

File No. 190897

Committee Item No. 14

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date September 18, 2019

Board of Supervisors Meeting

Date _____

Cmte Board

- Motion
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- Youth Commission Report
- Introduction Form
- Department/Agency Cover Letter and/or Report
- MOU
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- Grant Budget
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- Application
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OTHER (Use back side if additional space is needed)

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Completed by: Linda Wong

Date September 13, 2019

Completed by: Linda Wong

Date _____

1 [Appropriation - Certificates of Participation to the General Services Agency to Fund the
2 Tenant Improvement Costs for the Hall of Justice Improvement Project - \$62,000,000 -
3 FY2019-2020]

4 **Ordinance appropriating \$62,000,000 of Certificates of Participation to the General**
5 **Services Agency to fund tenant improvements involving the construction, acquisition,**
6 **improvement, renovation, and retrofitting of City-owned properties as needed for the**
7 **Hall of Justice Improvement Project enabling staff and offices to be consolidated in**
8 **acquired City-owned properties in FY2019-2020; and placing \$62,000,000 on**
9 **Controller’s Reserve, pending sales of Certificates of Participation.**

10
11 Note: **Unchanged Code text and uncodified text** are in plain Arial font.
12 **Additions to Codes** are in *single-underline italics Times New Roman font*.
13 **Deletions to Codes** are in *strikethrough italics Times New Roman font*.
14 **Board amendment additions** are in double-underlined Arial font.
15 **Board amendment deletions** are in ~~strikethrough Arial font~~.
16 **Asterisks (****)** indicate the omission of unchanged Code
17 subsections or parts of tables.

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

19 Section 1. The sources of funding outlined below are herein appropriated in the General
20 Services Agency for Fiscal Year 2019-2020. Commercial Paper may be used as a funding
21 source in the interim, prior to sale of the Certificates of Participation.
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23
24
25

1 **Sources**

2	Fund /	Project & Activity /	Account	Description	Amount
3	Department ID	Authority			
4	15382 / 228875	10035309 – 0001 /	480141	Proceeds from	\$62,000,000
5	CPXCF COP HOJ	20886	Proceeds fr	Certificates of	
6	Relo-Tenant Imp /	ADRE HOJ Relo –	Certificates of	Participation	
7	ADM Real Estate	Non-CPC / ADRE	Participation		
8	Division	HOJ Relocation			
9	Total Sources				\$62,000,000

10
 11 Section 2. The uses of funding outlined below are herein appropriated in the General
 12 Services Agency to fund the construction, acquisitions, improvement, renovation, and
 13 retrofitting for the Hall of Justice Improvement Project.
 14

15 **Uses**

16	Fund /	Project & Activity /	Account	Description	Amount
17	Department ID	Authority			
18	15382 / 228875	10035309 – 0001 /	567000	Buildings,	\$51,635,000
19	CPXCF COP HOJ	20886	Bldgs,Struct&Imprv	Structures, &	
20	Relo-Tenant Imp /	ADRE HOJ Relo –	Proj-Budget	Improvements	
21	ADM Real Estate	Non-CPC / ADRE		Project Budget	
22	Division	HOJ Relocation			

1	Fund /	Project & Activity /	Account	Description	Amount
2	Department ID	Authority			
3	15382 / 228875	10035309 – 0001 /	581130	CSA 0.2%	\$103,270
4	CPXCF COP HOJ	20886	GF-CON-Internal	Controller's Audit	
5	Relo-Tenant Imp /	ADRE HOJ Relo –	Audit	Fund	
6	ADM Real Estate	Non-CPC / ADRE			
7	Division	HOJ Relocation			
8					
9	15382 / 228875	10035309 – 0001 /	573110	Debt Service	\$4,588,397
10	CPXCF COP HOJ	20886	Bond Issuance	Reserve Fund	
11	Relo-Tenant Imp /	ADRE HOJ Relo –	Cost - Unamortized		
12	ADM Real Estate	Non-CPC / ADRE			
13	Division	HOJ Relocation			
14					
15	15382 / 228875	10035309 – 0001 /	573110	Capital Interest	\$2,563,381
16	CPXCF COP HOJ	20886	Bond Issuance	Fund / CP Interest	
17	Relo-Tenant Imp /	ADRE HOJ Relo –	Cost - Unamortized	& Fees	
18	ADM Real Estate	Non-CPC / ADRE			
19	Division	HOJ Relocation			
20					
21	15382 / 228875	10035309 – 0001 /	573110	Cost of Issuance	\$803,864
22	CPXCF COP HOJ	20886	Bond Issuance		
23	Relo-Tenant Imp /	ADRE HOJ Relo –	Cost - Unamortized		
24	ADM Real Estate	Non-CPC / ADRE			
25	Division	HOJ Relocation			

	Fund /	Project & Activity /	Account	Description	Amount
	Department ID	Authority			
3	15382 / 228875	10035309 – 0001 /	573110	Underwriter's	\$451,088
4	CPXCF COP HOJ	20886	Bond Issuance	Discount	
5	Relo-Tenant Imp /	ADRE HOJ Relo –	Cost - Unamortized		
6	ADM Real Estate	Non-CPC / ADRE			
7	Division	HOJ Relocation			
9	15382 / 228875	10035309 – 0001 /	573110	Reserve for Market	\$1,855,000
10	CPXCF COP HOJ	20886	Bond Issuance	Uncertainty	
11	Relo-Tenant Imp /	ADRE HOJ Relo –	Cost - Unamortized		
12	ADM Real Estate	Non-CPC / ADRE			
13	Division	HOJ Relocation			
14	Total Uses				\$62,000,000

Section 3. The uses of funding outlined above for \$62,000,000 are herein placed on Controller's Reserve pending sales of Certificates of Participation.

1 Section 4. The Controller is authorized to record transfers between funds and adjust the
2 accounting treatment of sources and uses appropriated in this Ordinance as necessary to
3 conform with Generally Accepted Accounting Principles and other laws.
4

5
6 APPROVED AS TO FORM:
DENNIS J. HERRERA, City Attorney


FUNDS AVAILABLE:
BEN ROSENFELD, Controller

7
8 By:



BUCK DELVENTHAL
Deputy City Attorney

By:



BEN ROSENFELD
Controller

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<p>Items 13 and 14 Files 19-0896 and 19-0897</p>	<p>Departments: Controller, Office of Public Finance Capital Planning Public Works</p>
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EXECUTIVE SUMMARY

Legislative Objectives

- **File 19-0896:** The proposed ordinance would authorize the execution and delivery of Certificates of Participation (COPs) on a tax-exempt or taxable basis for a not-to-exceed \$62,000,000 to (a) finance the costs of the improvement of Hall of Justice (HOJ) facilities and acquisition of adjacent property; and (b) the repayment of certain commercial paper notes of the City issued on an interim basis for such purposes.
- **File 19-0897:** the proposed ordinance would appropriate \$62,000,000 of proceeds from COPs to the General Services Agency in FY 2019-2020 to fund the Hall of Justice Improvement Project.

Key Points

- In June 2019, the Board of Supervisors adopted the Ten-Year Capital Plan for FY 2020-21 through FY 2029-30. The Capital Plan calls for \$131 million in COPs for the Hall of Justice Relocation Projects to relocate City departments and functions from the Hall of Justice. Of the \$131 million in COPs to be issued in 2020, approximately \$79.5 million are allocated to the purchase of 814-820 Bryant Street, 470 6th Street, and 1828 Egbert Street, previously approved by the Board of Supervisors (File 19-0895 and 19-0898 of this report), and approximately \$51.6 million are allocated to constructing new holding cells and relocating existing offices with the Hall of Justice.

Fiscal Impact

- The Office of Public Finance is requesting authorization to issue a total not-to-exceed \$62,000,000 of COPs, including \$51,635,000 for project costs, \$8,510,000 for issuance costs, and \$1,855,000 to be reserved for market uncertainty. Project costs totaling \$51,635,000 include \$6,000,000 to acquire adjacent property located on the Harriet Street side of the HOJ, \$26,400,000 to construct holding cells adjacent to the HOJ (as required by the Courts), and \$19,235,000 for tenant improvements at City-owned properties for HOJ relocation projects.
- The Department of Public Works prepared estimates of relocating the holding cells based on prior estimates prepared by the consulting firm, AECOM, in October 2017. The cost estimates provide for \$6.8 million in contingencies equal to 35 percent of project costs. The Budget and Legislative Analyst recommends placing \$3.8 million (\$6.8 million in contingencies less the \$3 million construction contingency) on Budget and Finance Committee reserve pending further details on the project budget and contingencies.

Recommendations

- Amend the proposed ordinance (File 19-0897) to place \$3,829,982 for contingencies for construction of the holding cells of the \$62,000,000 COPs proceeds on Budget and Finance Committee reserve pending budget details.
- Approve the File 19-0896 and File 19-0897 as amended

MANDATE STATEMENT

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding indebtedness does not exceed 3.25% of discretionary revenue as determined by the Controller and Director of Public Finance. Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

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

The Hall of Justice (the Hall or HOJ), located at 850 Bryant Street, was constructed in 1958 and is seismically deficient. In January 2017, given the serious concerns about the safety and working conditions in the building, the City Administrator declared that the offices and jail located at the Hall of Justice be closed as quickly as possible. As a result, the Capital Plan was updated in 2017 to target an expedited exit in 2019 from the Hall of Justice for all staff and inmates. The building currently houses the County courthouse, County jails #3 and #4, and office space for various justice-related staff.

10-Year Capital Plan

In June 2019, the Board of Supervisors adopted the Ten-Year Capital Plan for FY 2020-21 through FY 2029-30. The Capital Plan calls for \$131 million in certificates of participation (COPs) for the Hall of Justice Relocation Projects to relocate the District Attorney's Office, Adult Probation Department, Police Department Investigations Unit, Medical Examiner, and other administrative offices from the Hall of Justice.¹ Staff from the District Attorney's Office, Police, and Adult Probation departments will be relocated to leased space by the end of 2020. Remaining City offices in the Hall will be consolidated on the Harriet Street side of the building and acquired properties once obtained. The Bryant Street side of the building will be demolished once all staff and inmates are vacated, and the remaining Harriet Street side will be enclosed, leaving a rectangular structure with better expected seismic performance. However, as of September 2019, there is no plan in place for relocation of inmates and staff from County Jail #4.² Demolition of the Bryant Street side of the Hall is planned for funding with FY 2024-25 COPs.

¹ Files 19-0895 and 19-0896 approved the issuance of \$94.6 million and \$62 million in COPs respectively. Of this amount, \$79.4 million of COPs proceeds are allocated to project costs for the purchase of 814-820 Bryant Street/470 6th Street and 1828 Egbert Street (File 19-0895), and \$51.6 million is allocated for tenant improvements to the Hall of Justice (File 19-0896), totaling \$131 million.

² County Jail #3 is currently closed.

Previously Approved Resolutions

In May 2019, the Board approved a resolution authorizing the Real Estate Division to acquire property at 814-820 Bryant Street and 470 6th Street for \$12 million for the purpose of relocating staff from the Hall. The resolution authorized the issuance of \$16 million in COPs, subject to future Board of Supervisors approval of the COPs sale, and of commercial paper notes³ to finance the cost of acquisition in anticipation of the approval of the COPs. The City issued commercial paper in July 2019 to acquire these properties.

In July 2019, the Board approved a resolution authorizing the director of the Real Estate Division to acquire 1828 Egbert Avenue in an amount of \$67.3 million to relocate the Police Department's evidence and property storage from the HOJ (File 19-0774). The approval of the purchase was subject to the Board of Supervisors future authorization of COPs to fund the purchase.

DETAILS OF PROPOSED LEGISLATION

File 19-0896: the proposed ordinance would:

- Authorize the execution and delivery of taxable or tax-exempt COPs representing an aggregate principal amount not to exceed \$62,000,000 to: (a) finance the costs of the improvement of Hall of Justice facilities and acquisition of adjacent property; and (b) the repayment of certain commercial paper notes of the City issued on an interim basis for such purposes;
- Approve the form of a Supplement to Trust Agreement between the City and County of San Francisco (City) and the U.S. Bank National Association, as trustee (Trustee) (including certain indemnities contained therein);
- Approve the respective forms of Supplements to Property Lease and Project Lease, each between the City and the Trustee for the lease and lease back of 375 Laguna Honda Boulevard City property and facilities (or other property as determined by the Director of Public Finance);
- Approve the form of an Official Notice of Sale and a Notice of Intention to sell the COPs;
- Approve the form of an official statement in preliminary and final form;
- Approve the form of a Continuing Disclosure certificate;
- Grant general authority to City officials to take necessary actions in connection with the authorization, sale, execution and delivery of the COPs;
- Approve modifications to documents; and
- Ratify previous actions taken in connection therewith

³ Commercial paper is short term (30 to 90 day) low interest debt.

Certificates of Participation

COPs are structured as a lease-lease back, in which the City-owned Laguna Honda Hospital campus at 375 Laguna Honda Boulevard would serve as the leased property to secure the COPs.⁴ The COPs could be structured for a term of up to 25 years at an interest rate not-to-exceed 12 percent. According to the proposed ordinance, maximum annual debt service (or maximum annual base rent) is \$5.4 million.

The Office of Public Finance estimates that the COPs would be paid over 20 years with annual principal and interest payments of \$4.7 million and an estimated annual interest rate of 4.481 percent.

Negotiated Sale

The proposed ordinance permits the COPs to be sold through a negotiated or a competitive sale. Based on current market conditions, the Office of Public Finance intends to sell the COPs competitively. However, according to Ms. Jamie Querubin, Public Finance Deputy, the Office of Public Finance may propose a negotiated sale rather than a competitive sale if one of more of the factors described in the City's Debt Policy are present, which currently include: (1) significant deterioration in the City's overall credit rating or outlook; (2) market disruptions that are outside of the City's control, including new or proposed changes in taxation or sector risks; and (3) the transaction consists of (i) variable rate debt or commercial paper, (ii) a non-traditional debt structure (e.g. forward delivery bonds, long-dated maturities or special call features), or (iii) a public/private partnership

File 19-0897 is a proposed ordinance that would appropriate \$62,000,000 of proceeds from COPs to the General Services Agency in FY 2019-2020 to fund the Hall of Justice Improvement Project with related costs of construction, acquisition, improvement, renovation, and retrofitting of City-owned properties and place the total \$62,000,000 on Controller's Reserve pending the sale of the COPs.

The Project

The proposed \$62,000,000 of proceeds from COPs would fund the following components of the Hall of Justice Improvement Projects: (1) acquisition of property adjacent to the HOJ; (2) construction of holding cells adjacent to the HOJ, as required by the Courts; and (3) tenant improvements at City-owned properties to relocate HOJ staff, primarily to repurpose the former Medical Examiner, District Attorney, and Police suites currently located on the basement, first, and third through sixth floors of the HOJ on the Harriet Street side (approximately 92,000 rentable square feet). According to Ms. Heather Green, Capital Planning Director, offices and facilities that would otherwise remain on the Bryant Street side would be

⁴ The City leases the City-owned property to the Trustee and leases back the property. The City makes annual base rental payments to the Trustee in an amount required to repay the COPs. When the COPs are fully paid, the property lease is terminated. Annual base rental payments (in effect, debt service) are paid from the City's General Fund. The City entered into the Original Trust Agreement, Original Project Lease, and Original Property Lease in 2009, and entered into two supplemental agreements/leases to the Original Trust Agreement, Original Project Lease, and Original Property Lease for the subsequent series of COPs issued in 2009 and 2012. The City also intends to enter into a third supplemental agreement/lease in 2019 for refunding of previously issued COPs.

moved to the Harriet Street side. As of September 2019, Ms. Green expects that the following offices and facilities would be relocated to the Harriet Street side: Police Investigations, Security and Transport staff from the Sheriff's Department, Project SAFE,⁵ Prisoner Legal Services, Real Estate Division building services, hoteling space⁶ for the District Attorney's Office, as well as Traffic Courts and offices.

FISCAL IMPACT

The City would pay approximately \$51,635,000 for the total project cost, including \$6,000,000⁷ to acquire adjacent property located on the Harriet Street side of the HOJ, \$26,400,000 to construct holding cells adjacent to the HOJ, and \$19,235,000 for tenant improvements at City-owned properties for HOJ relocation projects, as shown in Table 1 below. In addition, the City's estimated costs to issue the COPs are \$8,510,000, including the audit fee, debt service reserve fund, capitalized interest, commercial paper interest and fees, and cost of issuance and underwriter's discount. An additional \$1,855,000 would be reserved for market uncertainty. Table 1 below identifies the sources and uses for the proposed supplemental appropriation and the proceeds from the sale of the COPs.

Table 1: Sources and Uses for COPs

Sources and Uses	Amount
Sources	
COP Par Amount	\$62,000,000
Uses	
Acquisition of Adjacent Sites	6,000,000
Courts-required Holding Cells (see below)	26,400,000
HOJ Tenant Improvements (Harriet St. Wing) (see below)	19,235,000
Subtotal Estimated Project Costs	51,635,000
Audit Fee	103,270
Debt Service Reserve Fund	4,588,397
Capitalized Interest/CP Interest and Fees	2,563,381
Issuance Costs	803,864
Underwriter's Discount Fee	451,088
Subtotal Costs of Issuance	8,510,000
Total Estimated Costs	60,145,000
Reserve for Market Uncertainty	1,855,000
Total Uses	\$62,000,000

Source: Capital Planning

⁵ Safety Awareness for Everyone (SAFE) is a non-profit organization that provides crime prevention education and public safety services citywide.

⁶ Office space to be used by attorneys from the District Attorney's Office on a temporary basis between court appearances

⁷ Estimated by the Real Estate Division

Courts-required Holding Cells

The Department of Public Works (Public Works) prepared estimates of relocating the holding cells based on prior estimates prepared by the consulting firm, AECOM, in October 2017. These cost estimates accounted for escalation in construction costs between 2017 and 2019 and future escalation in construction costs between 2019 and the mid-point in the construction project; and for uncertain market conditions. Details of estimated holding cell construction costs of \$26.4 million are shown in Table 2 below. Project contingencies, in addition to construction cost escalation and uncertain market conditions, total \$6.8 million, equal to 35 percent of project costs. The Budget and Legislative Analyst recommends placing \$3.8 million (\$6.8 million in contingencies less the \$3 million construction contingency) on Budget and Finance Committee reserve pending further details on the project budget and contingencies.

Table 2: Estimated Holding Cell Construction Costs

Base Estimate	\$9,924,462
Market Conditions (6%)	595,468
Escalation (14%)	1,472,790
Subtotal Construction Costs	11,992,720
Building Code & Compliance	600,000
Project Phasing	500,000
Art	240,000
Hazardous Materials	200,000
Subtotal Associated Costs	1,540,000
Construction and Associated Costs	13,532,720
Project Management and Other Costs	6,070,000
Total Project Costs	19,602,720
Construction Contingency	3,000,000
Unknown Existing Conditions	1,200,000
Extraordinary Inflation	1,051,993
Owner's Contingency	1,577,989
Total Contingency	6,829,982
Total Estimated Project Costs	\$26,432,702^a

Source: Public Works

^a Total differs from COPs budget and appropriation due to rounding

Office Relocation

Public Works prepared estimates of the cost per square foot to make tenant improvements to relocate City offices to the Harriet Street wing based on the City's tenant improvement costs in comparable projects, as shown below. Details of estimated tenant improvement costs of \$19.2 million are shown in Table 3 below.

Table 3: Estimated Office Relocation Costs

Current/Previous Use	Planned Future Tenant	Rentable Sq. Ft. (RSF)	Estimated Cost per RSF	Estimated Cost
Medical Examiner (1st Floor)	Traffic Courts, Project SAFE, Prisoner Legal Services, Sheriff Security	20,000	\$376 ^a	\$7,520,000
Medical Examiner, Supplies, Storage (Basement)	Real Estate Div. Building Services, Police Fingerprinting	7,000	351 ^b	2,457,000
District Attorney, Police Office Suites (4th - 6th Floors)	Police Investigations	57,000	114 ^d	6,498,000
Commission Room (5th Floor)	District Attorney Hoteling	3,250	289 ^c	939,250
Auditorium (6th Floor)	Police Investigations Overflow	4,875	376 ^a	1,833,000
Total		92,125		\$19,247,250^e

Source: Capital Planning

^a Based on costs to renovate 350 Rhode Island Street from a commercial kitchen to District Attorney office use

^b Based on costs to redesign Warrants and Records facilities

^c Based on costs to convert office space to other office use

^d Based on costs to convert office space to other office use, reduced to reflect minimal expected capital modifications

^e Total differs from COPs budget and appropriation due to rounding

City's Debt Policy

The current plan of finance anticipates utilizing the City's commercial paper program, which was approved by the Board of Supervisors in March 2009 (File 09-0197) and March 2010 (File 10-0269) to finance project costs pending issuance of the COPs. Of the City's total commercial paper program of \$250 million re-authorized by the Board of Supervisors in May 2016 (File 16-0427); \$105.25 million is unencumbered as of September 1, 2019.

The City's policy is to limit General Fund debt service at or below 3.25 percent of discretionary General Fund revenues. The anticipated incremental debt service associated with the delivery and execution of the COPs complies with the City's policy of limiting General Fund debt service payments at or below 3.25 percent of General Fund Discretionary Revenue, as set forth and maintained in the City's Capital Plan.

RECOMMENDATIONS

1. Amend the proposed ordinance (File 19-0897) to place \$3,829,982 for contingencies for construction of the holding cells of the \$62,000,000 COPs proceeds on Budget and Finance Committee reserve pending budget details.
2. Approve File 19-0896 and File 19-0897 as amended.

OFFICE OF THE MAYOR
SAN FRANCISCO



LONDON N. BREED
MAYOR

2019 SEP 03 PM 4:26

BY: *[Handwritten Signature]*

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: Sophia Kittler
RE: Appropriation of \$62,000,000 of Certificates of Participation to the General Services Agency to fund property acquisitions, construction, and tenant improvements for the Hall of Justice (HOJ) Improvement Project – FY 2019-20
DATE: Tuesday, September 3, 2019

Ordinance appropriating \$62,000,000 of Certificates of Participation to the General Services Agency to fund tenant improvements involving the construction, acquisition, improvement, renovation, and retrofitting of City-owned properties as needed for the Hall of Justice Improvement Project enabling staff and offices to be consolidated in acquired City-owned properties. \$62,000,000 is to be placed on Controller's Reserve pending sales of Certificates of Participation.

Should you have any questions, please contact Sophia Kittler at 415-554-6153.