CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: September 4, 2019 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

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File 19-0849: The proposed resolution would authorize the sale of not-to-exceed $92,725,000 aggregate principal amount of 2015 Affordable Housing Bonds (Series 2019D).

File 19-0835: The proposed ordinance would (1) appropriate $3,100,000 of proceeds from the 2012 Parks Bond, Series 2019C to the Port of San Francisco, (2) appropriate $92,725,000 of proceeds from the 2015 Housing Bond, Series 2019D, to MOHCD, and (3) place $95,825,000 on Controller's Reserve pending the sale of the bonds.

Key Points

- In November 2012, San Francisco voters approved $195 million of Clean and Safe Neighborhood Parks General Obligation Bonds to finance the construction, reconstruction, purchase and/or improvements for various neighborhood parks and citywide parks under the Recreation and Park Department and waterfront parks under the Port.
- The proposed $3.1 million fourth and final bond issuance and sale (Series 2019C) would be used to fund construction of improvements for Heron's Head Park and Agua Vista Park.
- In November 2015, San Francisco voters approved Proposition A to authorize the issuance of not-to-exceed $310,000,000 in taxable and tax-exempt general obligation bonds for affordable housing.
- The proposed $92,750,000 third and final issuance (Series 2019D) would be used to construct, develop, acquire and preserve housing affordable to low and middle-income households through programs that prioritize vulnerable populations.

Fiscal Impact

- Total debt service over the anticipated one-year term of the Series 2019C bonds will be $3,204,000, of which $3,100,000 is principal and $104,000 is interest.
- Total debt service over the anticipated 20-year term of the Series 2019D bonds will be approximately $139,630,000, of which $92,725,000 is principal and $46,906,000 is interest.
- The owner of a residence with an assessed value of $600,000 would pay average annual additional property taxes to the City of $16.61 per year if the anticipated $95,825,000 in Series 2019C and 2019D Bonds are sold.

Recommendation

- Approve the proposed ordinance and the proposed resolutions.

MANDATE STATEMENT

City Charter Section 9.105 provides that the issuance and sale of General Obligation (GO) bonds is subject to Board of Supervisors approval in accordance with State law or local procedures adopted by ordinance.

City Charter Section 9.105 states that amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval by ordinance after the Controller certifies the availability of funds.

BACKGROUND

Clean and Safe Neighborhood Parks Bond

In November 2012, San Francisco voters approved $195 million of Clean and Safe Neighborhood Parks General Obligation (GO) Bonds (2012 Proposition B) to finance the construction, reconstruction, purchase and/or improvements for various neighborhood parks and citywide parks under the Recreation and Park Department (Recreation & Park) and waterfront parks under the Port.

Of the total $195,000,000 authorization, $191,900,000 has been issued to date, leaving $3,100,000 remaining in 2012 Proposition B funds, as shown in Table 1 below.

Table 1: 2012 Clean and Safe Neighborhood Parks Bond Issuances

Bond	Date	Recreation & Park	Port	Other [a]	Total
1st Sale	June 2013	$53,187,500	$18,200,000	$582,500	**$71,970,000**
2nd Sale	October 2015	29,152,430	13,200,000	867,570	**43,220,000**
3rd Sale	January 2018	75,899,527	--	810,473	**$76,710,000**
				Subtotal To Date	*$191,900,000*
4th Sale [b]	October 2019	--	3,070,256	29,744	**3,100,000**
				Subtotal Remaining	*$3,100,000*
	Total	**$158,239,457**	**$34,500,000**	**$2,260,543**	**$195,000,000**

[a] Other costs are for bond issuance and audit costs including: Controller's Audit Fund, Cost of Issuance, Underwriter's Discount, and Citizens' General Bond Obligation Oversight Committee.
[b] Upon approval of File 19-0848.

Affordable Housing General Obligation Bond

In November 2015, San Francisco voters approved Proposition A to authorize the issuance of not-to-exceed $310,000,000 in taxable and tax-exempt GO bonds for affordable housing for the following purposes:

- Construct, develop, acquire and preserve housing affordable to low and middle-income households through programs that prioritize vulnerable populations;
- Assist in the acquisition, rehabilitation and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents;

- Target affordable housing investments in the Mission neighborhood;
- Repair and reconstruct dilapidated public housing;
- Fund a middle-income rental program;
- Provide for homeownership down payment assistance for educators and middle-income households;
- Provide independent citizen oversight and regular audits of the above-noted housing programs; and
- Authorize landlords to pass-through to residential tenants in rent-controlled units 50% of the increase in property taxes attributable to the cost to repay these bonds.

In September 2016, the Board of Supervisors approved two resolutions (Files 16-0867 and 16-0868) authorizing the issuance of the entire not-to-exceed $310,000,000 of the 2015 Affordable Housing bonds and the sale of the first series of the 2015 Affordable Housing bonds for $77,000,000, and an ordinance appropriating $77,000,000 of proceeds from the first bond sale (File 16-0850). In April 2018, the Board of Supervisors approved a resolution authorizing the second issuance and sale of not-to-exceed $146,000,000 of the 2015 Affordable Housing bonds (File 18-0325) and an ordinance appropriating $146,000,000 of bond proceeds (File 18-0314). Of the total authorization, $217,275,000 has been issued to date, leaving $92,725,000 remaining to be issued, as shown in Table 2 below.

Table 2: 2015 Affordable Housing General Obligation Bond Issuances (millions)

	Issuance 1	Issuance 2	Issuance 3 [a]	Total
Public Housing	$40,600,000	$400,000	$38,049,357	$78,689,357
Low-Income Housing	22,974,731	67,595,000	7,267,429	97,837,160
Low-Income Housing (Mission)	7,025,269	42,635,000	791,736	50,452,305
Middle-Income Housing	3,803,014	29,856,986	45,528,394	79,188,394
Issuance and Oversight Costs	726,986	1,658,014	1,088,084	3,832,784
Total	$75,130,000	$145,145,000	$92,725,000	$310,000,000

[a] Upon approval of File 19-0849.

DETAILS OF PROPOSED LEGISLATION

File 19-0848 is a proposed resolution that would:

1. Authorize the sale of not-to-exceed $3,100,000 aggregate principal amount of 2012 Clean and Safe Neighborhood Parks Bonds (Series 2019C);
2. Prescribe the form and terms of the bonds;
3. Authorize the execution, authentication, and registration of the bonds;
4. Provide for the appointment of depositories and other agents for the bonds;
5. Provide for the establishment of accounts related to the bonds;
6. Provide for the manner of sale of the bonds by competitive or negotiated sale;
7. Approve the forms of Official Notice of Sale and Intention to Sell Bonds;

8. Direct the publication of the Notice of Intention to Sell Bonds;
9. Approve the form of the Preliminary Official Statement and the form and execution of the Official Statement relating to the sale of the bonds;
10. Approve the form of the Continuing Disclosure Certificate;
11. Authorize and approve modifications to documents;
12. Declare the City's intent to reimburse certain expenditures;
13. Waive the deadline for submission of Bond Accountability Reports;
14. Adopt findings under the California Environmental Quality Act (CEQA);
15. Ratify certain actions previously taken; and
16. Grant authority to City officials to take necessary actions for the authorization, issuance, sale, and delivery of the bonds.

File 19-0849 is a proposed resolution that would:

1. Authorize the sale of not-to-exceed $92,725,000 aggregate principal amount of 2015 Affordable Housing Bonds (Series 2019D);
2. Prescribe the form and terms of the bonds;
3. Provide for the appointment of depositories and other agents for the bonds;
4. Provide for the establishment of accounts related to the bonds;
5. Authorize the sale of the bonds by competitive or negotiated sale;
6. Approve the forms of Official Notice of Sale and Notice of Intention to Sell Bonds and direct the publication of the Notice of Intention to Sell Bonds;
7. Approve the form of the Bond Purchase Contract;
8. Approve the form of the Preliminary Official Statement and the execution of the Official Statement relating to the sale of the bonds;
9. Approve the form of the Continuing Disclosure Certificate;
10. Authorize and approve modifications to documents;
11. Ratify certain actions previously taken; and
12. Grant authority to City officials to take necessary actions for the authorization, issuance, sale, and delivery of the bonds.

File 19-0835: The proposed ordinance would (1) appropriate $3,100,000 of proceeds from the 2012 GO Parks Bond, Series 2019C to the Port of San Francisco, (2) appropriate $92,725,000 of proceeds from the 2015 GO Housing Bond, Series 2019D, to the Mayor's Office of Housing and Community Development (MOHCD), and (3) place $95,825,000 on Controller's Reserve pending the sale of the bonds.

The proposed resolution to sell the Series 2019C Bonds (File 19-0848) waives the deadline for submission of accountability reports required under Administrative Code Section 2.71(a). According to Mr. Vishal Trivedi, Financial Analyst in the Office of Public Finance, the waiver ensures that the sale would not be delayed if the bond accountability report was not submitted 60 days prior to appropriation of the bond proceeds. However, Mr. Trivedi reports that the Office of Public Finance is finalizing the bond accountability report as of the date of this report and that it will be submitted and distributed per the Administrative Code requirement.

Table 3 below outlines anticipated sources and uses for the Series 2019C and 2019D bond proceeds.

Table 3: Sources and Uses of Series 2019C and 2019D Bond Proceeds

Sources	**2019C (File 19-0848)**	**2019D (File 19-0849)**
Proceeds from Sale of Bonds	$3,100,000	$92,725,000
Total Not-To-Exceed Amount	**$3,100,000**	**$92,725,000**
Uses		
Administrative Costs		
GO Bond Oversight Committee	$3,100	$92,725
Cost of Issuance	19,728	580,272
Underwriter's Discount	775	231,813
Controller's Audit Fund	6,141	183,274
Administrative Costs Subtotal	**$29,744**	**$1,088,084**
Projects		
Agua Vista Park	$1,700,000	
Heron's Head Park	1,370,256	
Projects Subtotal	**$3,070,256**	
Loans Issued by City		
Public Housing		$37,989,357
Low-Income Housing		7,267,429
Mission Neighborhood		791,736
Middle-Income Housing		45,528,394
Loans Issued by City Subtotal		**$91,576,916**
Other Current Expenses		$60,000
Total Uses	**$3,100,000**	**$92,725,000**

Uses of Clean and Safe Neighborhood Parks Bond Proceeds

The $195 million 2012 Clean & Safe Neighborhood Parks Bond reserved $34.5 million for Port Waterfront Parks. In the first two bond sales, the Port received $31.4 million, as shown in Table 1 above. The proposed $3.1 million fourth and final bond issuance and sale (Series 2019C) would be used to fund construction of improvements for Heron's Head Park and Agua Vista Park. The Heron's Head Park allocation would be used for comprehensive park signage, path improvements, accessibility improvements, lighting, new planting, and upgrades to the EcoCenter's solar panels and electrical system. The Agua Vista Park allocation would be used for new grading, pathways, plantings, irrigation and drainage, site furniture, lighting, and improved access to the existing fishing pier.

Uses of Affordable Housing GO Bond Proceeds

The Mayor's Office of Housing and Community Development (MOHCD) uses the proceeds of the 2015 Affordable Housing GO Bond to make loans to affordable housing developers and individual homeowners.

The proposed uses for the third and final issuance (Series 2019D) include:

- $37.5 million for infrastructure and vertical gap financing for the Potrero and Sunnydale public housing projects, supporting 390 public housing units;
- $1.5 million for the Small Sites Program for the acquisition and rehabilitation of rent-controlled housing to preserve affordability, estimated to fund a 5-unit building;
- $5.7 million for construction and permanent financing for 500 Turk Street, supporting 108 units;
- $0.8 million for predevelopment costs for 681 Florida Street;
- $19.2 million for down payment assistance loans, including $2.9 million targeted for SFUSD teachers, estimated to fund 53 down payment loans and 60 Teacher Next Door loans; and
- $26.0 million for predevelopment and construction of 82 units of middle-income teacher housing at 43rd & Irving (Francis Scott Key Elementary School).

According to Mr. Benjamin McCloskey, Deputy Director of Finance and Administration at MOHCD, the $60,000 allocation for Other Current Expenses would pay for City Attorney costs related to the associated Public Housing projects.

FISCAL IMPACT

Annual Debt Service

The proposed resolutions (Files 19-0848 and 19-0849) authorize the Director of Public Finance to determine the sale date, interest rates, principal amount, and maturity dates of the bonds, subject to the following conditions: (1) the true interest cost shall not exceed 12 percent; and (2) the maturity date shall not be more than 30 years from the date of issuance.

The Office of Public Finance intends to sell the Series 2019C and 2019D Bonds through a competitive sale process, but in the case of significant change in market conditions, reserves the option to seek a negotiated sale with underwriter(s) selected competitively.

Series 2019C

The Office of Public Finance expects to sell $3,100,000 in par value Series 2019C bonds. The Office of Public Finance estimates that, based on an estimated market interest rate of 2.92

percent for tax-exempt GO bonds, that total debt service over the anticipated one-year term of the bonds will be $3,204,000 on the Series 2019C bonds, of which $3,100,000 is principal and $104,000 is interest.[1]

Series 2019D

The taxable Affordable Housing bonds are anticipated to have a market interest rate of approximately 4.39 percent, resulting in an average annual debt service cost of approximately $7,100,000 over the 20-year term of the bonds. The bonds are expected to result in approximately $139,630,000 in total debt service over 20 years, of which $92,725,000 is principal and $46,906,000 is interest.

Debt Limit

Section 9.106 of the City Charter limits the amount of GO bonds the City can have outstanding at any given time to 3 percent of the total assessed value of property in San Francisco. The City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's GO debt limit for FY 2018-19 is approximately $7.78 billion, based on a net assessed valuation of approximately $259.3 billion.

As of July 1, 2019, the City had outstanding approximately $2.46 billion in aggregate principal amount of GO bonds, which equals approximately 0.95 percent of the net assessed valuation for FY 2018-19. If the Board of Supervisors approves the issuance of the Series 2019C and Series 2019D GO Bonds, the debt ratio would increase by 0.03 percent to 0.98 percent—within the 3 percent legal debt limit. If all of the City's voter-authorized and unissued GO bonds were issued, the total debt burden would be 1.37 percent of the net assessed value of property in the City.

Property Tax Rates

For Series 2019C and 2019D, repayment of the annual debt service will be recovered through increases in the annual property tax rate, which, according to the Controller's Office, would be $0.00280 per $100 of assessed value or $2.80 per $100,000 of assessed value over the anticipated 20-year term of the bonds. The owner of a residence with an assessed value of $600,000, assuming a homeowner's exemption of $7,000, would pay average annual additional property taxes to the City of $16.61 per year if the anticipated $95,825,000 in Series 2019C and 2019D Bonds are sold.

Capital Plan

Under financial constraints adopted by the City's Capital Planning Committee, debt service on approved and issued GO bonds may not increase property owners' long-term property tax rates

[1] According to Mr. Trivedi, the $3.1 million in Series 2019C bonds will have a one-year maturity because, based on the current bond market dynamics and due to the small principal amount for this series, the municipal bond advisors have suggested that a single principal maturity would be more marketable and attract more bidders than having it amortized over many very small maturities. With a single maturity, structuring it with a shorter one-year term minimizes the interest cost to the City and the taxpayers, and there is sufficient debt service appropriation in this fiscal year to make the payment.

above FY 2005-06 levels. The FY 2005-06 property tax rate for the GO bond fund was $0.1201 per $100 of assessed value. The issuance of the Series 2019C and 2019D Bonds was assumed in the FY 2019-20 appropriation ordinance previously approved by the Board of Supervisors, so the estimated debt service on the bonds has been factored into the FY 2019-20 property tax rate that is pending before the Board of Supervisors. The property tax rate for GO bonds for FY 2019-20 is expected to be $0.1167, which is below the FY 2005-06 rate and within the Capital Planning Committee's approved financial constraint.

RECOMMENDATION

Approve the proposed ordinance (File 19-0835) and the proposed resolutions (Files 19-0848 and 19-0849).

Item 10 **File 19-0836**	**Department:** Port

EXECUTIVE SUMMARY

Legislative Objectives

The proposed ordinance would appropriate $11,500,000 of unappropriated fund balance in the Port Harbor Fund to the Port's Seawall Earthquake and Disaster Prevention Program

Key Points

- In November 2018, San Francisco voters approved Proposition A, authorizing the $425 million Embarcadero Seawall Earthquake Safety General Obligation Bond to support the Seawall Earthquake Safety and Disaster Prevention Program.
- In July 2019, the Board of Supervisors authorized the first issuance, sale, and appropriation of the Seawall Bond for up to $50.0 million, including issuance costs, to support the planning and preliminary design phases of the Seawall Program.
- In April 2019, plaintiffs filed an action against the City regarding the Seawall Bond. Although the San Francisco Superior Court dismissed the plaintiffs' claims, the plaintiffs filed an appeal in July 2019. The City has chosen to delay the first bond issuance until the lawsuit is resolved.

Fiscal Impact

- The Port Harbor Fund had an estimated available fund balance of $14.2 million at the end of FY 2018-19.
- The proposed ordinance would appropriate $11.5 million of the fund balance, leaving approximately $2.7 million of available fund balance.
- The proposed ordinance would appropriate funding for the work of Port staff and consultants in the Seawall Program's planning phase through FY 2019-20. These funds would be reimbursed through future Seawall Bond sales, when they occur.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

In November 2018, San Francisco voters approved Proposition A, authorizing a $425 million General Obligation Bond known as the Embarcadero Seawall Earthquake Safety Bond to support the Seawall Earthquake Safety and Disaster Prevention Program (Seawall Program).

In July 2019, the Board of Supervisors authorized the first issuance, sale, and appropriation of the Seawall Bond for up to $50.0 million, including issuance costs, to support the planning and preliminary design phases of the Seawall Program (Files 19-0356, 19-0357, and 19-0358).

In April 2019, plaintiffs filed an action against the City alleging that San Francisco officials violated state and local election laws in connection with the voter approval of the Seawall Bond. The San Francisco Superior Court dismissed all of the plaintiffs' claims and entered judgment for the City on June 19, 2019, and on July 18, 2019, the plaintiffs filed an appeal. The City Attorney expects that the Court of Appeals will set a briefing schedule by the end of the calendar year. Although the City Attorney advises that the lawsuit is without merit, the City has chosen to delay the first bond issuance until the lawsuit is resolved.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate $11,500,000 of unappropriated fund balance in the Port Harbor Fund to the Port's Seawall Earthquake and Disaster Prevention Program.

FISCAL IMPACT

The Port Harbor Fund had an estimated available fund balance of $14.2 million at the end of FY 2018-19, according to Ms. Katharine Petrucione, Deputy Director of Finance and Administration at the Port. The proposed ordinance would appropriate $11.5 million of the fund balance, leaving approximately $2.7 million of available fund balance.

The proposed expenditures of the $11.5 million appropriation are shown in Table 1 below.

Table 1: Proposed Expenditures of Supplemental Appropriation, FY 2019-20

Expenditures	Amount
Program Labor (Port)	$969,000
Program Management (Consultant)	1,872,000
Public Outreach	1,368,000
General Investigation	1,944,000
Data Collection, Review, and Existing Conditions	130,000
Multi-Hazard Risk Assessment	1,422,000
Alternatives Formulation, Analysis and Program Development	1,548,000
Seismic Peer Review Panel	342,000
LBE Support and Workforce Development	306,000
Other City Department/Government Agencies	540,000
Subtotal	10,441,000
Contingency (10%)	1,044,100
Total	**$11,485,100**

The proposed ordinance would appropriate funding for the work of Port staff and consultants in the Seawall Program's planning phase through FY 2019-20. These funds would be reimbursed through future Seawall Bond sales, when they occur.

RECOMMENDATION

Approve the proposed ordinance.

Item 11 **File 19-0837**	**Department:** Controller's Office (Controller)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance sets the property tax rate for FY 2019-20 for taxing entities within the City and County of San Francisco, including (a) the City and County of San Francisco (City); (b) the San Francisco Unified School District (SFUSD); (c) the San Francisco County Office of Education; (d) the San Francisco Community College District (SFCCD); (e) the Bay Area Rapid Transit District (BART); and (f) the Bay Area Air Quality Management District (BAAQMD).

Key Points

- The Board of Supervisors annually sets the combined property tax rate that provides revenues for: (1) general operations, (2) specific Charter-required activities such as acquiring open space or constructing, maintaining, and operating the public library; and (3) paying debt service on voter-approved General Obligation bonds that were issued by the City, SFUSD, SFCCD, and BART.
- The proposed ordinance also would set the property tax pass-through rate that landlords can pass through to tenants in FY 2019-20, as allowed under the City Administrative Code.

Fiscal Impact

- The proposed ordinance would set the combined property tax rate (comprised of the property tax rates levied for all of the taxing jurisdictions within the city) for FY 2019-20 at $1.1801 per $100 of assessed value. The FY 2019-20 property tax rate of $1.1801 is $0.0171, or 1.5 percent, greater than the FY 2018-19 property tax rate of $1.1630 per $100 of assessed value.
- The proposed FY 2019-20 property tax rate of $1.1801 would increase property tax rates by $226.73 on a single-family residence that has an assessed value of $571,200 in FY 2019-20.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

California Revenue and Taxation Code Section 2151 requires the Board of Supervisors to fix the rates of county taxes and to collect the taxes for the City, County, and State.

San Francisco Administrative Code Section 3.3(h) requires the Board of Supervisors to adopt the property tax rate for the City and County of San Francisco before the last working day in September.

City Charter Section 16.107-109 requires that portions of the City's annual property tax levy be set aside for specific uses including: $0.0250 for the Library Preservation Fund; $0.0400 for the Children's Fund; and $0.0250 for the Open Space Acquisition Fund.

San Francisco Administrative Code Section 37.3(a)(6)(A-D), the Residential Rent Stabilization and Arbitration Ordinance, allows landlords to pass through to tenants one-half of property tax increases that result from certain voter-approved General Obligation bonds.

BACKGROUND

The Board of Supervisors annually sets the combined property tax rate that provides revenues for: (1) general operations, (2) specific Charter-required activities such as acquiring open space or constructing, maintaining, and operating the public library; and (3) paying debt service on voter-approved General Obligation bonds that were issued by the City and County of San Francisco (City), the San Francisco Unified School District (SFUSD), the San Francisco Community College District (SFCCD), and the Bay Area Rapid Transit District (BART).

Under the California Revenue and Taxation Code, the base property tax rate that the City can levy on property owners is one percent and can be used for general purposes. Any amount over the base one percent is used to pay for debt service on voter-approved General Obligation bonds.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance sets the property tax rate for FY 2019-20 for taxing entities[1] within the City and County of San Francisco including (a) the City; (b) the San Francisco Unified School District; (c) the San Francisco County Office of Education; (d) San Francisco Community College District; (e) BART; and (f) the Bay Area Air Quality Management District (BAAQMD).

The proposed ordinance also would set the property tax pass-through rate that landlords can pass-through to tenants in FY 2019-20, as allowed under the City Administrative Code. The pass through to tenants may only be imposed on a tenant's anniversary date and shall not become part of a tenant's base rent. The allowable tenant pass-through rate is based on the portion of

[1] Taxing entities are agencies or organizations located within the City and County of San Francisco that have taxing authority but may not be part of the City government. The $0.8092 General City Operations factor includes $0.2533 to be shifted to the Educational Revenue Augmentation Fund for the benefit of San Francisco Unified School District, the County Office of Education, and the San Francisco Community College District.

the landlord's property tax liability that comes from General Obligation bond debt service for certain periods, as shown in Table 1 below.

Table 1: Percent of Property Tax Increases for General Obligation Bond Debt Service Allowed for Pass-Through to Tenants

Taxing Entity	Date of General Obligation Bond Approval by Voters	Pass-Through Rate
City and County of San Francisco	November 1, 1996 – November 30, 1998	100%
City and County of San Francisco	November 14, 2002 – Present	50%
San Francisco Unified School District San Francisco Community College District	November 1, 2006 – Present	50%

FISCAL IMPACT

Combined Property Tax Rate

The proposed ordinance would set the combined property tax rate (comprised of the property tax rates levied for all of the taxing jurisdictions within the city) for FY 2019-20 at $1.1801 per $100 of assessed value. The FY 2019-20 property tax rate of $1.1801 is $0.0171, or 1.5 percent, more than the FY 2018-19 property tax rate of $1.1630 per $100 of assessed value. Table 2 below shows the proposed property tax rates for all taxing jurisdictions within the City, as calculated by the Controller.

Table 2: Current and Proposed Property Tax Rates per $100 of Assessed Value*

Tax	FY 2018-19	Proposed FY 2019-20	Increase (Decrease)
General Fund	$0.8092	$0.8092	-
Library Preservation Fund	0.0250	0.0250	-
Children's Fund	0.0400	0.0400	-
Open Space Acquisition Fund	0.0250	0.0250	-
General Obligation Bond Fund	0.1075	0.1167	0.0092
City Subtotal	**$1.0067**	**$1.0159**	**$0.0092**
General Operations	$0.0770	$0.0770	-
General Obligation Bond Debt Service	0.0387	0.0416	0.0029
SFUSD Subtotal	**$0.1157**	**$0.1186**	**$0.0029**
San Francisco County Office of Education Operations	**$0.0010**	**$ 0.0010**	**-**
General Operations	$0.0144	$0.0144	-
General Obligation Bond Debt Service	0.0098	0.0098	-
SFCCD Subtotal	**$0.0242**	**$0.0242**	**-**
General Operations	$0.0063	$0.0063	-
General Obligation Bond Debt Service	0.0070	0.0120	0.0050
BART Subtotal	**$0.0133**	**$0.0183**	**$0.0050**
Bay Area Air Quality Management District Operations	**$0.0021**	**$0.0021**	**-**
Total Property Tax Rate[2]	**$1.1630**	**$1.1801**	**$0.0171**

** Totals may not add due to rounding.*

The proposed combined property tax rate shown in Table 2 above includes a 0.25 percent administrative allowance charged on the City's voter-approved General Obligation bonds to reimburse the City for costs of collecting property taxes. This 0.25 percent administrative allowance is charged to the total property tax collection attributable to the General Obligation bonds, rather than to the assessed value.

Allowable Tenant Pass-Through Property Tax Rate

The proposed ordinance also would set the allowable property tax rate that landlords can pass through to tenants at $0.0660 per $100 of assessed value in FY 2019-20. The allowable tenant pass-through rate is $0.0015 less than the rate of $0.0675 in FY 2018-19.

Impacts of the Combined Property Tax Rate and Allowable Pass-Through

Under Proposition 13, the City may annually increase the assessed value of a property by a State-determined inflation factor of up to 2.00 percent. For FY 2019-20, the State Board of

[2] Because the property tax rate is calculated to the 8th decimal place, totals in the above table do not add due to rounding.

Equalization determined that the allowable inflation factor is 2.00 percent.[3] Therefore, a single-family residence in San Francisco with an assessed value of $560,000 in FY 2018-19 has an assessed value of $571,200 in FY 2019-20.[4]

Table 3 below shows the impact of the proposed property taxes payable by owners and tenants. As shown in Table 3 below, the proposed FY 2019-20 property tax rate of $1.1801 would increase property taxes by $226.73 on a single-family residence that has an assessed value of $571,200 in FY 2019-20.

Table 3: Impact on Property Tax Payments

Fiscal Year 2018-19	**Single Family Residence**	**Allowable Tenant Pass-Through**
Assessed Value	$560,000	$560,000
Less Homeowners Exemption	-7,000	0
Total Taxable Assessed Value	**553,000**	**560,000**
Tax Rate per $100 of Assessed Value	1.1630	0.0675
Property Taxes Payable in 2018-19	**$6,431.39**	**$378.00**
Proposed Fiscal Year 2019-20		
Prior Year Assessed Value	$560,000	$560,000
Plus Cost of Living Increase (2.000 percent)	11,200	11,200
Subtotal	571,200	571,200
Less Homeowners Exemption	-7,000	0
Total Taxable Assessed Value	**564,200**	**571,200**
Tax Rate per $100 of assessed value	1.1801	0.0660
Property Taxes Payable in FY 2019-20	**$6,658.12**	**$376.99**
Total Increase / (Decrease) in Property Taxes Payable in FY 2019-20 as Compared to FY 2018-19 for a Single-Family Residence with a Prior Year Assessed Values of $560,000	**$226.73**	**($1.01)**

RECOMMENDATION

Approve the proposed ordinance.

[3] The State calculates the allowable inflation factor based on the California Consumer Price Index (CCPI) using a weighted equation that combines the metropolitan areas of San Francisco, Los Angeles, San Diego, and the national average.

[4] The median assessed valuation for a single residential parcel in FY 2018-19 in San Francisco was approximately $560,000.

Item 12 File 19-0649	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would find the Airport's proposed Shoreline Protection Program to be fiscally feasible and responsible, in accordance with Chapter 29 of the City's Administrative Code. Approval of this resolution would allow the Airport to proceed with environmental review.

Key Points

- In December 2015, the Board of Supervisors found the Airport's proposed Shoreline Protection Program to be fiscally in accordance with Chapter 29. However, in March 2018, the State of California issued a report entitled "Sea-Level Rise Guidance," with updated estimates of sea level rise. The updated Shoreline Protection Program incorporates new design criteria from the State to address sea level rise, resulting in increased Shoreline Protection Program scope and estimated cost, which increased from $58 million to $587 million. The increase is due to constructing infrastructure to address sea level rise up to 36 inches rather than 11 inches, as provided by the 2015 Shoreline Protection study.
- The City's Administrative Code defines the areas are to be considered by the Board of Supervisors for determination of fiscal feasibility. According to the March 2019 *Airport Shoreline Protection Project Fiscal Feasibility Study,* the Shoreline Protection Program is intended to maintain Airport operations and avoid reductions in passenger travel and associated reductions in Airport employment and revenue.

Fiscal Impact

- The estimated Shoreline Protection Program costs are $587.1 million. The Airport's Capital Improvement Plan (CIP) includes $15.7 million in Airport revenue bonds to fund initial costs. The remaining scope and estimated budget ($571.4 million) for construction costs and environmental mitigation will need to be added to the CIP at a future date.
- The Airport estimates that issuance of $587 million in revenue bonds to fund the Shoreline Protection Program would result in an estimated annual average debt service payment of $50.8 million, or $1.5 billion of debt service payments over the projected 30-year term of the bonds, including approximately $937 million in interest and $578 million in principal. Debt service costs to repay Airport revenue bonds are paid from Airport operating revenues, received from the airlines doing business at the Airport through the various Airport rates and charges as well as from non-airline lease and concession revenues.
- As noted above, the finding of fiscal feasibility allows the Airport to proceed to environmental review for the Shoreline Protection Program. Issuance of Airport revenue bonds and appropriation of Airport funds for the Shoreline Protection Program are subject to future Board of Supervisors approval.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Chapter 29 of the City's Administrative Code requires projects[1] to be submitted to the Board of Supervisors to approve the fiscal feasibility and responsibility of the project prior to submitting the project to the Planning Department for environmental review if (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA), (b) total project costs are estimated to exceed $25,000,000, and (c) predevelopment, planning and/or construction costs are estimated to exceed $1,000,000 of public monies. Chapter 29 specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility and responsibility of a project, including the (1) direct and indirect financial benefits to the City, including costs savings or new revenues, including tax revenues, (2) construction costs, (3) available funding, (4) long term operating and maintenance costs, and (5) debt load carried by the relevant City department. Chapter 29 also states that a finding of fiscal feasibility and responsibility means that a "project merits further evaluation and environmental review."

BACKGROUND

San Francisco International Airport (Airport) occupies approximately 5,171 acres of land, with approximately eight miles of shoreline along the west side of San Francisco Bay. Since the early 1980s, the Airport has constructed various types of seawalls, including earth berms, concrete dikes and vinyl sheet piles along portions of the shoreline to prevent water from entering the airfield. In 2013, the Airport contracted with Moffatt & Nichol + AGS Joint Venture, a consulting firm, after a competitive process to conduct an Airport Shoreline Protection Project Feasibility Study Evaluation and Recommendations Report. The report was finalized in 2015 and identified deficiencies in the existing shoreline protection system and provided recommendations on improvements needed to protect the Airport from a 100-year flood and 11 inches of sea level rise.

In December 2015, the Board of Supervisors found the Airport's proposed Shoreline Protection Program to be fiscally feasible and responsible, in accordance with Chapter 29 of the City's Administrative Code (File 15-1099). The $58 million program was expected to take four to six years to complete. Between 2015 and 2018, the Airport completed conceptual design development with final designs completed by December 2017.

However, in March 2018, the State of California issued a report entitled "Sea-Level Rise Guidance," with updated estimates of sea level rise. The updated Shoreline Protection Program incorporates new design criteria from the State of California to address sea level rise, resulting in increased Shoreline Protection Program scope and cost estimates, which increased from $58 million to $587 million.

[1] Chapter 29 excludes various types of projects from the fiscal feasibility requirement, including (a) any utilities improvement project by the Public Utilities Commission, (b) projects with more than 75 percent of funding from the San Francisco Transportation Authority, and (c) a project which was approved by the voters of San Francisco.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would find the Airport's proposed Shoreline Protection Program at San Francisco International Airport to be fiscally feasible and responsible, in accordance with Chapter 29 of the City's Administrative Code. Approval of this resolution would allow the Airport to proceed with environmental review.

Overview of Shoreline Protection Program

According to the March 2019 *Airport Shoreline Protection Project Fiscal Feasibility Study,* prepared by the Airport, the proposed updated Program would protect the Airport's assets and runways to approximately 2085 by adopting design criteria to reduce flood risks at the Airport by providing protection against a 100-year storm and 36 inches of sea level rise (compared to 11 inches of sea level rise in the 2015 study). The Airport has been collaborating with adjacent neighbors, such as San Bruno, South San Francisco, Millbrae, Burlingame, San Mateo County, and the California Department of Transportation (Caltrans).

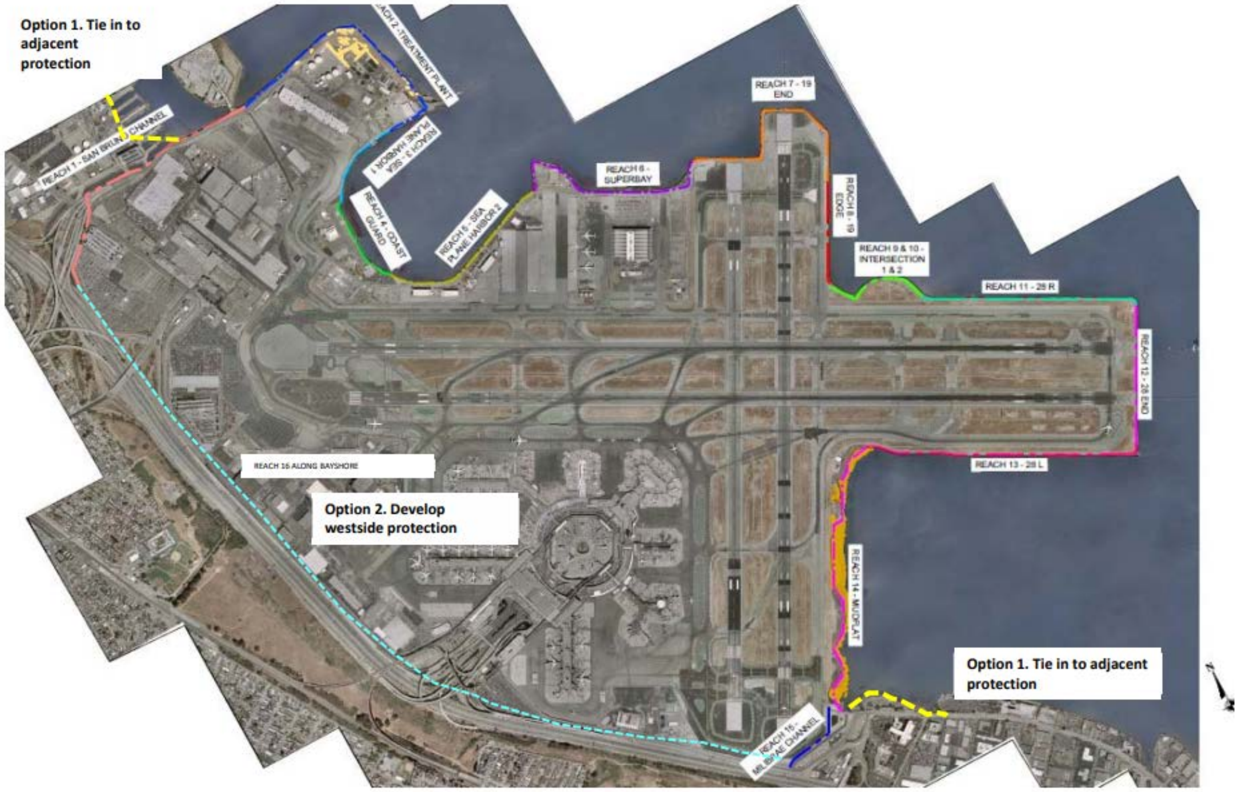
Major components of the Shoreline Protection Program in 2019, compared to 2015, are shown below:

- Construct 7.6 miles of new sheet pile walls at most of the reaches; new concrete walls at the San Bruno Channel and Millbrae Channel; and 2.7 miles of concrete wall on the Airport front side along Highway 101. According to Airport staff, the shoreline protection system will require addition of bay fill (such as rip-rap) to protect against wave action and erosion, and to meet Federal Aviation Administration (FAA) glide slope safety guidelines at the end of runways.
- Remove the existing embankment at the end Runway 19 Ends and Runway 28 to meet glide slope safety guidelines;
- Improve existing embankments including installation of riprap on the Bay side of the proposed seawall to attenuate wave energy along the Bay during storm events; and
- Include environmental mitigation, specifically for wetland and Bay fill.

As noted above, the estimated cost of the Shoreline Protection Program increased ten-fold, from $58 million in 2015 to $587 million in 2019. The increase is due to constructing infrastructure to address sea level rise up to 36 inches rather than 11 inches, as provided by the 2015 Shoreline Protection study. The 2019 Shoreline Protection Program provides for new sheet pile wall and concrete wall construction, and environmental mitigation not included in the 2015 Shoreline Protection study.

According to Mr. Rinaldi Wibowo, Project Manager at the Airport, the Airport will not begin construction until the completion of the environmental review and permitting, which may take three years or longer and could change the proposed work above. Pending the completion of environmental review and permitting, the Airport anticipates construction commencing in 2025 and completion in 2035.

Airport Shoreline Protection Project Overview



Fiscal Feasibility of the Airport Shoreline Protection Program

In accordance with Chapter 29 of the City's Administrative Code, the following five areas are to be considered by the Board of Supervisors for determination of fiscal feasibility: (1) direct and indirect financial benefits to the City, including cost savings or new revenues, including tax revenues, (2) construction cost, (3) available funding, (4) long term operating and maintenance costs, and (5) debt load carried by the relevant City department.

(1) <u>Direct and Indirect Financial Benefits</u>

According to the March 2019 *Airport Shoreline Protection Project Fiscal Feasibility Study,* the Shoreline Protection Program is intended to maintain Airport operations and avoid reductions in passenger travel and associated reductions in Airport employment and revenue. The new direct and indirect financial benefits primarily address the City revenue, employment benefits, and related economic benefits that would be created during construction.

Airport and City Revenue Benefits

In accordance with the Lease and Use Agreement between the Airport and the airlines, which extends through FY 2020-21, the Airport pays 15 percent of gross concession revenues as an annual service payment to the City's General Fund. Maintaining Airport operations and avoiding reductions in passenger travel will continue to generate these revenues to the General Fund. The annual service payments provided by the Airport to the City's General Fund over the previous five fiscal years totaled $212.5 million. In FY 2017-18, the Airport transferred $46.5

million in revenue to the City. The annual service payment from the Airport over the past five fiscal years is shown in Table 1 below.

Table 1: Annual Service Payment FY 2013-14 to FY 2017-18 (in millions)

Fiscal Year	Annual Service Payment
FY 2013-14	$38.0
FY 2014-15	40.5
FY 2015-16	42.5
FY 2016-17	45.0
FY 2017-18	46.5
Total	**$212.5**

Employment Benefits

According to the *2017 Economic Impact Study Update* report by the Economic Development Research Group, Inc., 42,828 jobs are directly dependent on the activity of the Airport. The jobs include those directly working for passenger airlines, airport retail, and general aviation professions, as well as transportation, on-airport construction, security firms, and the Transportation Security Administration and other federal jobs.

Based on the construction costs of the Shoreline Protection Program, approximately 2,272 new one-time jobs would be created. These would be limited-term jobs during the duration of the program. In addition, the Airport estimates that the indirect impact of jobs resulting from the economic activity of the Airport would create between 14,000 to 35,000 additional jobs.

Economic and Tax Benefits

The Airport generated approximately $8.4 billion of direct business activity and $62.5 billion of indirect economic activity in FY 2015-16 for San Francisco and the Bay Area.[2] State and local tax revenue in FY 2015-16 generated by Airport activity was $2.9 billion.

(2) <u>Construction Costs</u>

The fiscal feasibility of a project must be determined, pursuant to Administrative Code Chapter 29, for projects with (a) total costs over $25,000,000, and (b) predevelopment, planning or construction costs over $1,000,000 of public monies. The proposed Airport Shoreline Protection Program is estimated to cost $548,118,558 for Shoreline Protection Program infrastructure, and $39,000,000 for environmental mitigation, for a total of $587,118,558, as shown in Table 2 below.

[2] Economic Development Research Group, Inc., "2014 Economic Impact Study Update San Francisco International Airport", prepared for San Francisco Airport Commission, December 2014.

Table 2: Estimated Non-Construction and Construction Costs

Construction Costs	$383,400,000
Design and build contingencies and fees	85,114,800
Soft Costs	79,603,758
Subtotal Infrastructure	$548,118,558
Environmental Mitigation	39,000,000
Total	**$587,118,558**

(3) Available Funding

The Airport anticipates having sufficient funding for the Shoreline Protection Program to fund with internal sources. The Airport anticipates utilizing debt financing through General Aviation Revenue Bonds to fund the project.

The Airport's approved Capital Improvement Plan (CIP) includes $15,751,437 for the Airport Shoreline Protection Program for design and planning, environmental review, project permitting, and public outreach. According to Mr. Wibowo, $3,200,000 in bonds have been issued or will soon be issued to support the project, and an additional $12,551,437 in bonds will need to be issued to complete this phase of the project.

The remaining scope and estimated budget ($571,367,121), which includes all construction costs and environmental mitigation, is not currently in the Airport's CIP, and will need to be added to the CIP at a future date.

(4) Long Term Operating and Maintenance Costs

The Airport estimates the long-term operating and maintenance costs from the proposed project would not be significantly different from current practices. Maintenance activities will be performed by Airport Maintenance staff and include the ongoing costs to perform routine inspections of the seawalls, recording findings and preparing repair recommendations in accordance with Federal Emergency Management Agency (FEMA) certification guidelines.

(5) Debt Load of the Airport

The Airport intends to finance the proposed Airport Shoreline Protection Program with the issuance of Airport General Aviation Revenue Bonds, thus incurring additional Airport debt. The Airport has issued $7.5 billion of revenue bonds, previously authorized by the Board of Supervisors, and has $2.5 billion in authorized and unissued bonds.

The Airport estimates that authorization and issuance of $587 million in revenue bonds to fund the Shoreline Protection Program would result in an estimated annual average debt service payment of $50.8 million, or $1.5 billion of debt service payments over the projected 30-year term of the bonds, including approximately $937 million in interest and $578 million in principal.[3] Debt service costs to repay Airport revenue bonds are paid from Airport operating revenues, received from the airlines doing business at the Airport through the various Airport

[3] Debt service estimates are based on an estimated interest rate of six percent per year, and 36 months of capitalized interest which accrues prior to completion of construction and payment of annual debt service.

rates and charges as well as from non-airline lease and concession revenues. Issuance of any additional Airport revenue bonds would be subject to approval and appropriation by the Board of Supervisors.

FISCAL IMPACT

As discussed above, funding of the Airport Shoreline Protection Program would be contingent on issuance of future Airport revenue bonds, and appropriation of the bond proceeds for this project by the Board of Supervisors. Annual debt service on the proposed bonds would be paid from annual Airport operating revenues, which include annual payments to the Airport by the airlines under their landing fee and other lease agreements as well as from concession and other non-airline revenues.

As a result of the Airport's residual rate setting methodology used by the Airport to determine rental rates, landing fees, and related fees for all airlines, increases in the Airport's operating costs due to increased debt service will be primarily funded by increased annual payments by the airlines to the Airport under their landing fee and other lease agreements with the Airport.

Finding of Fiscal Feasibility

As noted above, the finding of fiscal feasibility allows the Airport to proceed to environmental review for the Shoreline Protection Program. Issuance of Airport revenue bonds and appropriation of Airport funds for the Shoreline Protection Program are subject to future Board of Supervisors approval.

RECOMMENDATION

Approve the proposed resolution.