

File No. 130883

Committee Item No. 6

Board Item No. 18

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: 10/02/2013

Board of Supervisors Meeting

Date: 10/8/13

Cmte Board

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Completed by: Victor Young Date September 27, 2013

Completed by: Victor Young Date 10/3/13

[Appropriation - Certificates of Participation - Treasure Island - \$13,500,000 - FY2013-2014]

Ordinance appropriating \$13,500,000 of Certificate of Participation proceeds to finance improvements to the Utility Infrastructure System at the Treasure Island beginning in FY2013-2014.

Note: Additions are *single-underline italics Times New Roman*; deletions are *strikethrough italics Times New Roman*. Board amendment additions are double underlined. Board amendment deletions are ~~strikethrough-normal~~.

Be it ordained by the People of the City and County of San Francisco:

Section 1. The sources of funding outlined below are herein appropriated to reflect the funding available in FY2013-2014.

SOURCES Appropriation

Fund	Index/Project Code	Subobject	Description	Amount
8A CPF XXX	TBD	80141	Proceeds from	\$13,500,000
			Certificates of	
			Participation	
Total SOURCES Appropriation				\$13,500,000

Section 2. The uses of funding outlined below are herein appropriated in the Subsubjects 06700 (Buildings, Structures, and Improvement Project-Budget), 07000 (Debt Service - Budget), 07311 (Cost of Bond Issuance), and 081C4 (Controller Internal Audits), and reflects the projected uses of funding for utility improvements at Treasure Island.

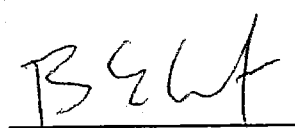
USES Appropriation

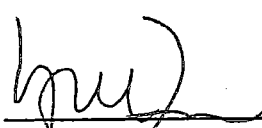
Fund	Index/Project Code	Subobject	Description	Amount
8A CPF XXX	TBD	06700	Certificate of Participation	\$10,000,000
TIDA Utility Improvements		Buildings, Structures, and Improvement Project-Budget	Project Fund	
8A CPF XXX	TBD	07000	Debt Service	\$1,209,500
TIDA Utility Improvements		Debt Service – Budget	Reserve Fund	
8A CPF XXX	TBD	07311	Cost of Issuance	\$481,770
TIDA Utility Improvements		Cost of issuance		
8A CPF XXX	TBD	07311	Repayment of	\$323,255
TIDA Utility Improvements		Cost of Issuance	Commercial Paper Interest	
8A CPF XXX	TBD	07311	Underwriter's	\$60,475
TIDA Utility Improvements		Cost of issuance	Discount	

	Fund	Index/Project Code	Subobject	Description	Amount
1					
2	8A CPF XXX	TBD	07311	Reserve Pending	\$1,405,000
3	TIDA Utility Improvements		Cost of issuance	Bond Sale	
4					
5	8A CPF XXX	TBD	081C4	0.2% Controller's	\$20,000
6	TIDA Utility Improvements		Controller Internal	Audit Fund	
7			Audits		
8	Total Uses Appropriation				\$13,500,000

10 Section 3. The Controller is authorized to record transfers between funds and adjust
 11 the accounting treatment of sources and uses appropriated in this ordinance as necessary to
 12 conform with Generally Accepted Accounting Principles.

14 Section 4. The uses of funding outlined above are herein placed on Controller's
 15 Reserve pending the issuance of the Certificates of Participation.

19 APPROVED AS TO FORM:
 20 DENNIS J. HERRERA, City Attorney
 21 By: 
 22
 23 Deputy City Attorney

FUNDS AVAILABLE
 BEN ROSENFELD, Controller
 By: 
 Date: September 6, 2013

<p>Items 6, 7, 8 and 9 Files 13-0883, 13-0884, 13-0885 and 13-0086</p>	<p>Departments: Treasure Island Development Authority (TIDA) Public Utilities Commission (PUC)</p>
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EXECUTIVE SUMMARY

Legislative Objective

File 13-0884 is a resolution approving a one-year extension of the Cooperative Agreement between the U.S. Navy and the Treasure Island Development Authority (TIDA) from October 1, 2013 through September 30, 2014.

File 13-0886 is a resolution approving a Memorandum of Understanding (MOU) between TIDA and the San Francisco Public Utilities Commission (PUC) for PUC to provide utilities services and maintain and operate utility infrastructure on Treasure Island and Yerba Buena Island.

File 13-0885 is a resolution authorizing the City's Director of Public Finance to issue \$13,500,000 in Certificates of Participation (COPS) to pay for utility infrastructure improvements.

File 13-0883 is an ordinance appropriating \$13,500,000 in COPS proceeds to finance utility infrastructure improvement projects on Treasure Island and Yerba Buena Island.

Key Points

- TIDA has a Cooperative Agreement with the Navy, in which TIDA provides caretaker services for former naval base properties on Treasure Island and Yerba Buena Island pending transfer of these properties to TIDA. File 13-0884 would extend the existing Cooperative Agreement by one-year from October 1, 2013 through September 30, 2014.
- The PUC maintains and operates electricity, gas, water, wastewater and stormwater utilities on Treasure Island and Yerba Buena Island but has not previously entered into an MOU with TIDA for these services. File 13-0886 would approve the proposed MOU between TIDA and the PUC for one year from October 1, 2013 through September 30, 2014, which establishes the terms for the PUC to provide these services.
- The PUC has identified costs for improvements to the utility infrastructure on Treasure Island and Yerba Buena Island of up to \$47 million over ten years. Because the utility infrastructure is currently owned by the Navy, and is not a PUC asset, PUC cannot fund these improvements with ratepayer revenues.
- Under the Development and Disposition Agreement between TIDA and the master developer, Treasure Island Community Development, LLC, the master developer is responsible for all utility infrastructure improvements over 20 years of the development project, but because the Navy has not yet conveyed the Treasure Island and Yerba Buena Island properties to TIDA, the development project has not yet begun.
- The City's Capital Planning Committee has approved a \$10 million TIDA Utility Infrastructure Project to maintain the reliability and safety of utility services until new systems are constructed through the development project. TIDA proposes to finance the cost, because neither the PUC nor the master developer is responsible for this project. The proposed resolution (File 13-0885) would authorize the Director of Public Finance to issue \$13,500,000 in COPS to finance the utilities infrastructure projects, and TIDA would pay debt service on the COPS from TIDA's future revenues.

- File 13-0883 is an ordinance appropriating \$13,500,000 in COPS proceeds, including \$10,000,000 for utility infrastructure projects; \$2,095,000 for financing, and related costs; and \$1,405,000 for a reserve pending sale.

Fiscal Impact

- COPS proceeds are estimated to be \$12,095,000, including \$10,000,000 for utility infrastructure projects and \$2,095,000 for financing and related costs. Total debt service is estimated to be \$15,036,684 over ten years, of which \$12,095,000 is principal and \$2,941,684 is interest.
- Average annual debt service of approximately \$1,500,000 would come from residential, commercial and government utility user charges. Rates charged to utility users would increase by an average of 33 percent to generate an additional \$1,500,000 in revenues to pay annual debt service.

Policy Consideration

- According to Mr. Robert Beck, TIDA Project Director, TIDA anticipates requesting an annual General Fund appropriation to pay a share of the annual debt service that would otherwise be borne by residents of supportive housing, below market rate housing and other low-income housing under the Treasure Island Homeless Development Initiative (TIHDI). Mr. Beck estimates that the annual General Fund share for TIHDI residents is \$275,000, which would be subject to annual appropriation by the Board of Supervisors.
- The City's commercial paper program and issuance of COPS are an obligation of the City, and if Treasure Island and Yerba Buena Island utility user charges and other TIDA operating revenues are insufficient to pay annual debt service, the City's General Fund would pay the difference. As shown in Table 4 below, TIDA estimates that utility user charges are sufficient to cover the cost of annual debt service.

Recommendations

- Approve File 13-0883, which is an ordinance appropriating \$13,500,000 in Certificates of Participation (COPS) proceeds to finance utility infrastructure improvements on Treasure Island and Yerba Buena Island.
- Amend File 13-0884, which is a resolution approving the one-year extension of the Cooperative Agreement between the U.S. Navy and TIDA from October 1, 2013 through September 30, 2014, to be retroactive to October 1, 2013; and approve as amended.
- Amend File 13-0885, which is a resolution authorizing the Director of Public Finance to issue not-to-exceed \$13,500,000 of COPS, to require TIDA to (a) report to the Budget and Finance Committee during the annual budget review each year that details the General Fund share of annual debt service for TIHDI residents; (b) submit a 10-year financial plan to the Board of Supervisors that coincides with the debt service on the subject COPS; and (c) enter into an MOU with the City to reimburse the General Fund in the event that a General Fund subsidy, other than the appropriation for TIHDI residents, is required to meet annual debt service on the COPS; and approve as amended.
- Amend File 13-0886, which is a resolution approving a MOU between TIDA and PUC for PUC to maintain and operate Treasure Island and Yerba Buena Island utilities, to be retroactive to October 1, 2013; and approve as amended.

MANDATE STATEMENT

Charter Section 9.118 requires Board of Supervisors approval for (1) contracts exceeding ten years or expenditures of \$10,000,000; and (2) leases with a term of over ten years or expenditures of over \$10,000,000. The proposed not-to-exceed issuance of \$13,500,000 of Certificates of Participation requires the City to enter into a lease which exceeds ten years and \$10,000,000.

Charter Section 9.105 requires Board of Supervisors approval for amendments to the annual appropriation ordinance.

California Assembly Bill (AB 699) and the Treasure Island Development Authority's Bylaws require Board of Supervisors' approval for agreements that have a term exceeding ten years or anticipated revenues of \$1,000,000 or more.

BACKGROUND

Treasure Island Cooperative Agreement

The former Treasure Island Naval Base, located on Treasure Island and Yerba Buena Island, is currently owned by the U.S. Navy, pending full conveyance to the City. The City originally entered into a Cooperative Agreement with the U.S. Navy in 1997, in which the Treasure Island Development Authority (TIDA) provides services to the U.S. Navy for the former naval base. These services include:

- (i) Operation and maintenance of the water, waste water, storm water, electric and gas utility systems;
- (ii) Security, public health and safety services;
- (iii) Grounds and street maintenance and repair; and
- (iv) Property management and caretaker services.

Under the original Cooperative Agreement, TIDA and the Navy negotiated annually on the reimbursements paid by the Navy to TIDA for these services, but in FY 2001-02 the Navy determined that TIDA earned sufficient revenues from the former naval base to cover the costs of services. Since FY 2002-03, revenues generated from leasing of existing residential and commercial facilities, special events and film and photo productions have offset the costs associated with the Cooperative Agreement.

Conveyance and Development of Treasure Island and Yerba Buena Island

Development and Disposition Agreement

In July 2011, the Board of Supervisors approved the Development and Disposition Agreement between TIDA and Treasure Island Community Development, LLC (File 11-0291) in which Treasure Island Community Development will:

- Construct infrastructure, including utilities and roads, to support housing development on Treasure Island;
- Construct public parks and open spaces;
- Remediate certain hazardous and unstable geologic conditions; and
- Sell ground leases to developers to construct housing and commercial and public facilities.

The Development and Disposition Agreement provides for the utility infrastructure on Treasure Island and Yerba Buena Island to be replaced over 20 years. The costs of the utility infrastructure and other improvements are to be paid by Treasure Island Community Development, LLC.

Memorandum of Agreement

When the Board of Supervisors approved the Development and Disposition Agreement in July 2011, they also approved the Memorandum of Agreement between TIDA and the Navy (File 11-0290), which defined the terms under which the Navy will convey Treasure Island to TIDA in several phases. The resolution approving the Memorandum of Agreement authorized the Treasure Island Project Director, prior to final execution, to make changes in consultation with the City Attorney that do not materially decrease the benefits or materially increase the obligations of the City or TIDA.

According to Mr. Robert Beck, TIDA Project Director, TIDA and the Navy are in negotiations over the final terms of the Memorandum of Agreement pertaining to the schedule for transfer of Treasure Island and Yerba Buena Island properties and utilities to TIDA and other issues. Mr. Beck states that TIDA will submit the revised Memorandum of Agreement to the Board of Supervisors for approval when negotiations are completed and the agreement is finalized.

Mr. Beck states that the first conveyance of Navy property to TIDA is expected in 2014, and Treasure Island Community Development, LLC, hopes to begin work on the development project in the third quarter of 2014. TIDA will continue to manage all Treasure Island properties under the Cooperative Agreement until full conveyance in approximately 2019.

DETAILS OF PROPOSED LEGISLATION

File 13-0884 is a resolution approving a one-year extension of the existing Cooperative Agreement between the U.S. Navy and TIDA from October 1, 2013 through September 30, 2014.

File 13-0886 is a resolution approving a Memorandum of Understanding (MOU) between TIDA and the San Francisco Public Utilities Commission (PUC) for PUC to provide utilities services and maintain and operate utility infrastructure on Treasure Island and Yerba Buena Island.

File 13-0885 is a resolution:

- (i) Authorizing the execution and delivery of not-to-exceed \$13,500,000 of COPS or other forms of indebtedness to finance the costs of additions and improvements to the utility infrastructure of Treasure Island;
- (ii) Authorizing the Director of Public Finance to cause the preparation of documents necessary for the execution and delivery of the certificates or other forms of indebtedness, including a Trust Agreement, a Property Lease, a Project Lease, Notice of Sale, Official Notice of Sale, an Official Statement, and if required, a Purchase Contract and such other necessary documents;
- (iii) Authorizing the Director of Public Finance to issue commercial paper in an amount not to exceed \$13,500,000 in anticipation of the issuance of the COPS or other forms of indebtedness;
- (iv) Granting general authority to City officials to take necessary actions in connection with the authorization, issuance, sale and delivery of the commercial paper and COPS;
- (v) Approving modifications to documents and agreements;
- (vi) Making findings under the California Environmental Quality Act (CEQA) and determination of consistency with the General Plan; and
- (vii) Ratifying previous actions taken.

File 13-0883 is an ordinance appropriating \$13,500,000 in Certificates of Participation (COPS) proceeds to finance utility infrastructure improvements on Treasure Island and Yerba Buena Island.

Cooperative Agreement (File 13-0884)

The Board of Supervisors has approved one-year extensions of the existing Cooperative Agreement between TIDA and the U.S. Navy numerous times, most recently in September 2012 (File 12-0740), which extended the agreement from October 1, 2012 through September 30, 2013. The proposed resolution would amend the existing Cooperative Agreement to extend the agreement by one year from October 1, 2013 through September 30, 2014. The proposed amendment to the existing Cooperative Agreement retains the existing major terms and conditions.¹

Memorandum of Understanding (File 13-0886)

PUC has maintained and operated electricity, gas, water, wastewater and stormwater utilities on Treasure Island and Yerba Buena Island since 1997, receiving reimbursement from TIDA for its

¹ The proposed amendment only revises contact information for TIDA and the Navy, and certain procedures for emergency and other calls.

maintenance and operating costs². TIDA and the PUC have not previously had an MOU setting the terms and conditions for PUC to maintain and operate the electricity, gas, water, wastewater and stormwater utility services. The proposed MOU between the PUC and TIDA documents their respective roles in providing these utility services under the existing Cooperative Agreement, including:

- The term is for one year from October 1, 2013 through September 30, 2014, concurrent with the Cooperative Agreement;
- The PUC will continue to provide electricity, gas, water, wastewater and stormwater utility services, subject to full reimbursement from TIDA;
- The PUC is not responsible for permit or regulatory violations from the utility facilities, which were built by the Navy and do not conform to PUC standards; and
- TIDA is responsible under the Cooperative Agreement for communications with the Navy and other third parties regarding the conditions of the utility systems or interruptions in services.

The PUC's budgeted maintenance and operating costs for these utilities in FY 2013-14 are \$4,559,572, which will be fully reimbursed by TIDA.

Certificates of Participation Issuance and Appropriation (Files 13-0885 and 13-0883)

The proposed resolution (File 13-0885) would authorize the issuance of \$13,500,000 in COPS to fund utility infrastructure projects on Treasure Island and Yerba Buena Island. The proposed ordinance (File 13-0883) would appropriate the COPS proceeds of \$13,500,000 to pay financing, and utility infrastructure project costs.

Status of Treasure Island and Yerba Buena Island Utilities Infrastructure

San Francisco Public Utilities Commission

The gas, electricity, wastewater and stormwater, and water utilities on Treasure Island and Yerba Buena Island were constructed by and are currently owned by the Navy, pending conveyance of Treasure Island and Yerba Buena Island to TIDA. Under the Cooperative Agreement with the Navy, TIDA has caretaker responsibilities for the utility system; and the PUC maintains and operates these utilities as a contractor to TIDA but the utilities, which do not conform to PUC standards, are not a PUC asset.

Utility Infrastructure Improvements

According to the September 6, 2012 memorandum from the PUC to the City Administrator, the estimated costs of utility infrastructure improvements on Treasure Island and Yerba Buena Island over the next 10 years range from \$43 million to \$47 million. Because the Navy owns these

² Because TIDA's reimbursements were insufficient to cover PUC's costs for maintaining and operating the utilities prior to 2009, TIDA and PUC entered into an agreement in 2009, in which TIDA would pay PUC for these insufficient reimbursements over a ten-year period from 2009 through 2019.

utilities, the PUC cannot pay for these costs with ratepayer revenues, and current reimbursements to the PUC for maintenance and operation of Treasure Island and Yerba Buena Island utilities are insufficient to cover utility infrastructure improvement costs.

Although the Development and Disposition Agreement between TIDA and Treasure Island Community Development, LLC provides for the developer to replace the utility infrastructure over the next 20 years as part of the development project, the development work has not begun because the Navy has not yet conveyed Treasure Island and Yerba Buena Island properties to TIDA. However, the PUC has determined that improvements to some existing utility infrastructure are immediately necessary in order to maintain the reliability and safety of utility services until new systems are constructed through the development project. The PUC has recommended a list of priority projects, totaling \$10,000,000, shown in Table 2 below.

Table 2: Priority Utility Infrastructure Improvements Identified by the PUC

	Year One	Year Two	Year Three	Year Four	Total
Wastewater and Stormwater	\$4,000,000	\$1,600,000	\$1,300,000	\$0	\$6,900,000
Natural Gas and Electricity	0	400,000	350,000	0	750,000
Water	0	0	350,000	2,000,000	2,350,000
Total	\$4,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$10,000,000

According to Mr. Beck, final selection of the specific projects will be determined after further evaluation of the utilities infrastructure conditions by the PUC. At their September 9, 2013 meeting, the Capital Planning Committee approved the proposed \$10,000,000 for priority utility infrastructure improvements.

Financing the Utility Infrastructure Improvements

TIDA proposes to finance the cost of the utility infrastructure projects, noted in Table 2 above, because neither the PUC nor the developer is responsible for these projects. Under the proposed resolution (File 13-0885), the Director of Public Finance would issue COPS to finance the utility infrastructure projects, and TIDA would pay debt service on the COPS from TIDA revenues.

Commercial Paper and Certificates of Participation Issuance

The proposed resolution (File 13-0885) authorizes the City’s Director of Public Finance to issue COPS in an amount not to exceed \$13,500,000 to finance the TIDA utility infrastructure projects.

In accordance with the resolution, initial financing of the projects will come from the City’s \$250 million commercial paper program³, previously authorized by the Board of Supervisors.

³ Commercial paper is short term debt with maturity from one to 270 days, which can be refinanced by issuing subsequent commercial paper or by other debt, such as bonds or COPS.

According to Ms. Nadia Sesay, Director of Public Finance, the City has previously issued \$55.2 million in commercial paper, resulting in unused authorization of \$194.8 million; and will issue \$10 million in commercial paper to initially fund TIDA's utility projects.

The COPS to refinance the commercial paper will be issued in approximately 2018 after completion of construction of the utility infrastructure projects. According to Ms. Sesay, the timing of the sale of the COPS is anticipated at the completion of the projects to achieve the lowest cost of borrowing.

Prior to the sale of the COPS, the Director of Public Finance will submit the final financing documents to the Board of Supervisors for approval.

Interest Rates and Maturity

The proposed resolution provides for a true interest cost⁴ of 12 percent per year with a maturity date of 25 years. According to Ms. Sesay, the estimated true interest cost on the proposed COPS ranges from 2.56 percent to 4.68 percent, and the actual maturity date is 10 years to conform to the useful life of the proposed utilities infrastructure projects.

In order to reduce interest payments on the proposed COPS, the proposed resolution authorizes the Director of Public Finance to obtain bond insurance or other form of surety.

Sale of COPS

The proposed resolution authorizes the Director of Public Finance to sell the COPS either by competitive or negotiated sale. If the Director of Public Finance determines to sell the COPS by negotiated sale, the resolution authorizes her to appoint one or more financial institutions to act as underwriter in accordance with City policies.

California Environmental Quality Act and General Plan Conformance

The Board of Supervisors has previously approved a resolution (File 11-0328), making findings under the California Environmental Quality Act (CEQA), including a mitigation monitoring and reporting program and statement of overriding considerations for the proposed development on Treasure Island and Yerba Buena Island, including the utility infrastructure projects. Approval of the proposed resolution includes findings by the Board of Supervisors that:

- Since the original Environmental Impact Report (EIR) was made final, there have been no substantial project changes or circumstance that affect the EIR; and
- The previous finding that the proposed development on Treasure Island and Yerba Buena Island is consistent with the General Plan (File 11-0228) also applies to the proposed utility project.

⁴ The true interest cost includes all ancillary fees and costs such as finance charges, discount points and prepaid interest.

According to Mr. Beck, the development project contemplated and the EIR considered the ongoing use, maintenance and repair of the utility infrastructure to the date of replacement. The proposed work is therefore consistent with what has been analyzed under the EIR, and does not change the development project, the land uses, the intensity of uses, or other matters that could result in the need for additional environmental review.

FISCAL IMPACT

The proposed ordinance appropriates \$13,500,000 in COPS proceeds as shown in Table 3 below (File 13-0883).

Table 3: Sources and Uses of Funds

Sources	
Par Amount	\$12,095,000
Total Sources	12,095,000
Uses	
Utilities Infrastructure Projects	10,000,000
Controller's Audit Fund (0.2% of Project Costs)	20,000
Repayment Commercial Paper Interest	323,255
Debt Service Reserve Fund (12% of Project Costs)	1,209,500
Cost of Issuance (4.8% of Project Costs)	481,770
Underwriter's Discount (0.6% of Project Costs)	60,475
Total Uses	12,095,000
Reserve Pending Sale (for Market Uncertainty)	1,405,000
Total Not-to-Exceed Amount	\$13,500,000

Total debt service on the \$12,095,000 in COPS proceeds is estimated to be \$15,036,684 over ten years, of which \$12,095,000 is principal and \$2,941,684 is interest, as shown in the Attachment. Average annual debt service payments would be approximately \$1,503,000.

Revenues to meet the debt service obligation are intended to be generated from the residential, commercial and government utility users on Treasure Island and Yerba Buena Island through a combination of utility charges, common area charges and other TIDA operating revenues, as shown in Table 4 below.

Table 4: Sources of Revenues to Pay Annual Debt Service¹

Source of Revenues	Amount
Residential Utility User Charges	\$818,000
Commercial Utility User Charges	450,000
Government Utility User Charges	235,000
Common Area Charges ²	n/a
Other TIDA Operating Revenues ³	n/a
Total	\$1,503,000

¹ The allocation of utility user charges shown in Table 4 is an estimate based on (a) PUC records of electric, gas, water and wastewater utility use by customer class and (b) the proposed projects shown in Table 2. The final allocation may differ based on the actual projects selected.

² TIDA is evaluating but has not yet implemented common area charges to commercial tenants to assess debt service expense in lieu of adjustments to commercial utility user charges.

³ TIDA intends that sufficient revenues for debt service will be generated from residential, commercial and government utility charges to meet the annual debt service obligation; TIDA would allocate operating revenues to pay debt service in the event of a shortfall in utility user charges.

Based on PUC's FY 2013-14 budgeted maintenance and operating costs for these utilities of \$4,559,572, rates charged to residential, commercial and government utility users would increase by an average of 33 percent to generate an additional \$1,503,000 in revenues to pay annual debt service.⁵

POLICY CONSIDERATION

Issuance of the COPS Would Have a General Fund Impact

General Fund Share of Debt Service for Low-Income Housing Utilities Users

According to Mr. Beck, TIDA anticipates requesting an annual General Fund appropriation to pay a share of annual debt service that would otherwise be borne by residents of supportive housing, below market rate housing and other low-income housing under the Treasure Island Homeless Development Initiative (TIHDI). Mr. Beck estimates that the annual General Fund share for TIHDI residents is \$275,000, which would be subject to annual appropriation by the Board of Supervisors.

Issuance of Commercial Paper and COPS Obligate the City

The City's commercial paper program and issuance of COPS are an obligation of the City, and if Treasure Island and Yerba Buena Island utility user charges, common area charges, and other TIDA operating revenues are insufficient to pay annual debt service, the City's General Fund

⁵ The actual impact of annual debt service on specific utility rates by customer (residential, commercial, or government) will vary based on the final selection of utility infrastructure projects shown in Table 2 above.

would pay the difference. As shown in Table 4 above, TIDA estimates that utility user charges are sufficient to cover the cost of annual debt service.

Recommendations

The Budget and Legislative Analyst recommends approval of the issuance of up to \$13,500,000 in COPS and appropriation of COPS proceeds because the utility infrastructure projects funded by the COPS are necessary and TIDA estimates that utility user charges are sufficient to pay future annual debt service.

Although TIDA anticipates requesting an annual General Fund appropriation to pay a share of annual debt service for TIHDI residents, any General Fund appropriation would be subject to future Board of Supervisors approval. The Board of Supervisors should amend the proposed resolution (File 13-0885) to require a report to the Budget and Finance Committee during the annual budget review each year that details the General Fund share of annual debt service for TIHDI residents.

In the event that utility user charges, common area charges, and TIDA operating revenues are insufficient to pay annual debt service, resulting in a General Fund subsidy to pay the annual debt service, the Board of Supervisors should amend the proposed resolution (File 13-0885) to require TIDA to:

- (a) Submit a 10-year financial plan to the Board of Supervisors to coincide with the projected debt service on the subject COPS at the same time that the Director of Public Finance submits the financial documents prior to the issuance of the COPS; and
- (b) Enter into a separate MOU with the City to reimburse the General Fund for the potential future General Fund subsidies, other than the subsidy for the TIHDI residents, that may be required to meet TIDA's future annual debt service on the COPS.

RECOMMENDATIONS

1. Approve File 13-0883, which is an ordinance appropriating \$13,500,000 in Certificates of Participation (COPS) proceeds to finance utility infrastructure improvements on Treasure Island and Yerba Buena Island.
2. Amend File 13-0884, which is a resolution approving the one-year extension of the Cooperative Agreement between the U.S. Navy and TIDA from October 1, 2013 through September 30, 2014, to be retroactive to October 1, 2013; and approve as amended.
3. Amend File 13-0885, which is a resolution authorizing the Director of Public Finance to issue not-to-exceed \$13,500,000 of COPS to require TIDA to:
 - (a) Provide a report to the Budget and Finance Committee during the annual budget review each year that details the General Fund share of annual debt service for TIHDI residents;

- (b) Submit a 10-year financial plan to the Board of Supervisors to coincide with the projected debt service on the subject COPS at the same time that the Director of Public Finance submits the financial documents prior to the issuance of the COPS;
 - (c) Enter into a separate MOU with the City to reimburse the General Fund for the potential future General Fund subsidies, other than the subsidy for TIHDI residents, that may be required to meet TIDA's future annual debt service on the COPS.
4. Amend File 13-0886, which is a resolution approving a MOU between TIDA and PUC for PUC to maintain and operate Treasure Island and Yerba Buena Island utilities, to be retroactive to October 1, 2013; and approve as amended.

\$12,095,000**City & County of San Francisco****Certificates of Participation - Treasure Island Utility Improvements****Debt Service Schedule**

Date	Principal	Interest	Total P+I
06/30/2017	-	-	-
06/30/2018	1,035,000.00	468,095.50	1,503,095.50
06/30/2019	1,060,000.00	441,599.50	1,501,599.50
06/30/2020	1,095,000.00	410,541.50	1,505,541.50
06/30/2021	1,130,000.00	374,625.50	1,504,625.50
06/30/2022	1,170,000.00	333,832.50	1,503,832.50
06/30/2023	1,215,000.00	289,021.50	1,504,021.50
06/30/2024	1,265,000.00	240,178.50	1,505,178.50
06/30/2025	1,315,000.00	187,048.50	1,502,048.50
06/30/2026	1,375,000.00	129,583.00	1,504,583.00
06/30/2027	1,435,000.00	67,158.00	1,502,158.00
Total	\$12,095,000.00	\$2,941,684.00	\$15,036,684.00

**Treasure Island Development Authority
City and County of San Francisco**

- (1) Resolution authorizing the execution and delivery of not to exceed \$[13,500,000] of Certificates of Participation or other forms of indebtedness to finance the cost of additions and improvements to the Utility Infrastructure System at Treasure Island; authorizing the Director of Public Finance to cause the preparation of documents necessary for the execution and delivery of the Certificates or other forms of indebtedness, including a Trust Agreement, a Property Lease, a Project Lease, Notice of Sale, Official Notice of Sale, an Official Statement and, if required, a Purchase Contract and such other necessary documents; authorizing the Director of Public Finance to cause the issuance of Commercial Paper Certificates in an amount not to exceed \$[13,500,000] in anticipation of the issuance of the Certificates or other forms of indebtedness; granting general authority to City officials to take necessary actions in connection with the authorization, issuance, sale and delivery of the Certificates or other form of indebtedness and the Commercial Paper Certificates; approving modifications to documents and agreements; making CEQA findings and a General Plan consistency determination, and ratifying previous actions taken in connection therewith.**

- (2) Ordinance appropriating \$13,500,000 of Certificate of Participation (COPs) proceeds to finance improvements to the Utility System Infrastructure at the Treasure Island beginning in Fiscal Year 2013-2014.**

SUMMARY OF PROPOSED ACTION:

The proposed resolution would authorize the Director of Public Finance to execute and deliver of Certificates of Participation (COPs) or other forms of indebtedness and the proposed ordinance would appropriate the proceeds of that debt issuance to allow TIDA, working with the SFPUC, to address the most vulnerable elements of the existing utility systems on Treasure Island and Yerba Buena Island to increase system resiliency and reliability.

BACKGROUND:

In 1993, Naval Station Treasure Island ("NSTI"), consisting of both Treasure Island and portions of Yerba Buena Island, was designated for closure and disposition by the Base Realignment and Closure Commission acting under Public Law 101-510 and its subsequent amendments.

The City and the Navy entered into the Base Caretaker Cooperative Agreement executed March 12, 1997, as amended from time to time (collectively, the "Cooperative Agreement"), for the interim management and operation of NSTI during the disposition process. Under the Cooperative Agreement, the City agreed to assume certain responsibilities for (i) operation and maintenance for the water, waste water, storm water, electric and gas utility systems on the Base, (ii) security and public health and safety services, (iii) grounds and street maintenance and repair, and (iv) property management and caretaker services. These caretaker responsibilities were assumed by TIDA in 1998.

The SFPUC has provided utility services on NSTI on behalf of TIDA, including delivery of electricity, gas, and water services to the occupants and users of NSTI; the operation and maintenance of the existing wastewater treatment plant and related facilities and pipe network on NSTI; and the operation and maintenance of the existing storm water collection system and pump stations. Because the utility related facilities are not owned by the City or TIDA and have not been accepted by the Board of Supervisors pursuant to City ordinances, these utilities are not under the jurisdiction of the SFPUC.

The SFPUC has performed utility services for TIDA to the extent it can be reimbursed by NSTI utility revenues imposed or collected by TIDA or the SFPUC, or other TIDA revenues. Given the state of the existing infrastructure, however, the needed system improvements exceed available resources. The majority of the utility infrastructure on NSTI is fifty or more years of age and has not benefitted from capital improvement or renewal. As a result, the accumulation of deferred maintenance and renewal capital needs has diminished the utility systems' reliability.

With approval of the Board of Supervisors, TIDA has entered into a Disposition and Development Agreement with Treasure Island Community Development (TICD) for the proposed development of NSTI, including (1) up to 8,000 new residential units, at least 25 percent of which (2,000 units) will be affordable, (2) adaptive reuse of approximately 311,000 square feet of historic structures, (3) up to approximately 140,000 square feet of new retail uses and 100,000 square feet of commercial office space, (4) approximately 300 acres of parks and open space, (5) new and/or upgraded public facilities, including a joint police/fire station, a school, facilities for the Treasure Island Sailing Center and other community facilities, (6) a 400-500 room hotel, and (7) landside improvements for a new 400 slip marina (the "Project").

Pending construction, dedication and acceptances of new utility systems, TIDA desires to finance the cost of constructing and installing certain additions and improvements to address the most critical maintenance, repair and renewal needs of the existing utility infrastructure, increasing system resiliency and reliability, and decreasing the likelihood of future utility service disruptions. The SFPUC has worked with TIDA to identify capital improvements to the existing infrastructure to improve utility systems reliability and resiliency throughout the redevelopment of NSTI. The Public Finance Director, working with TIDA and the SFPUC, has developed a proposal for financing up to \$13,500,000 through Certificates of Participation to fund interim improvements to the utility systems.

The SFPUC has prepared an assessment and estimated costs for the most immediate necessary capital improvements for the existing water, gas, electric, storm water and wastewater utilities on NSTI, including system reliability, regulatory compliance, and public/worker safety. The SFPUC and TIDA will meet and review the identified needs and establish priority projects for implementation subject to the authorization of financing. SFPUC will implement those capital repair and improvement projects authorized by TIDA. The SFPUC shall recommend to TIDA supplemental budgets as needed to perform the repairs and improvements and the agencies will meet and discuss all recommended repairs and upgrades.

Authorization to finance up to \$13,500,000 is proposed to address critical near term repairs to the existing infrastructure. The proposal is intended to support project costs of \$10,000,000, and total appropriations/certificates of participation issuance, including reserves, commercial paper interest, and other issuance costs, is projected not to exceed \$13,500,000.

In working with the Public Finance Director, it is proposed that initial financing will be generated through the City's Commercial Paper program, and the projects constructed over a two to three year period. At the completion of construction, the obligation would likely be refinanced using Certificates of Participation and repayment of the obligation would commence anticipated to start in fiscal year 2018. Repayment of the obligation would occur over a 10 year period and the projected average annual debt service, including principal and interest, would be \$1,503,668.40.

Revenues to meet the debt service obligation are intended to be generated from the residential, commercial and governmental utility users on NSTI through utility charges imposed or collected by TIDA, common area fees on Federal and/or commercial utility users, and potentially other TIDA revenues. TIDA and SFPUC will meet and confer on a regular basis to review charges and payment amounts and recommend changes if appropriate. It is anticipated that a general fund appropriation will be sought to cover the share of the debt service that would otherwise be borne by residents of units controlled by the Treasure Island Homeless Development Initiative and its partnering supportive and below market rate housing providers.

At its meeting of September 9, 2013, the Capital Planning Committee reviewed the proposed resolution and ordinance and voted to recommend their approval.

ACCOMPANYING LEGISLATION:

This resolution and ordinance to finance Treasure Island Utility Improvements have been prepared and introduced in conjunction with two related resolutions - renewing the Cooperative Agreement between TIDA and the Navy and approving the execution of a Memorandum of Understanding ("MOU") between TIDA and the San Francisco Public Utilities Commission ("SFPUC").

The current term of the Cooperative Agreement expires on September 30, 2013, and TIDA and the Navy wish to extend the term of the Cooperative Agreement from October 1, 2013 to September 30, 2014 under the same terms and conditions as in the current term of the Cooperative Agreement. Because the term of the Cooperative Agreement has exceeded ten years, a resolution has been prepared and submitted requesting approval from the Board of Supervisors of a Cooperative Agreement modification extending the term to September 30, 2014.

TIDA and the SFPUC have negotiated an MOU documenting their respective roles for the provision of utility services under the Cooperative Agreement and submitted to the Board of Supervisors a resolution authorizing execution of the MOU. The Cooperative Agreement between TIDA and the Navy includes Function Annexes that describe in detail TIDA's duties under Agreement. Functional Annex 6 - Utilities Services - describes Caretaker responsibilities for the operation and maintenance of utilities systems at NSTI that TIDA is responsible to provide.

The SFPUC has provided utility services on NSTI on behalf of TIDA since 1997 without a written agreement with TIDA, including delivery of electricity, gas, water, stormwater and the operation and maintenance of the existing wastewater treatment plant and related facilities and pipe network on NSTI. The proposed MOU utilizes the provisions of Functional Annex 6 as the basis for defining the parties' roles in the provision of utility services.

The proposed MOU memorializes the terms and conditions of the SFPUC's continued performance of certain utility services, including TIDA's reimbursement obligation. During the term of the MOU, the SFPUC will continue to provide utility services for, and on behalf of, TIDA on NSTI consistent with past practices and to the extent feasible given the condition of the utility systems and related infrastructure and the availability of funding.

RECOMMENDATION:

Approval of the proposed financing resolution and supplemental appropriation ordinance is requested to allow TIDA, working with the SFPUC, to address the most vulnerable components of the utility systems on the NSTI thereby increasing system resiliency and reliability.

Robert Beck, Treasure Island Director

OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: *pa* Mayor Edwin M. Lee *ge*
RE: Appropriation – City and County of San Francisco Certificates of Participation of \$13,500,000 – FY2013-2014
DATE: September 17, 2013

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2013 SEP 17 PM 3:12
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Attached for introduction to the Board of Supervisors is the ordinance appropriating \$13,500,000 of Certificate of Participation (COPs) proceeds to finance improvements to the Utility Infrastructure System at the Treasure Island beginning in Fiscal Year 2013 – 2014.

I request that this item be calendared in Budget and Finance Committee.

✓ I further request a waiver of the 30-day hold. *12/12/13*

Should you have any questions, please contact Jason Elliott (415) 554-5105.

130883

Presentation to Budget & Finance Committee

October 2, 2013

Treasure Island Development Authority



Calendar Items

- **Item 6** - Appropriation - Certificates of Participation - Treasure Island - \$13,500,000 - FY2013-2014
- **Item 7** - Cooperative Agreement Modification - United States Navy – Treasure Island Development Authority
- **Item 8** - Certificates of Participation - Treasure Island Improvement Project – Not to Exceed \$13,500,000
- **Item 9** - Memorandum of Understanding - Treasure Island Development Authority and the Public Utilities Commission - Provision of Utilities Services - Treasure Island and Yerba Buena Island

Proposed Order of Presentation

- **Item 7** - Cooperative Agreement Modification - United States Navy – Treasure Island Development Authority
- **Item 9** - Memorandum of Understanding - Treasure Island Development Authority and the Public Utilities Commission - Provision of Utilities Services - Treasure Island and Yerba Buena Island
- **Item 8** - Certificates of Participation - Treasure Island Improvement Project – Not to Exceed \$13,500,000
- **Item 6** - Appropriation - Certificates of Participation - Treasure Island - \$13,500,000 - FY2013-2014

Cooperative Agreement

- Since 1997, the City and the Authority have maintained a Cooperative Agreement with the United States Navy to assume certain responsibilities for:
 - (i) operation and maintenance for the water, waste water, storm water, electric and gas utility systems on the Base,
 - (ii) security and public health and safety services,
 - (iii) grounds and street maintenance and repair, and
 - (iv) property management and caretaker services.
- The term of the Cooperative Agreement is proposed to be extended through September 30, 2014

TIDA – SFPUC MOU

- Under the Cooperative Agreement with the US Navy, TIDA has been responsible for maintenance & operation of existing gas, electric, water, storm water, and wastewater systems on Treasure Island & Yerba Buena Island since 1998
- Compensation for utility operations comes from utility charges collected from system users on Treasure Island & Yerba Buena Island and other TIDA revenues
- SFPUC has maintained and operated the utilities as a contractor to TIDA without a formal agreement between the agencies establishing the specific conditions of service

TIDA – SFPUC MOU

- The proposed MOU memorializes the terms and conditions of the SFPUC's continued performance of utility services consistent with past practices
- Operation and maintenance limited to the extent feasible given the condition of the utility systems and the availability of funding

Existing Utilities Infrastructure

- Naval Station Treasure Island identified for closure in 1993
- Majority of infrastructure is fifty or more years of age and has not been the subject of capital improvement or renewal
- New utility infrastructure will be constructed through development, but elements of existing infrastructure will remain in service for more than a decade
- SFPUC has identified in excess of \$40 million in deficiencies and deferred maintenance needs that could jeopardize minimum levels of reliability over the next 10 years
- Deteriorated conditions could contribute to frequent or significant system failures

Proposed Financing

- Companion Measures to establish funding for Treasure Island Utility Improvements
 - **Item 8** – Certificates of Participation
 - **Item 6** – Supplemental Appropriation
- Will allow the SFPUC and TIDA to address the most vulnerable components of the existing utility systems to increase system resiliency and reliability

Proposed Utility Priorities

Wastewater	\$6,900,000
Water	\$2,350,000
Power & Gas	<u>\$750,000</u>
Total	\$10,000,000

- Final selection of projects to be determined after further evaluation of existing conditions and discussion between TIDA & SFPUC

Financing – Proposed Structure

- Intended to support project costs of \$10,000,000
 - total appropriations/certificates of participation, including reserves, commercial paper interest, and other issuance costs is not to exceed \$13,500,000.
- Initial financing through the City's Commercial Paper program and the projects constructed over a two to three year period.
- At the completion of construction, refinance using Certificates of Participation and commence repayment
- Seeking authorization for debt issuance & expenditure for Treasure Island Utilities Improvement Project

Financing – Repayment

- Repayment to occur over a 10 year period
- Projected average annual debt service, including principal and interest, estimated to be \$1,503,000 starting in FY 2017
- Revenues for debt service to be generated from residential, commercial and governmental utility users through a combination of utility charges and common area charges
- In future, will seek General Fund support for the share of the debt service otherwise attributable to residential units of the Treasure Island Homeless Development Initiative

Financing – Supplemental Appropriation

DESCRIPTION OF APPROPRIATION OR FUND AMOUNT	AMOUNT
Certificates of Participation – Treasure Island Utility Improvements	
Certificates Expected Par Amount	<u>\$12,095,000</u>
TOTAL SOURCES	\$12,095,000
Treasure Island Utilities Project:	
Treasure Island Utility Improvement Project	\$10,000,000
Other Costs (estimates):	
0.2% Set Aside for the City Service Auditor (0.2% of Total Project Cost)	\$20,000
Repayment of Commercial Paper Interest	\$323,255
Debt Service Reserve Fund	\$1,209,500
Other Cost of Issuance	\$481,770
Other Underwriter's Discount	<u>\$60,475</u>
TOTAL USES	\$12,095,000
Reserve Pending Sale	<u>\$1,405,000</u>
NOT TO EXCEED	\$13,500,000

Capital Planning Committee Endorsement

- At its September 9th meeting, the Capital Planning Committee endorsed the proposed financing and supplemental appropriation resolutions
- Will allow the SFPUC and TIDA to address the most vulnerable components of the existing utility systems to increase system resiliency and reliability

Treasure Island Utility Improvement Project

Questions?

