


CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst 

SUBJECT: April 16, 2014 Budget and Finance Sub-Committee Meeting

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<p>Item 1 File 14-0285</p>	<p>Department: Port Commission (Port)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the Port to accept and expend \$698,625 in federal Port Security Grant Program funds as awarded by the Federal Emergency Management Agency, a division of the U.S. Department of Homeland Security. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Since 2002, the U.S. Department of Homeland Security has been awarding grant funds to Ports to increase security and emergency preparedness. These grant funds are either awarded by the Port Security Grant Program directly to the Port or to regional agencies that, in turn, award grants to the ports. • The Port of San Francisco (Port) was last awarded a Port Security Grant directly from the Federal Emergency Management Agency in 2007 in the amount of \$1,522,536 (File 08-1271). • The Port applied for the subject grant in June 2013 and was awarded the grant in September 2013. • The subject grant will provide federal Port Security Grant Funds to (1) conduct oil spill training, including a large-scale oil spill exercise with Port staff, and (2) replace an existing fence around the Roundhouse office building across from Pier 27 and build new fencing around a portion of Pier 96 that will be used for cargo. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The Environmental and Historic Preservation Program (EHP) at the Federal Emergency Management Agency have approved the Port’s oil spill and training plan but have not yet approved the high-security fencing projects. According to Port staff, if the EHP approval comes after July 1, 2014, the Port would have to apply for an extension, which the Federal Emergency Management Agency has approved in the past. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the Port to expend \$931,500 in total project costs including \$698,625 in federal Port Security Grant Program funds and the required Port matching funds of \$232,875, which is 25 percent of the total project costs. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of \$100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

Background

Since 2002, the U.S. Department of Homeland Security has been providing Port Security Grants to provide for security infrastructure and emergency preparedness trainings. According to the Catalog of Federal Domestic Assistance (CFDA), Port Security Grant awards made during Federal Fiscal Year 2013 should be used to:

- Strengthen government integration
- Enhance maritime domain awareness
- Enhance prevention, protection, response, and supportive recovery programs in response to explosive devices using hazardous materials
- Enhance cybersecurity capabilities
- Develop projects to mitigate maritime security risks
- Train staff
- Implement transportation worker identification credential programs

The Port of San Francisco (Port) was last awarded a Port Security Grant directly from the Federal Emergency Management Agency in 2007 in the amount of \$1,522,536 (File 08-1271).¹

The Port applied for the subject Port Security Grant funds in June 2013 and was awarded the grant funds in September 2013, which requires the Port to provide funds matching 25 percent of total project costs. In February 2014, the Port Commission authorized the Port to accept and expend the grant funds including the matching funds contingent upon Board of Supervisors approval.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Port to accept and expend \$698,625 in grant funds from the U.S. Department of Homeland Security's 2013 Port Security Grant Program including: (1) \$186,750 for oil spill training to Port staff including a large-scale oil spill exercise and (2) \$511,875 to replace high-security fencing around an office building near Pier 27 and build new high-security fencing at Port 96.

¹ According to Ms. Sansom, the Port has received pass-through grants from regional bodies annually since 2007 but has not received grant funding directly from U.S. Department of Homeland Security since 2007.

The total project costs under the grant are \$931,500. As a condition of accepting the grant funds, the Port will match 25 percent, or \$232,875, of the total project costs, \$931,500, for the training and security fencing.

Oil Spill Training and Exercise

According to Ms. Sidonie Sansom, Port of San Francisco Director of Homeland Security, the funding for oil spill training will provide multiple training sessions that will be provided by a private contractor to approximately 100-200 Port staff. Those training sessions will be in advance of a large-scale oil spill training exercise that will be developed and implemented by the same private contractor for approximately 50 Port staff.

According to Ms. Sansom, while the Port currently contracts with Blue Water and Associates, Inc. for hazards training, the Port will award the training contract through a new competitive Request for Proposals (RFP) process to meet federal requirements. According to Ms. Sansom, the Port is currently drafting the RFP documents and will release the RFP after the Board of Supervisors approves the proposed resolution. Ms. Sansom estimates that the selected contractor will conclude the trainings and oil spill exercise between June 1, 2014 and May 31, 2015 as required by the grant.

High-Security Fencing

The proposed resolution would also authorize the Port to accept and expend grant funds to (1) replace existing high-security fencing around Roundhouse office building (Roundhouse) located across from Pier 27 and (2) build new high-security fencing around part of Pier 96 in order to create a secured space that the Port could use for its cargo operations.

According to Ms. Sansom, the fencing round the Roundhouse is substandard and has not been included in previous fencing contracts since it is a custom fence that has to be built around and in between historic buildings. The new fence around a portion of Pier 96 will provide an area for accepting cargo, increasing the Port's capacity to accept cargo by up to 20 percent. According to Ms. Sansom, the fence will be included as a requirement in the facility security plan, which will need to be approved by the U.S. Coast Guard, to ensure the terminal is compliant with federal security requirements.

According to Ms. Sansom the Port will award the construction contract for the proposed fencing through a competitive bidding process in approximately August 2014 in order to complete the construction by May 31, 2015.

FISCAL IMPACT

The proposed resolution would authorize the Port to accept and expend federal grant funds from the U.S. Department of Homeland Security's Port Security Grant Program in the amount of \$698,625. The required Port matching funds are \$232,875, or 25 percent of the total project grant amount of \$931,500, as shown in Table 1 below.

Table 1: Summary of Federal Grant and Port Revenues and Proposed Uses

	Federal Grant	Port Matching Funds (25% of Total)	Total
Revenues	\$698,625	\$232,875	\$931,500
Uses			
<i>Oil Spill Training</i>			
Consultants	186,750	62,250	249,000
<i>Security Fencing</i>			
Consultants	24,375	8,125	32,500
Equipment	487,500	162,500	650,000
Subtotal Security Fencing	511,875	170,625	682,500
Total Uses	\$698,625	\$232,875	\$931,500

The Port proposes using operating funds of \$62,250 that were originally budgeted as oil spill training in the Port’s Maintenance Division to match the federal grant funds for oil spill training and large-scale exercise.

According to Ms. Sansom, the Port proposes applying \$170,625 of funds previously appropriated in the Port’s capital Port Security Grant matching funds to the fence construction project to match the federal grant amount of \$511,875.

POLICY CONSIDERATIONS

According to Ms. Sansom, the Environmental and Historic Preservation Program (EHP) at the Federal Emergency Management Agency has approved the Port’s oil spill and training plan but has not yet approved the high-security fencing projects. According to Ms. Sansom, the Port would not award the contract for fencing until after the EHP approves the fencing project.

Currently, the Port estimates that it can complete all of the projects between June 1, 2014 and May 31, 2015 provided that EHP approves the fencing project by July 1, 2014. According to Ms. Sansom, if the EHP approves the project after July 1, 2014, the Port would apply for an extension, as is allowed under the grant terms and which the Federal Emergency Management Agency has approved for previous grants.

RECOMMENDATION

Approve the proposed resolution.

Item 3
Files 14-0222

Department:
San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would find that the Airport's proposed Plot 700 development project, which includes relocation and reconstruction of the Airport's Ground Transportation Unit and Bus Maintenance Facility, is fiscally feasible under the provisions Administrative Code Chapter 29.

Key Points

- The Airport's Ground Transportation Unit and Bus Maintenance Facility are both housed in inadequate facilities that were originally intended to be temporary. Due to a recent modification to lease terms with United Airlines, approximately six acres of space known as Plot 700 has become available for Airport use. The proposed project will relocate both the Ground Transportation Unit and Bus Maintenance Facility to Plot 700.
- The Ground Transportation Unit functions as the permitting and inspection agency for all passenger-carrying Airport vehicles operating at the Airport. This includes permit issuance, training, washing, fueling, inspection of vehicles, and maintenance of radios in the Radio Repair Shop. The Bus Maintenance Facility houses the Airport's shuttle bus fleet, which is managed by the Airport's contractor, SFO Shuttle.
- Relocation and construction of the Ground Transportation Unit and Bus Maintenance Facility are estimated to cost \$30,204,929. These projects are included in the Airport's Five Year Capital Plan, which was approved by the Airport Commission and City's Capital Planning Committee in February 2014. The proposed \$30,204,929 project would be financed entirely by Airport bonds. Funding of this project is contingent upon Board of Supervisors approval of the Airport's issuance and appropriation of \$1.97 billion in Airport bonds also pending before the Board of Supervisors (File 14-0237 and 14-0232).
- Chapter 29 of the City's Administrative Code states that the Board of Supervisors shall evaluate a project's financial feasibility, 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) construction costs are estimated to exceed \$1,000,000. Chapter 29 states the Board of Supervisors shall review the project's financial feasibility, in five areas including: (1) direct and indirect financial benefits to the City, (2) construction costs, (3) available funding, (4) long-term operating and maintenance costs, and (5) debt load carried by the relevant City Department.
- Based on the Airport's evaluation of the costs and financing of the proposed project, the Budget and Legislative Analyst considers the proposed Plot 700 development project to be fiscally feasible.

Recommendation

- Approve the proposed resolution contingent on Board of Supervisors approval of the pending resolution authorizing issuance of Airport revenue bonds (File 14-0237) and related supplemental appropriation (File 14-0232).

MANDATE STATEMENT**Mandate Statement**

Chapter 29 of the City's Administrative Code requires projects¹ to be submitted to the Board of Supervisors to approve the fiscal feasibility 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) construction costs are estimated to exceed \$1,000,000. Chapter 29 specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including the (1) direct and indirect financial benefits to the City, (2) construction cost, (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 means that a "project merits further evaluation and environmental review."

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would find the Airport's proposed Plot 700 development project to be fiscally feasible, in accordance with Chapter 29 of the City's Administrative Code. Approval of this resolution would allow the Airport to proceed with environmental review for the project. An ordinance appropriating funds for this project is included in the Budget and Legislative Analyst's report of April 11, 2014 to the Budget and Finance Sub-Committee under File 14-0237.

Plot 700 Development Project

San Francisco International Airport occupies approximately 5,171 acres of land, of which the Plot 700 Lot (Plot 700) comprises approximately 6 acres. Due to a recent modification in the Airport's lease terms with United Airlines, Plot 700 was turned over to the Airport and is currently used as an employee overflow parking lot as need arises. The lot is bounded by North Access Road on the north, North Field Road on the east, United Airlines Maintenance and Operations Center (UAMOC) on the south, and the United Airlines employee parking lot on the west.

The Airport's FY 2014-15 Five-Year Capital Plan, approved by the Airport Commission and the City's Capital Planning Committee in February 2014, provides for the development of Plot 700 to construct new facilities, including the relocation of the Ground Transportation Unit and the Bus Maintenance Facility². The construction of the improvements under Plot 700 development project is expected to take three years and cost an estimated \$30.2 million.

¹ Chapter 29 excludes various types of project 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.

² Relocation of these two facilities includes relocation of the associated radio shop, gas station and car/bus wash.

Ground Transportation Unit Relocation

The existing Ground Transportation Unit facilities are located along South McDonnell Road in the South Field Area and were originally developed for temporary rental car operations during construction of the Airport Rental Car Center. The main building was redeveloped in 1999 to house the Ground Transportation Unit and Radio Shop by adding interior modifications and the addition of a Four-Bay Inspection Garage and Radio Repair Shop. The car wash rack and vehicular fuel station are used only by the Airport and are operated and maintained by the Airport’s Auto Shop staff. A total of 17 Airport employees work on Ground Transportation operations. The Ground Transportation Unit functions as the permitting and inspection agency for all passenger-carrying Airport vehicles operating at the Airport. The Radio Shop repairs and maintains radios, transponders and antennas for all Airport-operated vehicles, including the Fire Department and Police Department units located at the Airport.

The existing Ground Transportation structure is a repurposed temporary structure and is not adequate to handle ongoing Airport needs. The Airport states that existing facilities are outdated, unsafe, and inefficient.

The Bus Maintenance Facility Relocation

The existing Bus Maintenance Facility is located along North McDonnell Road adjacent to the *Clean Energy* Compressed Natural Gas (CNG) fueling station. The Bus Maintenance Facility services and repairs the Airport’s shuttle bus fleet. The facility’s original maintenance bays were constructed in 1992, also as a temporary building with the expectation that AirTrain would be extended to the Long Term Parking lot. Trailers were added to accommodate increasing demand for office and storage space approximately 15 years later. The facilities are occupied and operated by the Airport’s shuttle bus contractor, SFO Shuttle, which has 98 employees.

The Airport states that the condition of the Bus Maintenance Facility is beyond its useful life and was designed to accommodate a fleet of ten shuttle buses, not the current fleet of more than 30. The functions of the Ground Transportation Unit and Bus Maintenance Facility are summarized in Table 1, below.

Table 1: Primary Functions of the Ground Transportation Unit and Bus Maintenance Facility

Ground Transportation Unit	Bus Maintenance Facility
Ground Transportation Unit Offices	Bus Maintenance Facility Offices
Inspection Bays	Maintenance Bays
Radio Shop	Clean Natural Gas Fueling Station
Car Wash Rack	
Vehicular Fuel Station	

Proposed Facility

The proposed Plot 700 development project includes the construction of a new facility to co-locate the Ground Transportation Unit and Bus Maintenance Facility on Plot 700 in the North Cargo Area. The new facility will be a permanent structure that will more adequately address the needs of the two units. The recent return of Plot 700 to the Airport due to modified lease terms with United Airlines provides an opportunity for relocation and replacement of these facilities.

According to Airport staff, because both the Ground Transportation Unit and Bus Maintenance Facility are considered back-of-house operations, and are more appropriately located away from their current locations on McDonnell Road, which is a major roadway that provides public access to the Airport terminals and the Rental Car Center. Relocation of these facilities to Plot 700 will move traffic associated with these units off McDonnell Road to the North Cargo area.

In accordance with Section 705 of the San Francisco Environmental Code, the proposed facility will have sustainability and energy-efficiency measures that will achieve, at minimum, LEED Gold certification.³

Fiscal Feasibility of the Plot 700 Project

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, (2) construction cost, (3) available funding, (4) long term operating and maintenance costs, and (5) debt load carried by the relevant City Department.

Direct and Indirect Financial Benefits

According to the December 2013 *Fiscal Feasibility Study* ("Study") of the proposed Plot 700 Project, prepared by the Airport, direct financial benefits include new jobs and maintenance of revenues to the Airport and the City's General Fund.

Employment Benefits

According to estimates provided by Regional Economic Models, Inc., approximately 158 construction jobs and 69 related jobs, totaling 227 new jobs, would be created by this project. These are limited-term jobs for the approximate three-year duration of the project.

Revenue Benefits

In addition, because both the Ground Transportation Unit and Bus Maintenance Facility are essential to moving passengers throughout the Airport, inefficient operation of these units

³ Leadership in Energy & Environmental Design (LEED) is a green building certification program that recognizes sustainable building strategies and practices. To receive LEED certification, building projects satisfy prerequisites and earn points to achieve certification. Gold is the second-highest of four certifications.

could decrease passenger traffic at the Airport and negatively impact Airport revenue, which would decrease the Airport's Annual Service Payment to the City's General Fund and tax revenues to the City. The FY 2012-13 Annual Service Payment was \$36.5 million.

Indirect Benefits

According to the Airport's *Fiscal Feasibility Study*, the indirect benefits of the proposed project are due to the economic activity of the Airport, which includes tax revenues attributed to the Airport. State and local taxes attributed to the Airport in 2012 are estimated at \$2.5 billion.

Construction Costs

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) construction costs over \$1,000,000. The proposed Plot 700 Development Project is estimated to cost \$25,420,387 in construction costs and an additional \$4,784,542 in related planning, design, permitting, project and construction management, inspection and other costs (soft costs), as shown in Table 2 below. The total estimated cost is \$30,204,929.

Table 2: Estimated Construction and Non-Construction Costs

	Ground Transportation Unit	Bus Maintenance Facility	Total
Sitework	\$3,120,575	\$3,924,000	\$7,044,575
Facility Construction	\$6,610,356	\$3,469,456	\$10,079,812
General Conditions (10%) ¹	\$973,000	\$739,000	\$1,712,000
Contractor Fee (5%) ²	\$535,000	\$407,000	\$942,000
Wrap-Up Insurance Program (2%) ³	\$225,000	\$171,000	\$396,000
Sustainability (5%) ⁴	\$573,000	\$436,000	\$1,009,000
Design and Estimating Contingency (20%) ⁵	\$2,408,000	\$1,829,000	\$4,237,000
Construction Costs	\$14,444,931	\$10,975,456	\$25,420,387
Estimated Soft Costs ⁶	\$3,046,802	\$1,737,740	\$4,784,542
Total	\$17,491,733	\$12,713,196	\$30,204,929

¹ General Conditions are ancillary costs attributable to construction, such as site offices, temporary utilities, and construction cleaning.

² Contractor Overhead and Profit is the fee charged by the contractor to manage the project.

³ Wrap-Up Insurance is a contractor-controlled liability policy that protects all contractors and subcontractors on the project.

⁴ Sustainability is contingency funding for sustainability measures in the structure, such as LEED Gold Certification, as called for in the SFO Strategic Plan.

⁵ Design and Estimating Contingency is a percentage to account for design changes, omissions or errors, or unforeseen conditions or risks. At the conceptual phase of a project, it is calculated at 20% of the project cost.

⁶ Soft costs include project management, design, inspection, and construction management.

The Plot 700 development project is proposed over a three-year timeline beginning in FY 2014-15. If approved, the Airport will begin the environmental permitting process in April 2014 and construction will start approximately one year later.

Available Funding

The Airport proposes funding the entire \$30,204,929 using Airport bonds, for which a resolution approving issuance of these bonds (File 14-0237) and an ordinance appropriating the bond proceeds (File 14-0232) is included in the Budget and Legislative Analyst's April 16, 2014 report to the Budget and Finance Committee. Funding of the Plot 700 development project is contingent upon approval by the Board of Supervisors of the issuance and appropriation of the revenue bonds. The debt service on the future issuance of these revenue bonds would be paid by the Airport from operating revenues, including airline and non-airline revenues.

This project does not meet the requirements for grant funding under the Federal Aviation Administration's (FAA) Airport Improvement Program because the project does not include improvements related to enhancing airport safety, capacity, security, and environmental concerns. Priority is given by the FAA to runway and taxiway projects.

Long Term Operating and Maintenance Costs

The long-term operating and maintenance costs from the proposed project are minimal. Because there is no proposed change in staffing or processes other than relocation of the Ground Transportation Unit and Bus Maintenance Facility, operating costs should remain stable. Maintenance activities will be performed by Airport Maintenance and/or SFO Shuttle staff and include typical costs to maintain Airport buildings. Because of the age of the existing facilities, the current costs required to maintain these facilities exceed new maintenance costs for the proposed facilities.

In addition, Plot 700 facilities will be designed to LEED Gold standard at minimum. Facilities will comply with or exceed all other applicable Federal, State, and City and County of San Francisco sustainability standards. Due to this, future operations and maintenance costs are expected to be equivalent or less than costs associated with the current facilities.

Debt Load of the Airport

The fiscal feasibility of the Plot 700 development project is contingent upon the approval of the issuance and appropriation of up to \$1,969,830,773 in Airport bonds by the Board of Supervisors (File 14-0237 and 14-0232). The \$30.2 million in Plot 700 development project costs make up 1.5% of this supplemental appropriation. As a portion of the \$4.4 billion is presently outstanding capital debt, the \$30.2 million Plot 700 Development Project would make up less than 0.7%.

Based on the five areas described above, the Budget and Legislative Analyst concurs that the Airport's proposed Plot 700 Project is fiscally feasible. Approval by the Board of Supervisors of the resolution would authorize the Airport to move forward with environmental review under CEQA.

FISCAL IMPACT

As discussed above, funding of the Plot 700 development project is contingent upon the approval by the Board of Supervisors of the issuance and appropriation of up to \$1,969,830,773 in Airport bonds (File 14-0237 and 14-0232). Annual debt service on the proposed bonds is paid from annual Airport operating revenues, which include annual payments to the Airport by the airlines under their lease agreements with the Airport, and Airport concession and other Airport revenues.

As a result of the Airport's "residual rate setting methodology" (a breakeven policy) 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 funded by increased annual payments by the airlines to the Airport under their lease agreements with the Airport.

RECOMMENDATION

Approve the proposed resolution contingent on Board of Supervisors approval of the pending resolution authorizing issuance of Airport revenue bonds (File 14-0237) and related supplemental appropriation (File 14-0232).

Items 4 and 5 Files 14-0232 and 14-0237	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution (File 14-0237) would authorize the San Francisco International Airport (Airport) to issue bonds of up to \$1,969,830,773 in aggregate principal amount to fund various projects in the Airport’s Capital Plan. • The proposed ordinance (File 14-0232) would (a) appropriate bond proceeds in the not-to-exceed amount of \$1,969,830,773 to fund various projects in the Airport’s Capital Plan and related reserves and other bond issuance costs; and (b) place the total appropriation of \$1,969,830,773 on Controller’s reserve pending the sale of the bonds. According to the proposed ordinance, the Airport may transfer funds between capital projects funded by the \$1,969,830,773 appropriation as long as the transfer of funds does not materially change the size and scope of the original project. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Airport has the authority to issue debt and use the proceeds to pay for the costs of construction as listed in the Five-Year Airport Capital Plan. The City’s Capital Planning Committee reviewed and approved a revised and updated 2014-19 Five-Year Airport Capital Plan on February 24, 2014. • The Airport currently has \$4,367,520,000 in outstanding debt, resulting in annual debt service of \$366,104,856 in FY 2013-14 • The proposed resolution would authorize the Airport to \$1,969,830,773 in Airport bonds including \$1,456,434,700 for capital project costs and \$513,396,073 for interest and related costs. • The proposed supplemental appropriation includes \$30,204,929 for the Plot 700 development project that includes the Ground Transportation Unit and Bus Maintenance Facility that cannot be completed until the Board of Supervisors approves (1) approves the resolution finding that the proposed Plot 700 development project is fiscally feasible (File 14-0222) currently before the Budget and Finance Subcommittee and (2) the subsequent environmental impact review as required by the California Environmental Quality Act (CEQA). 	

Fiscal Impact

- According to the estimates provided by Airport staff, the proposed Airport bonds will be sold with an interest rate of 6.12 percent over 30 years.¹ The Airport's first year debt service is estimated to be \$10,224,901 in FY 2014-15, with total debt service payments of \$4,376,700,326 over the full 30-year term² of the bonds of which \$1,952,905,000 is the principal amount and \$2,423,795,326 is the amount for interest and related costs

Recommendations

- Amend the proposed ordinance (File 14-0232) to place the requested appropriation of \$30,204,929 for the Plot 700 Development Project on Budget and Finance Committee reserve, pending approval by the Board of Supervisors of the CEQA findings for this project.
- Approve the proposed resolution (File 14-0237) and proposed ordinance (File 14-0232) as amended.

¹ The Airport will not know the actual interest rate until the day it issues the debt and which will vary depending on the overall economy and demand for municipal bonds.

² The Airport will issue the total amount of 30-year debt over the next approximately three years and estimates debt service payments for the next 33 years. Under the proposed resolution, the Airport must issue all debt by June 30, 2019.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Charter Section 4.115 states that the issuance of revenue bonds to fund Airport-related activities, as planned and approved by the Airport Commission, is subject to Board of Supervisors approval.

City Charter Section 9.105 states that the Board of Supervisors shall approve by ordinance all amendments to the Annual Appropriation Ordinance after the Controller certifies the availability of funds.

Background

Five-Year Airport Capital Plan

Under the City Charter, the San Francisco International Airport (Airport) has the authority to issue debt and use the proceeds to pay for the costs of construction as listed in the Five-Year Airport Capital Plan. The City's Capital Planning Committee reviewed and approved a revised and updated 2014-19 Five-Year Airport Capital Plan on February 24, 2014.

The Airport's Capital Plan includes 46 projects and focuses on improvements to: Airport terminals, runway safety, ground transportation, utilities and Airport support services. Proposed projects in the Five-Year Airport Capital Plan, totaling \$2,549,500,000, are funded by Airport bond proceeds, federal grants and Airport operating funds as shown in Table 1 below.

Table 1: Five Year Airport Capital Plan Sources of Funds and Projects

Sources of Funds	Five-Year Total
Bond Proceeds	\$2,417,600,000
Federal Grants	108,100,000
Operating Funds	23,800,000
Total Sources of Funds	2,549,500,000
Projects	
Terminal Improvements	\$1,477,900,000
Groundside Improvements	408,200,000
Airport Support Improvements	288,500,000
Airfield Improvements	226,000,000
Utilities Improvements	148,900,000
Total Projects	\$2,549,500,000

Outstanding Debt

Currently, the Airport has \$4,367,520,000 in outstanding debt³, resulting in annual debt service of \$366,104,856 in FY 2013-14. The Airport's annual debt service is funded by Airport operating revenues, including terminal concessions, ground transportation concessions and landing and rental fees charged to airlines, which are set according to the Airport's "residual rate-setting methodology". The breakeven policy is used by the Airport to guarantee sufficient funding for Airport operations, including debt service. Airlines agree to the Airport's residual rate-setting methodology in their leases with the Airport.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (File 14-0237) would authorize the Airport to issue bonds of up to \$1,969,830,773 in aggregate principal amount to fund various projects in the Airport's Capital Plan.

The proposed ordinance (File 14-0232) would (a) appropriate bond proceeds in the not-to-exceed amount of \$1,969,830,773 to fund various projects in the Airport's Capital Plan and related reserves and other bond issuance costs; and (b) place the total appropriation of \$1,969,830,773 on Controller's reserve pending the sale of the bonds. According to the proposed ordinance, the Airport may transfer funds between capital projects funded by the \$1,969,830,773 appropriation as long as the transfer of funds does not materially change the size and scope of the original project.

FISCAL IMPACT

File 14-0237

The proposed resolution would authorize the Airport to issue \$1,969,830,773 in Airport bonds, which includes \$1,456,434,700 in project costs and \$513,396,073 in related costs as shown in Table 2 below.

Table 2: Project Amount and Cost of Issuance Expenses

Project Amount	\$1,456,434,700
Related Costs	
Capitalized Interest Fund (20% of Project Amount)	295,037,686
Debt Service Reserve Fund (14% of Project Amount)	196,691,790
Cost of Issuance (1% of Project Amount)	18,753,728
Audit Costs (0.2% of Project Amount)	2,912,869
Subtotal, Related Costs	513,396,073
Total⁴	\$1,969,830,773

³ The \$4,367,520,000 is the total amount of outstanding principal. Including interest expenses, the Airport will pay \$6,505,395,384 in total debt service between June 30, 2015 and June 30, 2047.

⁴ The total amount of \$1,969,830,773 includes the issuances of principal debt in the amount of \$1,952,905,000 and an additional amount of \$16,925,773 pending sale of the bonds and including the amount for the Controller's audit.

- The capitalized interest fund provides for debt service on the Airport bonds, equivalent to approximately three years of debt service, prior to completion of the proposed projects and generation of revenues by these projects to service the bonds.
- The debt service reserve fund is a surety fund with cash that guarantees timely and complete debt service payments.
- Costs of issuance include fees and expenses of bond counsel, financial advisors, bond trustees, rating agency fees, consultant fees and other miscellaneous costs arising from the issuance of the bonds.
- Audit costs equal 0.2 percent of the project amount as required by City Charter Appendix F.113

According to the estimates provided by Airport staff, the proposed Airport bonds will be sold with an interest rate of 6.12 percent over 30 years.⁵ The Airport's first year debt service is estimated to be \$10,224,901 in FY 2014-15, with total debt service payments of \$4,376,700,326 over the full 30-year term⁶ of the bonds of which \$1,952,905,000 is the principal amount and \$2,423,795,326 is the amount for interest and related costs.⁷

File 14-0232

The proposed supplemental appropriation would fund \$1,456,434,700 in Airport Capital Plan project costs as detailed in Table 3 below.

⁵ The Airport will not know the actual interest rate until the day it issues the debt and which will vary depending on the overall economy and demand for municipal bonds.

⁶ The Airport will issue the total amount of 30-year debt over the next approximately three years and estimates debt service payments for the next 33 years. Under the proposed resolution, the Airport must issue all debt by June 30, 2019.

⁷ The proposed resolution provides for bond issuance of up to \$1,969,830,773. As shown in Attachment I, the Airport estimates actual issuance of \$1,952,905,000. The balance of \$16,925,773 consists of \$14,012,904 for a reserve pending sale of the Airport bonds to account for interest rate changes that may occur prior to the competitive sale; and \$2,912,869 in audit costs, which the Airport may fund with operating rather than bond revenues.

Table 3: Summary of Airport Projects Requested in the Supplemental Appropriation

Terminal Improvements	Description	Requested Amount
Terminal 1	Renovate Terminal 1 including adding a new 24-gate Boarding Area B	\$459,777,170
Terminal 3	Multiple projects to improve the heating, ventilation, and air-conditioning as well as improve passenger movements, seismic upgrades, and constructing a new Boarding Area F	224,637,390
Various	Other various projects	83,396,406
Subtotal Terminal Improvements		\$767,810,966
Groundside Improvements		
AirTrain System	Extending the AirTrain system from the rental car facilities to Parking Lot DD	75,700,000
Garage	Design and construct a second long-term garage	48,000,000
Plot 700 ¹	Bus Maintenance Facility	12,600,000*
Various	Other various projects	59,885,000
Subtotal Groundside		\$196,185,000
Airport Support Improvements		
Museum	Engineering and Museum Replacement	\$53,476,108
Air Traffic Control Tower	Includes demolishing and rebuilding a new air traffic control tower	25,501,500
South Field Redevelopment	Constructing new facilities	25,545,071
Information System	Ground transportation management system	20,266,000
Plot 700 ¹	Ground transportation unit relocation	17,604,929
Plot 2	Road realignment and parking reconfiguration	16,100,000
Hangar Improvements	Superbay Hangar Improvements	12,050,000
Various	Other various projects	91,938,020
Subtotal Airport Support Improvements		\$262,481,628
Airfield Improvements		
Runway Safety	Includes mandatory runway safety improvements, overlay and construction, and drainage and water system improvements	\$87,259,436
McDonnell Road	Move McDonnell Road to improve facilities	16,100,000
Terminal Gates	Improve terminal gates to accommodate A380	12,335,250
Various	Other various projects	17,255,150
Subtotal Airfield Improvements		\$132,949,836
Utilities Improvements		
Power and Lighting	Improve the electrical distribution system	\$20,833,750
Waste Treatment	Construct an industrial waste treatment plant	21,530,000
Various	Other various projects	54,643,520
Subtotal Utilities Improvements		\$97,007,270
Total Project Costs		\$1,456,434,700

¹Total of \$30,204,929 for the Plot 700 Development project.

The Attachment to this report provides more details of the capital projects funded by the proposed Airport bonds.

According to Mr. Bruce Robertson, Airport Acting Budget Manager, the proposed resolution and ordinance are being requested for approval by the Board of Supervisors at this time rather than with the Airport's annual budget submission, in order to provide funding for: (1) the construction of needed runway safety improvements that are required under federal law and which will require closing and renovating two of four runways starting in May 2014; and (2) the improvements of Terminal 1 and Terminal 3 for which the Airport has already begun to issue contracts with vendors.

According to Mr. Robertson, if the Board of Supervisors approves the proposed resolution and ordinance, the Airport anticipates issuing the first bond series through a competitive sale in the fall of 2014. Prior to the sale of the Airport bonds, the Airport will use short-term commercial paper⁸ to fund the capital project costs.

Plot 700 Fiscal Feasibility Study

The proposed appropriation includes \$30,204,929 in construction and design costs for Plot 700 Development Project⁹, which cannot be completed without additional Board of Supervisors actions.¹⁰ These actions include finding the project to be fiscally feasible in accordance with Administrative Code Chapter 29, and approval of environmental review findings in accordance with the California Environmental Quality Act (CEQA). The resolution finding the project to be fiscally feasible is currently before the Board of Supervisors and included in the Budget and Legislative Analyst's Office's report to the Budget and Finance Subcommittee on April 16, 2014 and is File 14-0222. The Budget and Legislative Analyst's Office recommends placing the requested appropriation of \$30,204,929 on Budget and Finance Committee reserve, pending approval by the Board of Supervisors of the related CEQA findings.

POLICY CONSIDERATION

Under the lease agreement between the Airport and the signatory airlines, the airlines make annual payments to the Airport after collecting the Airport's other revenues, including concession revenue, in order to fully fund Airport operations, including debt service. The Cost Per Enplaned Passenger (CPE) measures the average cost of airline operations at the Airport and is calculated by dividing the amount of the airlines' annual payment to the Airport by the estimated number passengers that will travel through the Airport.

⁸ Commercial paper is short-term debt with a maturity of 270 days.

⁹ The Plot 700 Development project includes: (1) the Ground Transportation Unit, which houses the ground transportation unit office, inspection bays, radio shop, car wash rack, and vehicular fuel station; and (2) the Bus Maintenance Facility, which houses the bus maintenance facility offices, maintenance bays, and clean natural gas fueling station.

¹⁰ The Plot 700 Development Project budget of \$30,204,929 includes \$12,600,000 for the Bus Maintenance Facility (shown in Table 3 above as a Groundside Improvement Project) and \$17,604,929 for the Ground Transportation Unit Relocation (shown in Table 3 above as an Airport Support Improvement projects).

According to Mr. Robertson, if the Board of Supervisors approves the proposed supplemental appropriation, the CPE will increase annually for airlines in order to provide sufficient funding for Airport operations and debt service as shown in Table 4 below.

Table 4: Anticipated Cost Per Enplaned Passenger

FY 2014-15	\$16.80
FY 2015-16	\$17.63
FY 2016-17	\$18.58
Annual Percentage Increase	5.16%

According to Mr. Robertson, increases in the CPE due to additional debt issuances will be offset in part by (1) anticipated increases in the number of enplanements and (2) anticipated increases in Airport concession revenues and other Airport revenues. The Airport estimates the number of enplanements to increase by approximately 1.8 percent annually from approximately 22,273,000 enplanements in FY 2012-13 to approximately 24,843,000 in FY 2018-19, which will offset the projected increase in the CPE. The Airport also estimates an increase in Terminal 1 concession revenues when Terminal 1 improvements are completed, which will also partially offset annual airline payments to the Airport and the increase in the CPE.

According to Mr. Robertson, in the event of a sudden decrease in enplanements, as was the case after the events of September 11, 2001, the Airport can interrupt or defer projects in the Capital Plan to reduce capital program costs and related debt service.

RECOMMENDATIONS

1. Amend the proposed ordinance (File 14-0232) to place the requested appropriation of \$30,204,929 for the Plot 700 Development Project on Budget and Finance Committee reserve, pending approval by the Board of Supervisors of the CEQA findings for this project.
2. Approve the proposed resolution (File 14-0237) and proposed ordinance (File 14-0232) as amended.

ATTACHMENT – Estimated Debt Service Including Bond Premium and the Amount Required for the Controller’s Audit Fund

Plot 700 Costs contingent upon approval of File 14-0222

Cost Center	Project Name	Supplemental Total
Terminal Improvements	Terminal 1: Temporary Boarding Area B & SSCP	\$107,859,362
Terminal Improvements	Terminal 1: South Field Checkpoint and Taxi lanes H&M Relocation	31,856,341
Terminal Improvements	Terminal 1: Utility & Technology Systems Improvements	34,000,000
Terminal Improvements	Terminal 1: Special & Security Systems	1,500,000
Terminal Improvements	Terminal 1: SAO & US CBP Office Relocations	4,513,432
Terminal Improvements	Terminal 1: Boarding Area B Redevelopment	159,261,385
Terminal Improvements	Terminal 1: Central Area	120,786,650
Terminal Improvements	Terminal 3 East Improvements	151,258,290
Terminal Improvements	Terminal 3: Boarding Area F Plaza Improvements	43,379,100
Terminal Improvements	Terminal 3: West Improvements	30,000,000
Terminal Improvements	Revenue Enhancement and Customer Hospitality (REACH) Program	22,725,000
Terminal Improvements	Passenger Processing Improvements	18,900,000
Terminal Improvements	Fire Alarm System Upgrade	13,200,000
Terminal Improvements	ITB PCA Replacement Project	10,100,000
Terminal Improvements	Air Traffic Control Tower Integrated Facilities: Airport Portion (9015.B)	6,846,406
Terminal Improvements	Air Traffic Control Tower Integrated Facilities: Delta Club (9015.C)	3,250,000
Terminal Improvements	Elevator and Escalator Renovation	3,200,000
Terminal Improvements	Energy Efficiency HVAC IGA Group 5	3,175,000
Terminal Improvements	Terminal 3 to Terminal 2 Secure Connector Study	2,000,000
Terminal Improvements Total		\$767,810,966
Airport Support Improvements	Engineering and Museum Replacement	53,476,108
Airport Support Improvements	Plot 700: Ground Transportation Unit Relocation	17,604,929
Airport Support Improvements	Southfield redevelopment	25,545,071
Airport Support Improvements	Demo ATCT and Office Tower Modifications	25,501,500
Airport Support Improvements	Ground Transportation Management System	20,266,000
Airport Support Improvements	Plot 2 Aircraft Parking Reconfiguration and South McDonnell Road Realignment	16,100,000
Airport Support Improvements	Superbay Hangar Improvements	12,050,000
Airport Support Improvements	FAA Air Traffic Control Tower (ATCT) (9015.A)	12,000,000
Airport Support Improvements	Airport Shoreline Protection Improvements	10,000,000
Airport Support Improvements	BHS Replacement/Upgrade	9,732,520
Airport Support Improvements	Building 900 Improvements	7,500,000

Airport Support Improvements	Airport Wide Lighting Retrofit	7,050,000
Airport Support Improvements	Building 944 Imps	7,000,000
Airport Support Improvements	Airport Support System Improvements	5,755,000
Airport Support Improvements	Network Security Improvements	5,367,000
Airport Support Improvements	Fire Equipment Replacement Program (ARFF, Multi-Casualty Units, HazMat Trailer)	5,053,000
Airport Support Improvements	Building 710 Improvements	5,030,000
Airport Support Improvements	Emergency Response Facilities Improvements	4,900,000
Airport Support Improvements	Network Expansion and Improvements	3,960,000
Airport Support Improvements	CCTV Migration to Internet Protocol (IP)	2,500,000
Airport Support Improvements	Capital Equipment	2,353,850
Airport Support Improvements	RAC First Floor Remodel	1,500,000
Airport Support Improvements	ITB Conference Center	1,150,000
Airport Support Improvements	Access Control System Study	1,086,650
Airport Support Improvements Total		\$262,481,628
Groundside Improvements	AirTrain Extension	67,700,000
Groundside Improvements	Second Long Term Parking Garage	48,000,000
Groundside Improvements	Central Garage Elevator, Generator and Infrastructure Improvements	24,000,000
Groundside Improvements	Shuttle Bus Maintenance Facility	12,600,000
Groundside Improvements	Central Garage CO Monitoring System Replacement	11,000,000
Groundside Improvements	Terminal Upper Level Viaduct Resurfacing Phase III	10,600,000
Groundside Improvements	AirTrain Control Systems Upgrade	8,000,000
Groundside Improvements	Variable Message Signs Replacement	4,950,000
Groundside Improvements	North Link Road Traffic Signal Improvements	3,500,000
Groundside Improvements	Lot D & 710 Parking Improvements	2,800,000
Groundside Improvements	West Field Garage Top Level Repairs and Coating	2,500,000
Groundside Improvements	Domestic Terminals Lower Level Crosswalk Lighting	535,000
Groundside Improvements Total		\$196,185,000
Airfield Improvements	Runway Safety Improvements R/W 1-19 Paving and Lighting	66,259,436
Airfield Improvements	Runway 28L-10R Overlay and Reconstruction	21,000,000
Airfield Improvements	Plot 2 Aircraft Parking Reconfiguration and South McDonnell Road Realignment	16,100,000
Airfield Improvements	Boarding Area G A380 Improvements, Phase B	5,000,000
Airfield Improvements	Foreign Object Debris (FOD) Detection System	4,000,000
Airfield Improvements	International Terminal A380 Improvements	7,335,250
Airfield Improvements	Safedock Advanced Visual Docking Guidance System (A-VDGS)	3,800,000
Airfield Improvements	Airfield Signage Upgrade Phase A	3,200,000
Airfield Improvements	Taxiway Z1 Blast Deflector	3,000,000
Airfield Improvements	Pavement and Drainage Improvements	2,075,000
Airfield Improvements	Airfield Fire Hydrant Improvements	1,180,150

Airfield Improvements Total		\$132,949,836
Utilities Improvements	Industrial Waste Treatment Plant Construction	21,530,000
Utilities Improvements	Power & Lighting Improvement Program	20,833,750
Utilities Improvements	Central Plant Improvement Program	18,761,448
Utilities Improvements	Recycled Water Distribution Pipeline	18,668,000
Utilities Improvements	Wastewater Improvement Program	10,020,072
Utilities Improvements	Storm Drain Improvement Program	4,576,000
Utilities Improvements	Water System Improvement Program	2,618,000
Utilities Improvements Total		\$97,007,270
Grand Total		\$1,456,434,700

Item 6 File 14-0225	Department: San Francisco Municipal Transportation Authority (SFMTA)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the SFMTA to enter into an agreement with Titan Outdoor LLC (Titan) to provide advertising on SFMTA vehicles and other property for a term of five years. SFMTA would also have two five-year options to extend the contract. <p>Key Points</p> <ul style="list-style-type: none"> • In 2009, the City entered into an agreement with Titan to provide advertising on SFMTA vehicles and other property for a five-year term, which expires on June 30, 2014. SFMTA issued an RFP on October 16, 2013 to solicit a new advertising contract, and SFMTA received three proposals, two of which met the minimum qualifications. After undergoing review, Titan’s proposal received a score of 383, and CBS Outdoor’s proposal received a score of 334.1, out of 400; and SFMTA awarded the advertising agreement to Titan. • The proposed agreement differs from the previous agreement in that it would allow full window wraps on 15-30 buses, whereas only 15 window wraps on buses are currently permitted. • The proposed agreement also allows for advertising to be negotiated in the Central Subway upon its completion. Any modification to the agreement that includes an increase in the Minimum Annual Guarantee (MAG) is subject to Board of Supervisors approval in accordance with Charter Section 9.118(a). <p>Fiscal Impact</p> <ul style="list-style-type: none"> • Under the proposed agreement, Titan will pay SFMTA the greater of (a) 65% of its gross advertising revenues; or (b) a MAG of \$5,400,000 in the first year of the agreement, increasing annually by \$150,000 per year. Titan will also pay the SFMTA an annual administrative fee of \$150,000 and annual marketing support of \$150,000, payments which will escalate annually according to the Consumer Price Index of the Bay Area. resulting in minimum first year revenue of \$5,700,000. • The minimum revenue to the SFMTA over the initial five-year term of the agreement is \$30,000,000, including the MAG, and administrative and marketing fees. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Charter Section 9.118(a) states that agreements entered into by a department, board or commission that will generate revenue in excess of \$1 million, or any modification of that agreement, is subject to Board of Supervisors approval.

Background

In 2009, based on a competitive Request for Proposals (RFP), the Board of Supervisors approved an agreement between the San Francisco Municipal Transportation Agency (SFMTA) and Titan Outdoor LLC (Titan) for advertising on SFMTA vehicles and other SFMTA property for a term of five years from July 1, 2009 through June 30, 2014 (File 09-0633). On October 16, 2013, the SFMTA Board of Directors authorized the issuance of a competitive RFP for a new agreement for these services that would commence on July 1, 2014, following the termination of the existing agreement on June 30, 2014.

The SFMTA received three proposals, two of which were responsive to the minimum qualifications set forth in the RFP. The qualifications included a minimum of three years of advertising experience in the transit advertising business, a corporate net worth of \$25,000,000 for the last three years, and a demonstration of financial stability. Other criteria pertained to experience, quality of the proposals and amount to be paid to the SFMTA. The SFMTA conducted an evaluation of Titan and CBS Outdoor, the proposers that submitted the responsive proposals. Titan received the highest score, as shown in Table 1 below.

Table 1: Name of Advertising Business and Total Score Received

Name of Advertising Business	Score (Out of 400)
Titan Outdoor LLC (Titan)	383
CBS Outdoor	334.1

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize SFMTA to execute a new transit advertising agreement with Titan for an initial five-year term, from July 1, 2014, through June 30, 2019. Titan would be required to pay SFMTA a Minimum Annual Guarantee (MAG) of \$5,400,000 for the first year. The MAG would increase by the Consumer Price Index (CPI) in each subsequent year. The agreement includes two five-year options to extend, for a total term up to 15 years. Table 2 below shows a comparison of the provisions under the proposed and current agreements with Titan.

Table 2: Summary of Differences between Current Agreement and Proposed Agreement

Requirement	Current Agreement	Proposed Agreement
Initial Contract Term	Five years July 1, 2009 through June 30, 2014	Five years July 1, 2014 through June 30, 2019
Options to Extend	None	Two 5-year options through June 30, 2029, for a total contract term of up to 15 years
Minimum Annual Guarantee (MAG)	\$4,000,000 for first year	\$5,400,000 for first year
Annual Increase in MAG	5% per year	\$150,000 per year (2.8% in the first year)
Administrative Fee	None	\$150,000 per year, adjusted annually by the Consumer Price Index (CPI)
Marketing Fee	None	\$150,000 per year, adjusted annually by the CPI
Revenue (Percentage of gross advertising revenue if greater than the MAG)	65% of gross advertising revenues	65% of gross advertising revenues
Window Wraps	15 at any one time	15-30 at discretion of the Director of Transportation
Central Subway advertising program	None	To be negotiated, including the revenues payable to the SFMTA, before the opening of Central Subway as an amendment to the agreement, subject to approval by the Board of Supervisors
Corporate Sponsorships/ Naming Rights	If exercised, would be a contract amendment	None
Letter of Credit	100% of MAG	75% of MAG
Security Fund	\$250,000	\$150,000
Hire Trainees	None	Minimum of two trainees

Advertising Provisions in the Proposed Agreement between SFMTA and Titan

The proposed agreement differs in several ways from the current agreement. Key activities, requirements and changes are highlighted below.

Window Wraps and Non-Window Coverings

Under the current agreement, SFMTA allows full wraps of vehicles with windows covered (“window wraps”) on not more than 15 vehicles at any one time. The proposed agreement allows window wraps on at least 15 vehicles to not more than 30. The number of window wraps for the first fiscal year of the proposed agreement will be 30. The calculated MAG assumes the continuation of a minimum of 15 window wraps. If the Board of Supervisors does not approve a program of at least 15 window wraps, then the MAG will be decreased by \$325,000 for each fiscal year of the agreement.

The SFMTA also intends to continue a program of non-window coverings, which cover the body of the vehicles but not windows. The total number of window wraps and non-window coverings together will not exceed 20% of the SFMTA’s transit vehicles at any one time. Cable cars and historic vehicles will not receive any window wraps or non-window coverings. The number of window wraps and the approval of the window wraps program do not affect the number of advertisements on transit vehicles that can partially cover windows, which are not limited.

The SFMTA reports that the quality of the material for window wraps has improved throughout the term of the existing contract and that visibility has improved. The SFMTA has provided a video which illustrates this point.¹ In addition, Titan is responsible for maintaining all of the advertisements, including cleaning off all graffiti and/or replacing the defaced advertisements and addressing all vandalism. In the case of the window wraps, this means that Titan is responsible for the maintenance of the entire outside of the wrapped vehicle.

Central Subway

The proposed agreement includes a provision that enables the SFMTA to include an advertising program in the new Central Subway stations and tunnel after their completion. If exercised, the SFMTA and Titan will negotiate the increased amounts to the MAG payable by Titan to the SFMTA over the remaining term of the agreement. Any modification to the proposed agreement regarding the Central Subway would be subject to Board of Supervisors approval in accordance with Charter Section 9.118(a).

¹ The video can be found here: <http://www.youtube.com/watch?v=y5YAVI2HyE8>

SFMTA Property; Other Property; Limitations on Advertising Displays

The following SFMTA property is available for advertising under the agreement: transit vehicles, parking garages (including those under the jurisdiction of the Recreation and Park Department), transit stations, other SFMTA facilities, and fare and parking media. Only interior advertisements are allowed on historic streetcars, and all advertisements on cable cars and historic vehicles must be in conformity with the character, style, and design of such vehicles. Titan may place digital advertising on up to 20 percent of the SFMTA's transit vehicles at any one time, excluding cable cars and historic streetcars. The SFMTA will be able to override digital advertising with emergency signage.

Performance Requirements and Security Deposits

Titan will provide a letter of credit for 75% of the MAG each fiscal year for the duration of the agreement. The SFMTA may draw on the letter of credit in the event that a) Titan fails to pay the SFMTA the annual required revenues due to the SFMTA under the proposed agreement, b) there is a failure to replenish the Security Fund, or c) termination of the agreement due to a default by Titan. Titan will also provide a Security Fund in the amount of \$150,000 to guarantee the performance of obligations not covered under the letter of credit. Titan has provided the SFMTA with a bid security check for \$1,000,000 to secure its proposal. If Titan fails to execute the agreement and furnish the required letter of credit and insurance certificates, then the SFMTA will keep the \$1,000,000 as compensation for damages sustained by the SFMTA. The SFMTA would return the bid security check to Titan upon final approval of the agreement.

Termination

The SFMTA may terminate the agreement for default or convenience. The SFMTA may also partially terminate advertising rights with respect to any category of advertising space, other than transit vehicles, that Titan does not sell over a period of 60 days unless Titan demonstrates to the SFMTA that it intends to sell advertising on that space even though it has been unable to previously do so.

FISCAL IMPACT

Under the proposed agreement, Titan is required to pay the SFMTA the greater of (a) 65% of its gross advertising revenues or (b) the MAG. The MAG for the first year of the agreement is \$5,400,000, which is \$537,975, or 11 percent, more than the MAG for the final year of the existing agreement, \$4,862,025. The MAG is subject to annual CPI adjustments over the remaining term of the agreement. Titan is also required to pay the SFMTA an annual administrative fee of \$150,000 and an annual marketing fee of \$150,000, payments which will escalate annually according to the CPI of the Bay Area.

As shown in Table 3 below, the total MAG payable by Titan to SFMTA over the initial five-year term of the agreement is \$28,500,000, and the total minimum revenues payable to SFMTA by Titan over the entire five-year period is \$30,000,000.

Table 3: Minimum Annual Guarantee and Fees Payable by Titan to SFMTA during Initial 5-Year Term

Fiscal Year	MAG	Administrative Fee ¹	Marketing Fee ¹	Total
2014-15	\$5,400,000	\$150,000	\$150,000	\$5,700,000
2015-16	5,550,000	150,000	150,000	5,850,000
2016-17	5,700,000	150,000	150,000	6,000,000
2017-18	5,850,000	150,000	150,000	6,150,000
2019-20	6,000,000	150,000	150,000	6,300,000
TOTAL	\$28,500,000	\$750,000	\$750,000	\$30,000,000

¹ Does not include annual CPI adjustments.

According to Ms. Gail Stein, SFMTA Finance Manager, the SFMTA will receive a \$150,000 increase annually in the MAG under the proposed agreement which differs from the existing agreement in which SFMTA received 5% annual increases in the MAG. The SFMTA accepted this change for two reasons: (1) As previously noted, the initial MAG of \$5,400,000 in the new agreement is \$537,975 more, or 11 percent, than the final year, 2013-2014 MAG in the existing agreement; and (2) the proposed new agreement includes an additional \$300,000 per year in fees escalated by Bay Area CPI to cover SFMTA administrative costs (\$150,000) and marketing costs (\$150,000) which were not received under the existing contract. Therefore, the SFMTA believes that the provisions under the proposed new agreement structure will result in more certainty and additional revenues to the SFMTA than the existing agreement.

Under the existing 5-year agreement between SFMTA and Titan, the revenues paid by Titan to the SFMTA exceeded the MAG in every year as shown in Table 4 below.

Table 4: Payments by Titan to SFMTA FY 2009-10 through FY 2013-14

Fiscal Year	MAG	65% of Gross Revenues
2009-2010	\$4,000,000	\$4,219,066
2010-2011	\$4,200,000	\$5,112,527
2011-2012	\$4,410,000	\$4,758,319
2012-2013	\$4,630,500	\$5,799,660
2013-2014 (through February 2014)*	\$4,862,025	\$3,806,298

*The SFMTA estimates that the percentage of gross revenues payable by Titan to the SFMTA will exceed the MAG for Fiscal Year 2013-2014 by at least \$500,000.

RECOMMENDATION

Approve the proposed resolution.