		27,277,500
6/30/2038	19,600,000	7,681,500	27,281,500		27,281,500
6/30/2039	20,600,000	6,676,500	27,276,500		27,276,500
6/30/2040	21,660,000	5,620,000	27,280,000		27,280,000
6/30/2041	22,770,000	4,509,250	27,279,250		27,279,250
6/30/2042	38,415,000	2,979,625	41,394,625		41,394,625
6/30/2043	40,385,000	1,009,625	41,394,625		41,394,625
<b>Total</b>	<b>\$ 355,060,000</b>	<b>\$ 395,849,805</b>	<b>\$ 750,909,805</b>	<b>\$ 46,517,305</b>	<b>\$ 704,392,500</b>
	Average Annual Debt Service	\$ 24,222,897		\$ 25,156,875	



<b>Item 11</b> <b>File 12-1007</b>	<b>Department:</b> Public Utilities Commission (SFPUC)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objective</b></p> <p>The proposed ordinance would (a) authorize a new System Impact Mitigation Agreement between the San Francisco Public Utilities Commission (SFPUC) and North Star Solar, LLC, to require North Star Solar, LLC, to pay the SFPUC the costs necessary to mitigate the impacts to the City's electric system caused by the interconnection of North Star Solar, LLC's solar project to the electric grid; (b) authorize similar mitigation agreements with other projects in the future; and (c) appropriate funds from these agreements to pay the costs of mitigation work.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In future years, an estimated 35 interconnection projects may impact the City's transmission facilities, for which the California Independent System Operator (CAISO) would require mitigation payments of up to \$28,289,192 to be paid from private developers to the SFPUC.</li> <li>• The first developer, North Star Solar, LLC (NSS), has proposed the construction and operation of a 60 Megawatt solar generating facility in Mendota, Fresno County, California, that will interconnect with the State's electric grid at a location near the City's transmission lines. The NSS project will result in costs to the SFPUC estimated by CAISO to total \$2,968,226 to procure a transformer and transmission facilities to avoid the possibility of overloading the City's electricity transmission facilities.</li> <li>• Under the proposed mitigation agreement, NSS would pay the SFPUC \$2,900,000 to mitigate impacts on the City's electrical system. The SFPUC calculated the \$2,900,000 mitigation amount, based on NSS's prorated impact to the SFPUC system, as a percentage of the 35 interconnection projects noted above, and the size and location of the NSS project.</li> <li>• In addition to the proposed mitigation agreement with NSS, the proposed ordinance would authorize the SFPUC General Manager to execute similar future mitigation agreements with other interconnecting projects that impact the City's electric facilities. Such future agreements would not be subject to further Board of Supervisors approval, even if those agreements result in revenues in excess of \$1,000,000, provided that the City Attorney and the SFPUC General Manager determine that those agreements are similar to the proposed agreement with NSS. Under the proposed ordinance, the expenditures of the mitigation payments to the SFPUC under the agreement with NSS or under any similar such future mitigation agreements would not be subject to Board of Supervisors appropriation approval.</li> </ul> <p style="text-align: center;"><b>Fiscal Impacts</b></p> <ul style="list-style-type: none"> <li>• The CAISO estimate of \$2,968,226 for the cost of mitigation is \$68,226 more than the \$2,900,000 payment from NSS to the SFPUC under the proposed mitigation agreement. However, according to Ms. Margaret Hannaford, SFPUC Hetch Hetchy Division Manager, the SFPUC will not proceed with any phase of a mitigation project until sufficient funds have been collected to complete the project. Because the SFPUC has not</li> </ul>	

yet developed a mitigation budget, the Budget and Legislative Analyst recommends that appropriation authorization for the \$2,900,000 mitigation revenue be placed on Budget and Finance Committee reserve.

- The SFPUC currently estimates that it could incur costs from 35 potential future mitigation agreements, totaling \$28,289,192. As noted above, approval of such future mitigation agreements would not be subject to Board of Supervisors approval, and the expenditure of any mitigation revenues paid to the SFPUC would not be subject to Board of Supervisors appropriation approval. The Budget and Legislative Analyst recommends that the proposed ordinance be amended to require Board of Supervisors appropriation approval for expenditures of \$100,000 or more payable from future mitigation revenues received by the SFPUC.

### **Recommendations**

1. Amend the proposed ordinance to place the appropriation for the \$2,900,000 mitigation revenue on Budget and Finance Committee reserve, pending submission by the SFPUC to the Budget and Finance Committee of budget details.
2. Amend the proposed ordinance to require Board of Supervisors' appropriation approval for expenditures of \$100,000 or more payable from mitigation revenues received by the SFPUC by changing Page 4, lines 1 and 2 from "as well as the funds from any future mitigation agreements, are appropriated for use by the SFPUC" to "as well as the funds from any future mitigation agreements, under \$100,000, are appropriated for use by the SFPUC."
3. Because the proposed ordinance would authorize the SFPUC to enter into future mitigation agreements without Board of Supervisors approval, the proposed ordinance, as amended, is a policy matter for the Board of Supervisors.

## **MANDATE STATEMENT / BACKGROUND**

### **Mandate Statement**

In accordance with City Charter Section 9.118(a), any agreement that has anticipated revenue of \$1,000,000 or more is subject to Board of Supervisors approval.

### **Background**

North Star Solar, LLC (NSS)<sup>1</sup> has proposed the construction and operation a 60 Megawatt (MW) solar electricity generating facility in Mendota, Fresno County, California, that will interconnect with the State of California's electric grid at a location near the City and County of California's transmission lines. The California Independent System Operator (CAISO)<sup>2</sup> has determined that construction of the new electricity generating facility could overload the San Francisco Public Utilities Commission's (SFPUC) transmission lines under certain conditions, and is requiring NSS to mitigate the impact of potential transmission overload. According to Ms. Margaret Hannaford, SFPUC Hetch Hetchy Division Manager, without mitigation for the build-out of the 35 projects, "if certain transmission lines are out of service, there may be too

<sup>1</sup> NSS is a wholly owned affiliate of NorthLight Power, LLC, of Seattle, Washington, a developer of utility-scale solar energy projects.

<sup>2</sup> CAISO is the independent California nonprofit public benefit corporation that has operational control over electric generating projects and transmission in California,

much electricity on the grid for the remaining facilities to handle reliably. This could result in outages of additional facilities or the inability to deliver required energy over the SFPUC system.”

The SFPUC Commission approved the mitigation agreement with NSS on August 14, 2012, and further authorized the SFPUC General Manager to (a) execute future similar agreements with other interconnecting projects that impact the City’s electrical facilities, and (b) administer any funds received from the NSS mitigation agreement and any funds received from similar interconnecting projects, and to establish the appropriate special revenue accounts and funds with the City Controller.

## DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (a) authorize a new System Impact Mitigation Agreement between the City, on behalf of the San Francisco Public Utilities Commission (SFPUC), and North Star Solar, LLC, to require North Star Solar, LLC, (NSS) to pay the SFPUC \$2,900,000 for the costs necessary for the SFPUC to mitigate the impacts to the City’s electric system caused by the interconnection of North Star Solar, LLC’s solar project to the electric grid; (b) without obtaining Board of Supervisors approval, authorize similar future mitigation agreements, regardless of the mitigation payment amount; and (c) without obtaining Board of Supervisors appropriation approval, expend funds paid to the SFPUC under these agreements, to pay the costs of the needed mitigation work.

The proposed mitigation agreement would become effective at the time of execution by both the SFPUC and NSS. The terms of the mitigation agreement stipulate:

1. Within 30 days of the execution of the agreement, NSS will pay the SFPUC 30% of the mitigation payment, or \$870,000, of the \$2,900,000 total mitigation payment.
2. Prior to commencing construction of the proposed NSS solar generating facility in Mendota, NSS will pay the remaining 70% of the mitigation payment, or \$2,030,000 of the \$2,900,000 total mitigation payment.
3. Within 120 days of the execution of the agreement, NSS will post security, in the form of a letter of credit or cash collateral, for the second (70%) payment. The City would return this security deposit to NSS when the City receives 100% of the mitigation funds owed by NSS or termination of the mitigation agreement prior to commencement of construction.
4. The City, upon receipt of the final payments, will release NSS from any further mitigation obligation to the City.

Under the proposed mitigation agreement, North Star Solar shall submit written status reports at the beginning of each quarter to the SFPUC detailing the progress in developing the proposed solar project, any material changes and the then estimated date for commencement of construction of the project.

Under the proposed mitigation agreement, NSS would fulfill its obligations to the City by paying the fixed amount specified to the SFPUC, and would not be liable to the City for any additional payments, regardless of whether the final total mitigation costs to the SFPUC are

higher or lower than the \$2,900,000 mitigation payment. The City would be responsible for determining the scope, technical specifications, timing and implementation of all mitigation work, including construction of new facilities and modifications of existing systems or facilities. As is noted above, CAISO has estimated that the mitigation work will cost \$2,968,226, or \$68,226 more than the proposed \$2,900,000 mitigation amount payable by NSS to the SFPUC. The SFPUC calculated the \$2,900,000 mitigation amount, based on NSS's prorated impact to the SFPUC system, as a percentage of the 35 interconnection projects noted above, and the size and location of the NSS project.

Under the proposed ordinance, the SFPUC General Manager would be authorized to execute this mitigation agreement with NSS, allowing subsequent changes or modifications which do not materially increase the obligations and liabilities of the City.

The proposed ordinance would also authorize the SFPUC General Manager to execute similar future mitigation agreements with other interconnecting projects that impact the City's electric facilities. Such future agreements would not be subject to further Board of Supervisors approval, if the City Attorney and the SFPUC General Manager determine that those agreements are similar to the proposed subject mitigation agreement with NSS.

In addition, under the proposed ordinance, all mitigation payments received by the SFPUC from future agreements to mitigate the impacts on the City's electric transmission system of interconnecting projects would not be subject to Board of Supervisors appropriation approval.

To date, no mitigation projects or work has been approved and all future mitigation work would be subject to the City's regular planning, design, environmental review, and Commission and Board of Supervisors review, as required.

## **FISCAL IMPACTS**

Under the proposed mitigation agreement between NSS and the City, NSS would pay the SFPUC \$2,900,000 in order to reimburse the SFPUC for its expenditures required to mitigate the impacts of NSS's proposed solar electricity generating facility.

According to documents provided by the SFPUC, the cost of the work necessary to mitigate the impacts on the City's electric system caused by the North Star Solar, LLC proposed project is currently estimated at \$2,968,226, but this amount is subject to change based on new study results from the California Independent System Operator (CAISO). According to Ms. Hannaford, the SFPUC would be responsible for any costs that the SFPUC incurred above the \$2,900,000 mitigation payment from NSS to the SFPUC. However, according to Ms. Hannaford, the SFPUC will not proceed with any phase of a mitigation project until sufficient funds have been collected to complete the project.

The SFPUC has not yet developed a budget for the \$2,900,000 mitigation payment from NSS to the SFPUC. Therefore, the Budget and Legislative Analyst recommends that appropriation authorization for the \$2,900,000 mitigation revenue be placed on Budget and Finance Committee reserve, pending the submission of budget details by the SFPUC to the Budget and Finance Committee.

As noted above, in addition to the subject mitigation agreement between NSS and the City, under the proposed ordinance, the SFPUC General Manager would also be authorized to execute similar future mitigation agreements with other interconnecting projects that impact the

City's electric facilities. Such future agreements would not be subject to Board of Supervisors approval, if the City Attorney and the SFPUC General Manager determine that those agreements are similar to the proposed subject agreement with NSS. The SFPUC has identified 35 such projects, with preliminarily estimated project mitigation costs totaling \$28,289,192.

Under the proposed ordinance, the revenues to be received by the SFPUC from NSS and any future funds to be received under other future mitigation agreements, would be deposited into a special revenue account or fund, to be established by the Controller, for exclusive use by the SFPUC to offset the costs of impacts on the City's electric transmission system of interconnecting projects. Under the proposed ordinance, the expenditure by the SFPUC of such future mitigation revenues would not be subject to appropriation approval by the Board of Supervisors.

## **POLICY CONSIDERATION**

### **The Proposed Ordinance Would Waive the Board of Supervisors' Authority to Approve Certain Future Project Mitigation Agreements**

As noted above, in addition to the proposed mitigation agreement between NSS and the SFPUC, the proposed ordinance would authorize the SFPUC General Manager to execute similar future mitigation agreements with other interconnecting projects that impact the City's electric facilities, such future agreements would not be subject to Board of Supervisors approval, if the City Attorney and the SFPUC General Manager determine that those agreements are similar to the proposed subject agreement with NSS. The SFPUC has identified 35 such projects, with preliminarily estimated project mitigation costs totaling \$28,289,192. Because such future mitigation agreements would not be subject to Board of Supervisors approval, approval of the proposed ordinance is a policy matter for the Board of Supervisors.

Furthermore, the Budget and Legislative Analyst recommends that the proposed ordinance be amended to require Board of Supervisors appropriations approval for expenditures of \$100,000 or more payable from such mitigation revenues received by the SFPUC.

## **RECOMMENDATIONS**

1. Amend the proposed ordinance to place the appropriation for the \$2,900,000 mitigation revenue on Budget and Finance Committee reserve, pending submission by the SFPUC to the Budget and Finance Committee of budget details.
2. Amend the proposed ordinance to require Board of Supervisors' appropriation approval for expenditures of \$100,000 or more payable from mitigation revenues received by the SFPUC by changing Page 4, lines 1 and 2 from "as well as the funds from any future mitigation agreements, are appropriated for use by the SFPUC" to "as well as the funds from any future mitigation agreements, under \$100,000, are appropriated for use by the SFPUC."
3. Because the proposed ordinance would authorize the SFPUC to enter into future mitigation agreements without Board of Supervisors approval, the proposed ordinance, as amended, is a policy matter for the Board of Supervisors.

**Item 12**  
**File 12-1116**

Department:  
San Francisco Municipal Transportation Agency  
(SFMTA)

## EXECUTIVE SUMMARY

### Legislative Objectives

- Request to release \$1,600,000 of SFMTA 2012 Series B Revenue Bond funds previously appropriated by the Board of Supervisors and placed on Budget and Finance Committee reserve for the SFMTA's Radio System Replacement Project.

### Key Points

- On April 19, 2012, the Board of Supervisors appropriated and placed \$1,600,000 for the SFMTA's Radio System Replacement Project on Budget and Finance Committee Reserve, pending recommendations from the Committee on Information Technology (COIT) regarding how to proceed with the City's various voice and data communications systems.
- On October 18, 2012, COIT approved motions (a) recommending that the Budget and Finance Committee release the \$1,600,000 of SFMTA 2012 Series B Revenue Bond funds on reserve for the SFMTA's Radio System Replacement Project, (b) directing the Department of Technology to host quarterly radio communication stakeholder meetings with the Department of Emergency Management (DEM), SFMTA, Public Utilities Commission, Police Department, Fire Department, and BayWEB staff to ensure that there is clear and consistent communication about the status of current and planned City radio projects; and (c) directing the SFMTA to provide regular project updates to COIT and COIT subcommittees regarding the status of the SFMTA's Radio System Replacement Project.

### Fiscal Impacts

- The SFMTA Radio System Replacement Project will be funded with various federal, state and local revenues, at an estimated total cost of \$114,955,748, including \$86,648,058 for the Harris Corporation base design-build contract, and \$28,307,690 for SFMTA's conceptual engineering, design and other staff and outside program management services.

### Policy Considerations

- Although the City's current and proposed communication systems share similar site facilities, connectivity and infrastructure, the City does not have a plan that describes the current conditions or needs to improve these facilities, such that COIT recently directed the Department of Technology to (a) collect, document and report on the current condition of radio facilities, and (b) provide recommendations for the future use of these facilities.
- COIT also directed the Department of Technology and the Department of Emergency Management to work together to propose a project to COIT, including an identifiable scope and budget, to address the needs not met by the subject SFMTA Radio System Replacement Project or the regional BayWEB public safety communication system.

- The City's recently approved regional Motorola BayWEB interoperable communication system is uncertain at this time, due to Congress' recent actions regarding FirstNet.

### **Recommendations**

- Approve the requested release of \$1,600,000 on reserve for the SFMTA Radio System Replacement Project.
- Request that the Department of Emergency Management update the Board of Supervisors regarding changes to the previously approved BayWEB system, due to implementation of FirstNet policies, procedures and decisions.
- Request that the Department of Technology working jointly with the Department of Emergency Management present their findings and recommendations to the Board of Supervisors regarding (a) the current radio facilities conditions, including recommendations for the future use of these facilities, and (b) City department user needs, technical requirements, timelines and funding required to develop any new communication systems for the City.

## MANDATE STATEMENT

Section 3.3 of the City's Administrative Code provides that the committee of the Board of Supervisors that has jurisdiction over the budget (i.e., Budget and Finance Committee) may place requested expenditures on reserve which are then subject to release by the Budget and Finance Committee.

## BACKGROUND

On April 19, 2012, the Board of Supervisors (a) approved a \$28,300,000 supplemental appropriation ordinance of SFMTA's 2012 Series B Revenue Bonds for various transit, communication and parking garage projects, and (b) placed \$1,600,000 designated for the SFMTA's Radio System Replacement Project on Budget and Finance Committee Reserve, pending recommendations from the Committee on Information Technology (COIT) regarding how to proceed with the City's various voice and data communications systems (File 12-0243; Ordinance No. 0059-12).

According to Mr. Henry Kim, SFMTA's Project Manager, SFMTA's Radio System Replacement Project would replace SFMTA's existing 30-year old radio communications system for the Municipal Railway (Muni) with (a) a new radio system which would provide coverage both above-ground and underground for over 1,400 SFMTA buses and other vehicles throughout the City, (b) 575 new hand-held radios, (c) a new Computer Aided Dispatch/Automatic Vehicle Location System, (d) interoperable compatibility with other Project 25<sup>1</sup> communication systems, (e) enhanced digital voice and data communications, (f) visual texting and messaging capabilities via new vehicle data terminals, and (g) improved data for reporting on schedules, operations, and services.

In December 2009, the SFMTA issued a Request for Proposals (RFP) to design and build this Radio System Replacement Project. According to Mr. Shahnam Farhangi of the SFMTA, SFMTA received two proposals, both of which were deemed non-responsive. Based on SFMTA's request to both proposers to resubmit new proposals, one firm responded, and SFMTA selected this firm, Harris Corporation, to enter into a not-to-exceed \$86,648,058 base design-build contract, with options for an additional \$22,572,461 subject to funding availability, or a total not-to-exceed maximum contract of \$109,220,519 for SFMTA's Radio System Replacement Project. Mr. Kim advises that this not-to-exceed \$109,220,519 design-build contract with Harris Corporation was approved by the SFMTA Board of Directors in April 2012 and Harris Corporation commenced work in June of 2012.

## DETAILS OF PROPOSED LEGISLATION

The SFMTA is now requesting the release of \$1,600,000 of SFMTA 2012 Series B Revenue Bond funds on reserve to provide one source of funding for SFMTA's Radio System Replacement Project. As noted above, the \$1,600,000 was placed on Budget and Finance

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<sup>1</sup> Project 25 (P25) are recognized standards for digital radio communications used by federal, state and local public safety agencies in the United States to enable such agencies to communicate with each other and provide mutual aid response in emergencies.



Committee reserve pending recommendations from the Committee on Information Technology (COIT)<sup>2</sup> regarding how to proceed with the City's various voice and data communications systems.

The Budget and Legislative Analyst notes that prior to the Budget and Finance Committee placing the \$1,600,000 of SFMTA 2012 Revenue Bond funds on reserve on April 19, 2012, Mr. Jon Walton, Acting Chief Information Officer for the Department of Technology advised that the Department of Technology, the Department of Emergency Management, and SFMTA had all recently agreed to hire a consultant through the City's Computer Store to evaluate the City's three major voice and data communications systems currently being proposed to be improved and upgraded, including (a) the recently approved regional BayWEB Motorola interoperable communication system<sup>3</sup>, (b) the City's existing voice and low speed data radio systems used by various City departments including Police, Fire, Port, Department of Emergency Management (DEM), Department of Public Works (DPW), and Recreation and Park Department (RPD), and (c) the subject, proposed SFMTA's Radio System Replacement Project's voice and data communication system, in order to determine which City systems were justified and whether significant efficiencies could be achieved in the procurement of these systems. Mr. Walton advises that the Department of Technology hired a consultant, Mr. Tom Meyers, through the City's Computer Store, at a cost of approximately \$50,000, to review the technical requirements and jointly discuss the various radio and digital communications systems in the City.

Based on the consultant's review and input from SFMTA, BayWEB, the Department of Technology and the Department of Emergency Management staff, Mr. Walton advises that the proposed SFMTA Radio System Replacement Project is necessary as it would replace SFMTA's current obsolete radio voice-only communication system that currently suffers significant interference, numerous gaps in service, and does not comply with current Federal Communications Commission (FCC) requirements. In addition, Mr. Walton advises that the proposed SFMTA Radio System Replacement Project will take approximately three years to complete, the Department of Technology and the Department of Emergency Management are now working with SFMTA to understand the scope and technical details of the SFMTA Project, and the Department of Technology has entered into an agreement with SFMTA to maintain the SFMTA Radio System Replacement Project after it is completed.

At the October 18, 2012 COIT meeting, COIT approved a motion recommending that the Budget and Finance Committee release the reserve on the \$1,600,000 of SFMTA 2012 Series B Revenue Bond funds associated with the SFMTA System Radio Replacement Project.

In addition, on October 18, 2012, COIT also approved motions directing (a) the Department of Technology to host quarterly radio communication stakeholder meetings with the Department of Emergency Management, SFMTA, Public Utilities Commission, Police Department, Fire

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<sup>2</sup> The Committee on Information Technology (COIT), formed in 1996, consists of staff from the Mayor, Board of Supervisors and various City departments, whose purpose is to establish long range technology plans, and develop the necessary technology policy, procedures and oversight for the City, in order to advise the Mayor and Board of Supervisors on meeting the evolving technology needs of the City.

<sup>3</sup> On February 7, 2012, the Board of Supervisors approved a resolution (File 12-0022; Resolution 038-12) for a 12-year site access and use agreement with Motorola for a new Bay Area regional, interoperable 700 MHz emergency radio voice and data communication system (BayWEB).

Department, and BayWEB staff to ensure that there are clear and consistent communications about the status of the current and planned radio system projects; and (b) the SFMTA to provide regular project updates to COIT and COIT subcommittees regarding the status of the SFMTA's Radio System Replacement Project.

## FISCAL IMPACTS

Mr. Kim advises that the SFMTA Radio System Replacement Project will be funded with various federal, state and local revenues, at an estimated total cost of \$114,955,748, including \$86,648,058 for the Harris Corporation base design-build contract, and \$28,307,690 for SFMTA's conceptual engineering, design and outside program management services. According to Mr. Kim, through September of 2012, the SFMTA has expended a total of \$11,644,807 on SFMTA's Radio System Replacement Project.

The Table below identifies the sources and uses for the SFMTA's Radio System Replacement Project totaling \$114,955,748, excluding the potential options for an additional \$22,572,461.

<b>Table: Sources and Uses for SFMTA's Radio System Replacement Project</b>	
<b>Sources of Funds:</b>	
Federal Section 5307 Grant	\$14,147,126
Other Federal Grants	3,237,251
California Transit Security Grant Program	26,000,268
Proposition K Sales Tax Funds	61,867,491
SFMTA 2012 Revenue Bonds	4,000,000
SFMTA Operating Funds	4,997,668
AB664 Bridge Tolls	554,878
Other Revenues	151,066
<b>Total Sources</b>	<b>\$114,955,748</b>
<b>Uses of Funds:</b>	
Conceptual Engineering	\$4,375,827
Detail Design	6,787,498
Construction	103,792,423
<b>Total Uses</b>	<b>\$114,955,748</b>

The \$86,648,058 Harris Corporation base contract is part of the \$103,792,423 estimated construction costs shown in the Table above.

The \$1,600,000 requested to be released from Budget and Finance Committee reserve is part of the \$4,000,000 SFMTA 2012 Series B Revenue Bonds shown in the Table above. According to Mr. Kim, a total of \$25.7 million of SFMTA 2012 Series B Revenue Bonds were issued on July 11, 2012, such that the \$1,600,000 of funds are currently available, subject to release of the proposed reserve.

## **POLICY CONSIDERATIONS**

### **City's Existing and Proposed Communication Systems**

Based on the above-noted Department of Technology review, Mr. Walton advises that most of the City's current and proposed radio and data communication systems share similar site facilities, connectivity and infrastructure. However, according to Mr. Walton, the City does not have an existing plan that describes the current condition of these facilities or the need to improve these facilities to meet the combined needs of all City radio and data communication projects. Therefore, at the October 18, 2012 meeting, COIT approved a motion directing the Department of Technology to (a) collect, document and report on the current condition of radio facilities, and (b) provide recommendations to COIT for the future use of these facilities that are critical to be shared by the City's various radio projects. Mr. Walton estimates that this report and the related recommendations would be submitted to COIT within the next six months.

In addition, COIT approved a motion at their October 18, 2012 meeting directing the Department of Technology and the Department of Emergency Management to work together to propose a project to COIT, including an identifiable scope and budget, that will address City department user's needs and technical requirements not met by the subject SFMTA Radio System Replacement Project or the previously approved regional Motorola BayWEB public safety communication systems. Mr. Walton advises that the City department user needs and technical requirements portion of this project would be completed and submitted to COIT within the next six months, and depending on the availability of funding, a potential draft Request for Proposal (RFP) could be issued in FY 2013-14.

### **Regional Motorola BayWEB System**

Mr. Walton advises that the recently approved regional Motorola BayWEB interoperable communication system, which was intended to be a separate dedicated data interoperable wireless system for public safety agencies in the Bay Area, is uncertain at this time, due to Congress' recent actions. In February, 2012, Congress enacted The Middle Class Tax Relief and Job Creation Act of 2012, which contained provisions to create a nationwide interoperable broadband network to assist police, firefighters, emergency medical personnel and other public safety officials through the creation of a First Responder Network Authority (FirstNet), which would result in the construction, deployment and operation of a single national wireless public safety data network, providing \$7 billion toward deployment of this public safety network and \$135 million for new state and local planning efforts. The proposed Congressional establishment

of FirstNet would be comparable to BayWEB, but on a national rather than a regional basis. As a result of this Congressional action, the Federal Communications Commission (FCC) has transferred all communication spectrum rights<sup>4</sup> to FirstNet. The newly created FirstNet Board met for the first time on September 25, 2012 and is currently reviewing existing regional communication projects, including BayWEB. The Department of Emergency Management, as the lead agency for the City for BayWEB, is responsible for keeping COIT apprised of changes or impacts of policy or budgetary decisions regarding BayWEB and FirstNet.

## RECOMMENDATIONS

1. Approve the requested release of \$1,600,000 on reserve for the SFMTA Radio System Replacement Project.
2. Request that the Department of Emergency Management update the Board of Supervisors regarding changes to the previously approved BayWEB system, due to implementation of FirstNet policies, procedures and decisions.
3. Request that the Department of Technology working jointly with the Department of Emergency Management present the findings and recommendations to the Board of Supervisors regarding (a) the current radio facilities conditions, including recommendations for the future use of these facilities, and (b) City department user needs, technical requirements, timelines and funding required to develop any new communication systems for the City.

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<sup>4</sup> Communication spectrum rights are the licenses necessary to access specific radio frequencies that are used for communication on wireless networks.

**Item 13**  
**File 12-1138**

**Department:**  
**San Francisco Municipal Transportation Agency**

## **EXECUTIVE SUMMARY**

### **Legislative Objectives**

- The proposed resolution would approve the termination of the lease agreement between the City and County of San Francisco and the Downtown Parking Corporation for the Fifth & Mission Garage and would authorize the Director of Transportation to execute a Lease Termination Agreement effective December 31, 2012.

### **Key Points**

- The Downtown Parking Corporation is a non-profit 501(c) 2 entity, formed in 1955 for the sole purpose of assisting the City by financing the costs of the Fifth & Mission Garage through the sale of bonds. In July 2012, the Downtown Parking Corporation's bonds were fully paid off from the proceeds of the issuance of Revenue Bonds issued by the SFMTA. Since the bonds issued by the Downtown Parking Corporation have been fully paid, the Corporation's Board of Directors wants to terminate the lease with the City which was previously entered into between the City and the Downtown Parking Corporation to enable the Corporation to manage the day-to-day operations of the Garage.
- According to Mr. Michael Robertson, SFMTA's Deputy Director of Off-Street Parking, the SFMTA will assume all agreements that the Downtown Parking Corporation has entered into which includes 16 vendor agreements for services that support the operation and maintenance of the Garage and 17 corporate subtenant lease agreements for retail and commercial stores that occupy the ground floor.
- The Downtown Parking Corporation will transfer the title and control of all monies, deposits, and accounts of the Corporation to the SFMTA within five business days of December 31, 2012 and will provide an audit report and full accounting of all revenues, accounts, equipment, outstanding debts, and assets within 45 days of December 31, 2012. The SFMTA will review the audit and accounting and will provide comments to the Downtown Parking Corporation within 30 days. Subsequent to any corrective actions which the SFMTA states that the Downtown Parking Corporation must make, the SFMTA will hold the Downtown Parking Corporation, its Board of Directors, and officers harmless.

### **Fiscal Impact**

- According to Mr. Robertson, the termination of the lease with the Downtown Parking Corporation will save the City an estimated \$203,920 annually by discontinuing redundant corporate oversight services, including the costs for a corporate manager, corporate accounting staff, and attorney fees, as shown in Table 1 below. The Downtown Parking Corporation's Manager, Mr. John Brown, will be retained temporarily to perform administrative services including correcting the audit and accounting reports, transferring accounts, books and records from the Corporation to the City and will be compensated on an hourly basis. Mr. Robertson noted that Mr. Brown's services will be limited and will conclude upon the final close-out audit which is planned for March 31, 2013.

### **Recommendation**

- Approve the proposed resolution.

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

In accordance with City Charter Section 9.118(c), any lease exceeding ten years and/or having anticipated revenue of \$1,000,000 or greater is subject to the Board of Supervisors approval.

**Background**

The Fifth & Mission Garage (Garage) is a City-owned garage under the jurisdiction of the San Francisco Municipal Transportation Agency (SFMTA), located at 833 Mission Street. The Garage has approximately 2,600 parking spaces and provides over 25,000 square feet of retail space, currently leased to various tenants and generates over \$18,000,000 in annual gross revenue which are used to pay Garage operating expenses.

The Downtown Parking Corporation is a non-profit 501(c) 2 entity, formed in 1955 for the sole purpose of assisting the City by financing the costs of the Fifth & Mission garage through the sale of Downtown Parking Corporation bonds. In 1957, the City leased the Garage to the Corporation through a lease agreement which was subsequently replaced with a new lease agreement in 1992. Under the lease, the Corporation manages the day-to-day operations of the Garage with oversight and policy direction from the SFMTA.

In June 2012, the Corporation's Board of Directors executed a Lease Amendment with the SFMTA to modify and continue the term of the lease on an interim basis until an agreement to terminate the lease was in place. After this Lease Amendment, the parties agreed to terminate the existing lease and set up an unofficial, voluntary Advisory Committee, within 180 days of the Lease Amendment, composed of Corporation Board members who wish to continue to provide input on parking policies and rates on behalf of the community. A draft of the by-laws for this Committee is currently being reviewed by the Corporation.

In July 2012, the bonds were fully paid off through the issuance of a revenue bond by the SFMTA. Since the bonds issued by the Corporation have been fully paid, the Corporation's Board of Directors wants to terminate the lease. To initiate the termination, the Corporation's Board of Directors unanimously approved the Lease Termination Agreement at its Board of Directors meeting on October 31, 2012.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve the termination of the lease agreement between the City and County of San Francisco and the Downtown Parking Corporation for the Fifth & Mission Garage and would authorize the Director of Transportation to execute a Lease Termination Agreement effective December 31, 2012.

According to Mr. Michael Robertson, SFMTA's Deputy Director of Off-Street Parking, SFMTA will assume all leases and agreements that the Downtown Parking Corporation has entered into, which includes 16 vendor agreements for services that support the operation and maintenance of the Garage and 17 corporate subtenant lease agreements for retail and commercial stores that occupy the ground floor. Mr. Robertson noted that the termination will have no material effect on the Downtown Parking Garage operations or its tenants.

The Downtown Parking Corporation will transfer the title and control of all monies, deposits, and accounts of the Corporation to the SFMTA within five business days of December 31, 2012, and will provide an audit report and full accounting of all revenues, accounts, equipment, outstanding debts, and assets within 45 days of December 31, 2012. SFMTA will review the audit and accounting and will provide comments and corrections within 30 days. Subsequent to any corrective actions which the SFMTA states that the Downtown Parking Corporation must make, SFMTA will hold the Downtown Parking Corporation, its Board Members, and officers harmless.

## FISCAL IMPACT

According to Mr. Robertson, the termination of this lease will save the City an estimated \$203,920 annually by discontinuing redundant corporate oversight services, including costs for a corporate manager, corporate accounting staff, and attorney fees as shown in Table 1 below.

**Table 1: Annual Savings from the Proposed Lease Termination**

<b>Corporation Expenditures</b>	<b>Savings</b>	<b>Notes</b>
Corporate Manager	\$139,000	Salary & Benefits
Attorney Fees	24,000	Budgeted (\$32K Actual FY11-12)
Corporation Accounting Staff	40,920	Elimination of redundant staffing
<b>TOTAL Estimated Savings</b>	<b>\$203,920</b>	

The proposed termination of the Downtown Parking Corporation Lease Agreement is consistent with the analysis and findings of the City Services Auditor's June 2011 audit that questioned the need for continuing to have such leases with non-profit corporations that require corporate oversight services, such as those shown in Table 1 above, when SFMTA could provide these services on an in-house basis.

Under the proposed lease termination agreement, the City will have no obligation to any employee of the Downtown Parking Corporation, with the exception of the Corporate Manager, Mr. John Brown, who will be temporarily retained to perform administrative services including correcting the audit and accounting reports, and transferring accounts, books and records from the Corporation to the City. According to Mr. Robertson, Mr. Brown will be retained until the final close-out audit is approved by the City and a hold-harmless is issued to the Corporation's Board which is planned for late March 2013. Mr. Robertson further noted that Mr. Brown's needed services will be very limited. After the Effective Termination Date of December 31, 2012, the City will pay Mr. Brown on an hourly basis for his services at \$66.83 per hour.

Under the current lease agreement between the City and the Downtown Parking Corporation, the revenue from parking and other sources totaling \$18,355,578 for FY 2011-12, as shown in Table 2 below, is collected by the Corporation who, in turn, pays for the Fifth and Mission Garage operating expenses upon SFMTA's approval; any balance that is left over is paid to the SFMTA. As shown in Table 2 below, for FY 2011-12, \$9,123,500 was paid to the SFMTA. Upon the Lease's termination, SFMTA will collect the Garage's revenues and pay monthly bills on an in-house basis.

**Table 2: The Garages' Expenditures & Revenues for FY 2011-12**

<b>Expenditures</b>	
Operating Expenses*	\$5,818,170
Parking Tax	<u>3,413,908</u>
Subtotal Expenditures	9,232,078
<b>Revenue</b>	
Parking Revenue	17,044,295
Non-Parking Revenue	<u>1,311,283</u>
Subtotal Revenues	18,355,578
<b>Total Balance Paid to SFMTA</b>	<b>\$9,123,500</b>

\*Includes operating expenses, bond interest payments, corporate legal services, depreciation and amortization, and trustee fees.

**RECOMMENDATION**

Approve the proposed resolution.



<b>Item 15</b> <b>File 12-1109</b>	<b>Department(s):</b> Mayor's Office of Housing (MOH)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objective</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would authorize an expenditure of \$760,000 from the South of Market Area (SOMA) Community Stabilization Fund to fund the (1) Development and Housing Coordination Program, (2) Community Council Program, (3) Community Action Grants Coordinator Program; and (4) the Mayor's Office of Housing (MOH) Funding Pool for future SOMA site acquisition.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• Under the City's Planning Code, developers constructing new residential development in the Rincon Hill Downtown Residential District pay development impact fees (South of Market Community Stabilization Fee) of \$10.95 per square foot. Fee revenues are deposited into the SOMA Community Stabilization Fund to be used for housing and economic and workforce development. The MOH administers the SOMA Community Stabilization Fund, and the Community Stabilization Fund Community Advisory Committee advises on the use of fees allocated to the SOMA Community Stabilization Fund revenues, subject to Board of Supervisors approval.</li> <li>• Based on a competitive Requests for Proposal (RFP) process, the Community Stabilization Fund Community Advisory Committee and MOH are recommending allocation of SOMA Community Stabilization Fund revenues for the two-year period from January 1, 2013 through December 31, 2014 as follows: (a) \$100,000 to the Asian Neighborhood Design, a non-profit agency, for analysis, communication and leadership development services for the Development and Housing Coordination Program, (b) \$60,000 to the Veteran's Equity Center, a non-profit agency, for leadership development training for the Development and Housing Coordination Program, (c) \$100,000 to the Filipino American Development Foundation, a non-profit agency, to develop and convene a neighborhood community council, and (d) \$100,000 to Rebuilding Together, a non-profit agency, to administer small grants and provide technical assistance. Additionally, the Community Stabilization Fund Community Advisory Committee and MOH are recommending allocation of \$400,000 in SOMA Community Stabilization Funds to MOH for a pool of funding for future site acquisition in SOMA.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The SOMA Community Stabilization Fund currently has a net balance of \$4,177,160. If the proposed resolution is approved authorizing \$760,000 of expenditures from the SOMA Community Stabilization Fund, the SOMA Community Stabilization Fund balance would be reduced to \$3,417,160 (\$4,177,160 less \$760,000).</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution to require the MOH report back to the Budget and Finance Committee on the results of the Notice of Funding Availability (NOFA) for the allocation of the \$400,000 pool fund monies for future site acquisition in SOMA, including (a) the criteria used to evaluate the proposals, (b) the name of the selected non-profit agencies, (c) the amount of awards, and (d) the purpose of the expenditures.</li> <li>• Approve the proposed resolution, as amended.</li> </ul>	

## BACKGROUND/MANDATE STATEMENT

### Mandate Statement

In accordance with Planning Code Section 418.7, all monies in the South of Market Area (SOMA) Community Stabilization Fund are to be expended in order to address the effects of destabilization on residents and businesses in SOMA due to development in the Rincon Hill Area, subject to conditions specified in the Planning Code. In accordance with Section 418.7(c) of the Planning Code, the SOMA Community Stabilization Fund expenditures are administered by the Mayor's Office of Housing (MOH), subject to approval by resolution of the Board of Supervisors. In approving expenditures from the Fund, (a) MOH and the Board of Supervisors shall consider any comments from the Community Advisory Committee, the public, and any relevant City departments or offices, and (b) the Board of Supervisors shall determine the relative impact from the development in the Rincon Hill Plan Area and shall insure that the expenditures are consistent with mitigating the impacts from the development.

### Background

On August 19, 2005, the Board of Supervisors approved a new Section 318 in the City's Planning Code, which among other provisions, (a) established the Rincon Hill Downtown Residential District<sup>1</sup>, (b) created a Rincon Hill Community Improvement Fund, (c) imposed on developers a South of Market Area (SOMA) Community Stabilization Fee of \$14 per square foot (subsequently amended to \$10.95 per square foot by the Board of Supervisors under Ordinance 270-10) on new residential development within the Rincon Hill Downtown Residential District, (d) created the SOMA Community Stabilization Fund, and (e) established a SOMA Community Stabilization Fund Community Advisory Committee (CAC) to advise the Mayor's Office of Housing and the Board of Supervisors on the uses of the SOMA Community Stabilization Fund (Ordinance 217-05).

In accordance with Section 418.7 of the Planning Code, monies in the SOMA Community Stabilization Fund are to be used to address the effects of destabilization on residents and businesses in SOMA due to development in the Rincon Hill Area. Under the Planning Code, the SOMA Community Stabilization Fund is to be used for housing, and economic and workforce development.

On May 6, 2008, the Board of Supervisors approved a resolution (Resolution 0216-08) (a) approving the SOMA Community Stabilization Fund Strategic Plan, (b) authorizing MOH to administer the SOMA Community Stabilization Fund in accordance with this Strategic Plan, and (c) authorizing MOH to work with the SOMA Stabilization Fund Community Advisory Committee to issue competitive Requests for Proposals (RFPs) to address the effects of destabilization on residents and businesses in SOMA, consistent with the Community Stabilization Fund Strategic Plan among other provisions. In 2011, the SOMA Stabilization Fund Community Advisory Committee revised the Community Stabilization Fund Strategic Plan to

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<sup>1</sup> The Rincon Hill Downtown Residential District is considered to be the area bounded by Folsom Street, The Embarcadero, Bryant Street, and Essex Street.

focus future investments with the consideration of the changing economic conditions and the rapid rate of development in the SOMA neighborhood.

The revised Community Stabilization Fund Strategic Plan identified three strategic directions for the SOMA Community Stabilization Fund, (1) Housing, (2) Jobs and Income, and (3) Community Cohesion and Neighborhood Communication. Of the three strategic directions, the revised Strategic Plan articulated the following goals:

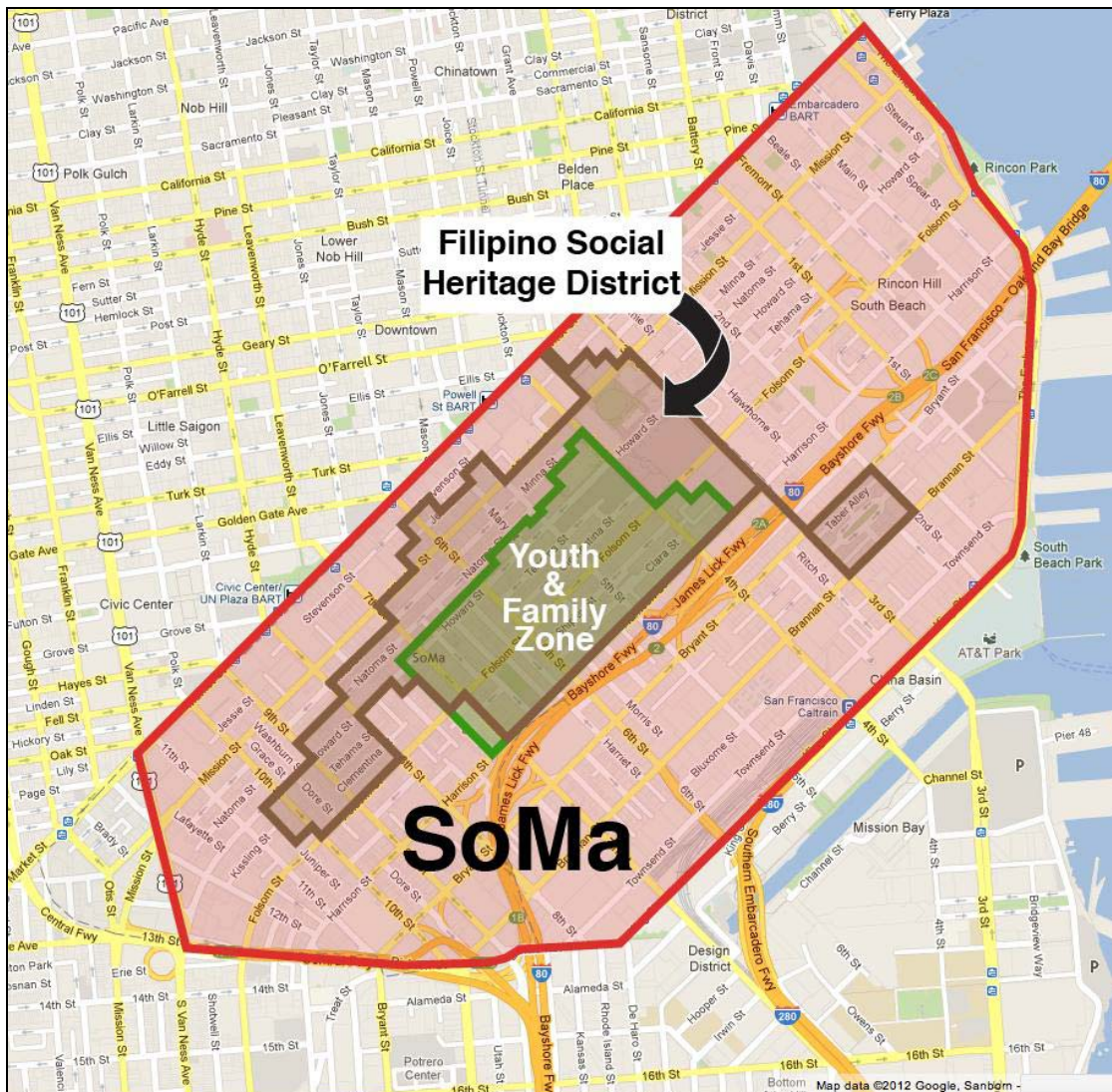
- 1) Housing,
  - a. Resident engagement,
  - b. Information and preparation to successfully compete for affordable units, and
  - c. Direct land investment (limited);
- 2) Jobs and Income,
  - a. Employer cultivation,
  - b. Job preparation,
  - c. Income support through micro business, and
  - d. Asset development; and
- 3) Community Cohesion and Neighborhood Communication,
  - a. Local nonprofit community infrastructure development,
  - b. Resident connections across culture and income, and
  - c. Community Advisory Committee positioning and leadership.

On July 9, 2012 MOH issued an RFP that included the following program areas in the SOMA Community Stabilization Fund Area:

- 1) Development and Housing Coordination;
- 2) Neighborhood and Business Coordination;
- 3) Community Council; and
- 4) Community Action Grants Coordinator.

According to the RFP, priority would be given to programs serving the overlapping geographic areas identified as the Children and Families Zone and the Filipino Social Heritage District as seen in the map below (Figure 1). Ms. del Rosario reports that MOH released the RFP on the MOH website and the MOH list serve, and published the RFP in local newspapers.

**Figure 1. Map of SOMA Community Stabilization Fund Area  
With the RFP’s Designated Priority Geographic Areas**



**Development and Housing Coordination Program: \$160,000**

According to the RFP, the Development and Housing Coordination Program is to:

- 1) Coordinate with City agencies, community-based organizations, and developers to provide an analysis of SOMA housing stock, planned development, and potential displacement of existing residents; and
- 2) Facilitate and provide leadership development and civic engagement training for SOMA low-income residents to increase awareness and involvement in neighborhood housing and development issues.

MOH received two proposals from two non-profit organizations for the Development and Housing Coordination program: Asian Neighborhood Designs and Veteran's Equity Center. The SOMA Community Advisory Committee and MOH reviewed the proposals and recommend funding (a) \$100,000 to fully fund the Asian Neighborhood Design proposal to provide analysis, communication and leadership development services for a two-year period from approximately January 2013 through December 2014, and (b) \$60,000 to partially fund the Veteran's Equity Center proposal to provide leadership development training for a two-year period from approximately January 2013 through December 2014.

**Neighborhood and Business Coordination Program: \$0**

According to the RFP, the Neighborhood and Business Coordination Program is to develop, implement and administer a program that connects SOMA residents, community based organizations, and small businesses located in the neighborhood to create employment opportunities and other connections to achieve neighborhood cohesion.

MOH received four proposals for the Neighborhood and Business Coordination program, but according to Ms. Claudine del Rosario, of MOH, the SOMA Community Advisory Committee and MOH reviewed the proposals and did not recommend funding any of the proposals.

**Community Council Program: \$100,000**

According to the RFP, the Community Council Program is to provide support and infrastructure for stabilization and community cohesion in SOMA.

For the Community Council program, only the Filipino American Development Foundation, a non-profit agency, responded to the RFP. The SOMA Community Advisory Committee and MOH reviewed the proposal and recommended \$100,000 to fully fund the Filipino American Development Foundation proposal to provide for community development and to convene a neighborhood community council for a two-year period from approximately January 2013 through December 2014.

**Community Action Grants Coordinator Program: \$100,000**

According to the RFP, this position would be responsible to coordinate with the SOMA Community Advisory Committee to implement and administer a community-based, small grants program focused on SOMA.

For the Community Action Grants Coordinator Program, only Rebuilding Together, a non-profit agency, responded to the RFP. The SOMA Community Advisory Committee and MOH reviewed the proposal and recommended \$100,000 to fund the Rebuilding Together proposal to administer small grants and provide technical assistance for a two-year period from approximately January 2013 through December 2014.

## DETAILS OF PROPOSED LEGISLATION

Based on a competitive RFP process, the proposed resolution would authorize \$360,000 of expenditures from the SOMA Community Stabilization Fund to fund the (1) Development and Housing Coordination Program, (2) Community Council Program, and (3) Community Action Grants Coordinator Program. Additionally, the proposed resolution would authorize an allocation of \$400,000 to the MOH Funding Pool for future SOMA site acquisition. Therefore, the proposed resolution would authorize a total of \$760,000 of expenditures from the SOMA Community Stabilization Fund, as shown in Table 1 below.

<b>Table 1. SOMA Community Stabilization Fund Proposed Funding</b>		
<b>Non- Profit Agencies</b>	<b>Recommended Awards</b>	<b>Total Awards by Program Area</b>
Asian Neighborhood Design	\$100,000	
Veteran's Equity Center	<u>60,000</u>	
<b>Development and Housing Coordination Program</b>		\$160,000
Filipino American Development Foundation	<u>100,000</u>	
<b>Community Council Program</b>		100,000
Rebuilding Together	<u>100,000</u>	
<b>Community Action Grants Coordinator Program</b>		<u>100,000</u>
<b>Subtotal, Proposed Grant Funding for Recommended Non-profit Organizations</b>		<b>\$360,000</b>
<b>MOH Pool of Funding for Future Site Acquisition in SOMA</b>		<u>\$400,000</u>
<b>TOTAL</b>		<b>\$760,000</b>

According to Ms. Del Rosario, MOH does not yet have detailed budgets for the contracts with the recommended non-profit agencies because such budgets are still subject to MOH negotiations. The recommended funding, as seen in Table 1, would provide for:

1. Award of a \$100,000 contract for a two-year period from approximately January 2013 through December 2014 to the Asian Neighborhood Design, a non-profit agency, to provide analysis, communication of pipeline developments in SOMA, and leadership development to increase civic engagement among residents. The contract would partially fund a Project Manager and two subcontractors.

2. Award of a \$60,000 contract for a two-year period from approximately January 2013 through December 2014 to the Veteran's Equity Center, a non-profit agency, for a community engagement program to provide leadership development training focused on affordable housing issues among residents of SOMA. The contract would partially fund a Community Coordinator, a Program Assistant and an Executive Director.
3. Award of a \$100,000 contract for a two-year period from approximately January 2013 through December 2014 to Filipino American Development Foundation, a non-profit agency, to develop and convene a neighborhood community council to meet regularly and discuss issues affecting stabilization in SOMA, and to develop collaborative strategies for addressing them. The new community council would also act as the governing body for SOMA Community Action Grants. The contract would partially fund a Coordinator and a Council Secretary, as well as for one subcontract Facilitator.
4. Award of a \$100,000 contract for a two-year period from approximately January 2013 through December 2014 to Rebuilding Together, a non-profit agency, to administer small grants and provide technical assistance to the SOMA community to foster community cohesion. The contract would include funding for the partial salary of a Grant Coordinator, and for grants and technical assistance.
5. Allocation of \$400,000 to MOH for a pool of funding for future small site acquisition in SOMA. According to Ms. Del Rosario, MOH will issue a Notice of Funding Availability (NOFA) in January that includes criteria for the types of properties, including property uses, to be acquired with the pool funds. Proposals will be evaluated by the Citywide Affordable Housing Loan Committee that currently consists of the directors (or their designees) for the Mayor's Office of Housing, the Human Services Agency and the Department of Public Health. The criteria used to evaluate the proposals have not been determined. MOH should report back to the Budget and Finance Committee on the results of the Notice of Funding Availability (NOFA) for the allocation of the \$400,000 pool fund monies for future site acquisition in SOMA, including (a) the criteria used to evaluate the proposals, (b) the name of the selected non-profit agencies, (c) the amount of awards, and (d) the purpose of the expenditures.

## FISCAL IMPACT

As detailed in Table 1 above, the proposed resolution would authorize a total of \$760,000 of expenditures from the SOMA Community Stabilization Fund. Based on information provided by Mr. Benjamin McCloskey, MOH, and as shown in Tables 2 and 3 below, from FY 2005-06 to FY 2012-13, the SOMA Community Stabilization Fund has generated \$9,165,764 in revenues and expended \$4,988,604 resulting in a remaining Fund balance of \$4,177,160.

	<b>Revenue from Fees</b>	<b>Transfers from Community Improvement Funds</b>	<b>Total Revenue</b>
FY 2005-2006	\$98,471	\$0	\$98,471
FY 2006-2007	0	203,292	203,292
FY 2007-2008	0	0	0
FY 2008-2009	67,324	0	67,324
FY 2009-2010	4,962,933	350,000	5,312,933
FY 2010-2011	2,807,128	589,626	3,396,754
FY 2011-2012	(81,761)*	0	(81,761)
FY 2012-2013	0	0	0
<b>Subtotal</b>	<b>\$7,854,095</b>	<b>\$1,142,918</b>	<b>\$8,997,013</b>
Interest Earnings			\$168,751
<b>Total</b>			<b>\$9,165,764</b>

\* Return of fees collected erroneously in the prior fiscal year for 333 Harrison project.

Source: Mayor's Office of Housing

	<b>Salaries and Benefits</b>	<b>Inclusionary Housing Study</b>	<b>Grant Expenditures</b>	<b>Total Expenditures</b>
FY 2006-2007	\$45,614	\$40,000	\$0	\$85,614
FY 2007-2008	82,452	110,000	0	192,452
FY 2008-2009	185,596	0	0	185,596
FY 2009-2010	102,090*	0	0	102,090
FY 2010-2011	135,719*	0	3,613,462	3,749,181
FY 2011-2012	160,709*	0	404,411	565,120
FY 2012-2013	47,556*	0	60,995	108,551
<b>Total</b>	<b>\$759,736</b>	<b>\$150,000</b>	<b>\$4,078,868</b>	<b>\$4,988,604</b>

\* Includes advertising for public hearing and City Attorney costs.

Source: Mayor's Office of Housing

If the proposed resolution authorizing \$760,000 of expenditures from the SOMA Community Stabilization Fund is approved, the remaining Fund balance would be \$3,417,160 (\$4,177,160 less \$760,000).



**RECOMMENDATIONS**

1. Amend the proposed resolution to require the MOH report back to the Budget and Finance Committee on the results of the Notice of Funding Availability (NOFA) for the allocation of the \$400,000 pool fund monies for future site acquisition in SOMA, including (a) the criteria used to evaluate the proposals, (b) the name of the selected non-profit agencies, (c) the amount of awards, and (d) the purpose of the expenditures.
2. Approve the proposed resolution, as amended.