

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

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October 22, 2015

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: October 28, 2015 Budget and Finance Committee Meeting

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Item 1 File 15-0869	Department: Department of Public Health (DPH)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the first amendment to the agreement between DPH and Healthright360 to (1) increase the total not-to-exceed amount by \$69,156,836 from \$37,355,006 to \$106,511,842, and (2) exercise all three one-year options to extend the agreement for a total of three years from June 30, 2016 to June 30, 2019. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Department of Public Health (DPH) entered into an agreement with Asian American Recovery Services, Inc. (AARS) in 2009, for AARS to provide fiscal intermediary check-writing services to pay non-contracted vendors for the provision of services required by DPH health service providers who cannot directly receive payments for services from third party payers, such as Medi-Cal, Medicare, and private insurance companies. • AARS merged with Healthright360 in 2013. DPH drafted a new agreement with Healthright360 in 2013, using the remaining funds from the AARS contract for a total not-to-exceed amount of \$37,355,006. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Actual and estimated expenditures under the agreement between DPH and Healthright360 from December 31, 2013 through June 30, 2016 are \$38,192,281. • DPH would like to reduce the requested increase in the total not-to-exceed amount by \$14,170,866 from \$69,156,836 to \$54,985,970. As a result, the total agreement not-to-exceed amount is reduced by \$14,170,866 from \$106,511,842 to \$92,340,976. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to change lines 7-9 on page 1 from “and increasing the total contract amount by \$69,156,836 from \$37,355,006 for a total contract amount of \$106,511,842 for a ten year term of July 1, 2009, through June 30, 2019” to “and increasing the total contract amount by \$54,985,970 from \$37,355,006 for a total contract amount of \$92,340,976 for a term of 5 years and 6 months from December 31, 2013 through June 30, 2019.” • Amend the proposed resolution to change line 11 on page 1 from “WHEREAS, This contract is proposed to be in the amount of \$48,066,391, thus” to “WHEREAS, This contract is proposed to be in the amount of \$92,340,976, thus” • Amend the proposed resolution to change lines 24 and 25 on page 1 from “contract amount by \$10,711,385 from \$37,355,006 for the term of July 1, 2009, through June 30, 2016, for a total contract amount of \$48,066,391 for seven (7) years;” to “contract amount by \$54,985,970 from \$37,355,006 for a total contract amount of \$92,340,976 for a term of 5 years and 6 months from December 31, 2013, through June 30, 2019.” • Approve the proposed resolution as amended. 	

MANDATE STATEMENT

City Charter Section 9.118(b) states that agreements entered into by a department, board, or commission having a term of (a) more than 10 years; (b) anticipated expenditures of \$10 million or more; or (c) modifications to these agreements of more than \$500,000, require Board of Supervisors approval.

BACKGROUND

The Department of Public Health (DPH) entered into an agreement with Asian American Recovery Services, Inc. (AARS) in 2009, following a competitive selection process. This agreement was for AARS to provide fiscal intermediary check-writing services to pay non-contracted vendors for the provision of services required by DPH health service providers who cannot directly receive payments for services from third party payers, such as Medi-Cal, Medicare, and private insurance companies. Subsequently, AARS merged with Healthright360 in 2013.

The existing agreement between DPH and Healthright360 is for a not-to-exceed amount of \$37,355,006. The term of the existing agreement is for two years and six months from December 31, 2013 through June 30, 2016 with three one-year options to extend through June 30, 2019.

Under the existing agreement, Healthright360 serves as a fiscal intermediary providing reimbursement for the following services:

- Therapists serving San Francisco Medi-Cal beneficiaries and eligible San Francisco Mental Health Plan members, who reside in other California counties, or have emergency or urgent care needs while outside of San Francisco;
- Residential Care Facilities, a network of licensed mental health facilities that provide 24-hour services to eligible mental health clients;
- Mental health wrap around services for mental health clients, including emergency housing and food, transportation, clothing, and vocational training; and
- Emergency stabilization housing services for homeless clients with special medical and behavioral needs.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the first amendment to the agreement between DPH and Healthright360 to (1) increase the total not-to-exceed amount by \$69,156,836 from \$37,355,006 to \$106,511,842, and (2) exercise all three one-year options to extend the agreement for a total of three years from June 30, 2016 to June 30, 2019.¹

¹ Healthright360 receives reimbursement for fiscal intermediary check-writing services of approximately \$80,000 per year based on a fee of \$22 per check. The balance of agreement expenditures is paid to service providers.

The proposed resolution contains a number of errors regarding the requested not-to-exceed amount of the agreement, and the agreement term. The Budget and Legislative Analyst recommends several amendments to the proposed resolution to correct these errors.

FISCAL IMPACT

Actual and estimated expenditures under the agreement between DPH and Healthright360 from December 31, 2013 through June 30, 2016 are \$38,192,281, as shown in Table 1 below.

Table 1. Actual and Estimated Agreement Expenditures from December 31, 2013 through June 30, 2016

	Total
December 31, 2013 - June 30, 2014	\$5,836,543
July 1, 2014 - June 30, 2015	13,927,054
July 1, 2015 - June 30, 2016 (est.)	17,385,551
Contingency ²	1,043,133
Total	\$38,192,281

Source: Department of Public Health

According to Ms. Michelle Ruggels, Director of DPH Business Office, DPH would like to amend the proposed resolution to reduce the requested increase in the total not-to-exceed amount by \$14,170,866 from \$69,156,836 to \$54,985,970. As a result, the total agreement not-to-exceed amount is reduced by \$14,170,866 from \$106,511,842 to \$92,340,976, as shown in Table 2 below.

Table 2. Projected Agreement Expenditures over Three-Year Extension Period from FY 2016-17 through FY 2018-19

Fiscal Year	Total Expenses
FY 2016-2017	\$16,115,683
FY 2017-2018	16,115,683
FY 2018-2019	16,115,683
Contingency Funds (12%)	<u>5,801,646</u>
Total Project Expenditures	\$54,148,695
Total Actual Expenditures (see Table 1 above)	<u>38,192,281</u>
Total Revised Not-to-Exceed Amount	\$92,340,976
Less Existing Not-to-Exceed Amount	<u>(37,355,006)</u>
New Total Requested Increased Amount	\$54,985,970

Source: Department of Public Health

² DPH policy is to include a 12 percent contingency in each agreement. In Table 2, the contingency is estimated to be 12 percent of the remaining expenditures in FY 2015-16.

RECOMMENDATIONS

1. Amend the proposed resolution to change lines 7-9 on page 1 from “and increasing the total contract amount by \$69,156,836 from \$37,355,006 for a total contract amount of \$106,511,842 for a ten year term of July 1, 2009, through June 30, 2019” to “and increasing the total contract amount by \$54,985,970 from \$37,355,006 for a total contract amount of \$92,340,976 for a term of 5 years and 6 months from December 31, 2013 through June 30, 2019.”
2. Amend the proposed resolution to change line 11 on page 1 from “WHEREAS, This contract is proposed to be in the amount of \$48,066,391, thus” to “WHEREAS, This contract is proposed to be in the amount of \$92,340,976, thus”
3. Amend the proposed resolution to change lines 24 and 25 on page 1 from “contract amount by \$10,711,385 from \$37,355,006 for the term of July 1, 2009, through June 30, 2016, for a total contract amount of \$48,066,391 for seven (7) years;” to “contract amount by \$54,985,970 from \$37,355,006 for a total contract amount of \$92,340,976 for a term of 5 years and 6 months from December 31, 2013, through June 30, 2019.”
4. Approve the proposed resolution as amended.

Item 2 File 15-0938	Department: Office of the Treasurer-Tax Collector (OTTC)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the City’s Office of the Treasurer/Tax Collector to execute an agreement with the State Board of Equalization (BOE) for implementation of the Local Prepaid Telephony Services Collection Act. <p>Key Points</p> <ul style="list-style-type: none"> • AB 1717, passed by the California State Assembly in September 2014, established the Local Prepaid Mobile Telephony Services Collection Act, which transfers responsibility for collecting taxes for local prepaid mobile telephone services from local jurisdictions to the BOE. • In FY 2014-15, the Office of the Treasurer/Tax Collector collected a combined total of \$101,746,619 for the Telephone Utility Users Tax and the Access Line Tax from suppliers of mobile telephone services, VoIP services, and landline services in the City. • Approximately 50 percent of these revenues are assumed to be collected from users of mobile services. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • Collection of taxes for prepaid mobile services by the BOE is contingent on passage of the proposed resolution and a separate determination by the BOE that the City’s Telephone Utility Users Tax and the Access Line Tax apply to prepaid mobile telephone services. Contingent on these factors, the Controller’s Office estimates that implementation of AB 1717 will likely result in a range from a low of \$2.5 million to a high of \$5 million in additional annual tax revenue over the term of the Local Prepaid Telephony Services Collection Tax. • Assuming that the Local Prepaid Telephony Services Collection Tax is repealed on January 1, 2020, implementation of AB 1717 could result in additional City General Fund revenues of approximately \$10 million to \$20 million over the four-year term of the agreement. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Charter Section 9.118(a) states that agreements entered into by a department, board, or commission that have anticipated revenues of \$1 million or more are subject to Board of Supervisors approval.

BACKGROUND

In November 2008, the voters of the City and County of San Francisco (the City) approved Proposition O, which authorized the City to expand collection of its Access Line Tax and Telephone Utility Users Tax to mobile telephone services and voice over internet protocol (VoIP) services to address dwindling revenues from decreasing use of landline telephones. Since then, the City's Office of the Treasurer/Tax Collector has collected the Telephone Utility Users Tax and the Access Line Tax from suppliers of mobile telephone services, VoIP services, and landline services.¹ The Telephone Utility Users Tax rate is 7.5 percent of charges for telephone communication services. The Access Line Tax is currently charged at a monthly rate of \$3.09 per access line and is adjusted annually.

In FY 2014-15, the Office of the Treasurer/Tax Collector collected a combined total of \$101,746,619 for the Telephone Utility Users Tax and the Access Line Tax from suppliers of mobile telephone services, VoIP services, and landline services in the City. According to Mr. Drew Murrell, Revenue Manager in the Controllers' Office of Budget & Analysis, approximately 50 percent² of these revenues are assumed to be collected from users of mobile services.

In September 2014, the California State Legislature passed Assembly Bill (AB) 1717, which established the Local Prepaid Mobile Telephony Services Collection Act (Local Prepaid Act). Adoption of the State's Local Prepaid Act precludes the City from collecting the Telephone Utility Users Tax and the Access Line Tax from prepaid mobile users after January 1, 2016. At that time, responsibility for collecting taxes for local prepaid mobile telephone services will transfer to the State Board of Equalization (BOE), which will then allocate the share of tax revenues owed to San Francisco.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the City's Office of the Treasurer/Tax Collector to execute an agreement with the BOE for implementation of the Local Prepaid Telephony Services Collection Act in order that the City receives its correct share of the prepaid mobile Telephone Utility Users Tax and the Access Line Tax revenues from the State.

The term of the agreement will be approximately four years, from the first day of the calendar quarter following approval of the agreement between the City and the BOE (either January 1, 2016 or April 1, 2016) through January 1, 2020, when the Local Prepaid Act is scheduled for

¹ Residential landline telephone services are exempt from the Telephone Utility Users Tax in San Francisco.

² Mr. Murrell advises that tax receipts do not currently indicate the type of user. The 50 percent estimate is based on observations in other localities and may be somewhat higher or lower in San Francisco.

repeal. If the repeal date is extended by the State Legislature, this agreement will continue through the new date authorized by the State.

FISCAL IMPACT

Collection of taxes for prepaid mobile services by the BOE is contingent on passage of the proposed resolution and a separate determination by the BOE that the City's Telephone Utility Users Tax and the Access Line Tax apply to prepaid mobile telephone services. Contingent on these factors, the BOE will collect the Telephone Utility Users Tax at a rate of 7.5 percent of charges for telephone communication services and the Access Line Tax will be collected at a new rate of 6.3 percent of service charges for access lines. The Telephone Utility Users Tax rate will remain unchanged from the current rate collected by the City's Office of the Treasurer/Tax Collector and the Access Line Tax will be converted from the monthly rate of \$3.17 per access line collected by the City's Office of the Treasurer/Tax Collector to 6.3 percent of service charges per line.

Some municipal government consulting firms estimate that implementation of AB 1717 will result in higher mobile Telephone Utility Users Tax and Access Line Tax revenues by capturing additional retail sales of prepaid mobile telephone services. For example, MuniServices, a municipal revenue enhancement consulting firm, estimates that AB 1717 will increase average revenues by approximately 20 percent to local jurisdictions in California. However, according to Ms. Amanda Fried, Policy and Legislative Manager in the Office of the Treasurer/Tax Collector, the City has expanded its audit and enforcement efforts to increase compliance with the Telephone Utility Users Tax and Access Line Tax for prepaid mobile services. Such enhanced audit and enforcement activities will likely reduce the increase in tax revenue that the City can expect as a result of AB 1717.

Mr. Murrell advises that the Controller's Office estimates that as a result of AB 1717, Telephone Utility Users Tax and Access Line Tax revenues from prepaid mobile collections in San Francisco will increase by less than 10 percent. Assuming that approximately 50 percent of San Francisco's revenues are from mobile services, implementation of AB 1717 is estimated to result in additional Telephone Utility Users Tax and Access Line Tax revenues received by the City of up to \$5 million annually.

The maximum estimated annual increase in collections is equal to the FY 2014-15 collections multiplied by the percentage of tax collections from mobile services multiplied by the estimated increase in prepaid mobile collections, or \$101,746,619 times 50 percent times 10 percent. Therefore, the maximum estimated annual increase in collections is \$5,087,331.

According to Mr. Murrell, it is not known how much the BOE will deduct from collections for their administrative expenses incurred in collection of the taxes. MuniServices estimates that the administrative fee deductions will likely be between 6 and 8 percent of collections for the City, or approximately \$305,240 to \$406,986 of the maximum estimated annual increase in collections of \$5,087,331. Therefore, if the City receives the maximum amount of \$5,087,331 annually in additional Telephone Utility Users Tax and Access Line Tax revenues, it is estimated the City will receive between \$4,680,345 and \$4,782,091 annually in adjusted tax revenues as a result of AB 1717. However, given the uncertainty about the actual amount of additional

prepaid mobile collections and the high-end estimate provided above, the Controller's Office estimates that implementation of AB 1717 will likely result in a range from a low of \$2.5 million to a high of \$5 million in additional annual tax revenue over the term of the Local Prepaid Tax. Therefore, assuming that the Local Prepaid Tax is repealed on January 1, 2020, implementation of AB 1717 could result in additional City General Fund revenues totaling \$10 million to \$20 million over the four-year term of the agreement.

RECOMMENDATION

Approve the proposed resolution.

Item 3 File 15-0953	Departments: Public Utilities Commission (SFPUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve a new long-term interconnection agreement between the SFPUC and the Port of Oakland for a not-to-exceed amount of \$8,000,000 and for a term of 20 years. The terms of the proposed interconnection agreement would be effective upon Board of Supervisors approval. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Since 1997, the SFPUC has continued to provide utility services to Treasure Island and portions of Yerba Buena Island, on behalf of the Treasure Island Development Authority, which includes the operation and maintenance of the water, waste water, storm water, electric and gas systems. • To provide electricity, SFPUC purchases power from the U.S. Department of Energy's Western Area Power Administration and entered into an Interconnection Agreement with the Port of Oakland in September 1998 to use the Davis Substation, an electric transmission facility owned and operated by the Port of Oakland. This Interconnection Agreement expired in May 2015 and has been extended on a month-to-month basis. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • SFPUC paid the Port of Oakland a total of \$32,706 during the most recent year to provide electricity to Treasure Island and portions of Yerba Buena Island. The proposed agreement would require SFPUC to pay \$125,000 for the first year, an increase of \$92,294 or 282.2 percent. Each year, this cost would increase by the consumer price index, which is estimated at 3 percent, resulting in an average estimated annual cost of \$167,940. • Based on the provisions in the proposed Interconnection Agreement, SFPUC would pay the Port of Oakland a total of approximately \$6,926,589 over the 20-year period to provide electricity to Treasure Island and portions of Yerba Buena Island and to pay for related expenses. • Therefore, the proposed not-to-exceed agreement amount of \$8,000,000 should be reduced by \$1,000,000 to approximately \$7,000,000 (\$6,926,589 rounded). <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to decrease the requested total not-to-exceed agreement amount by \$1,000,000 from \$8,000,000 to \$7,000,000. • Approve the proposed resolution as amended. 	

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

In 1993, the Federal Base Realignment and Closure Commission agreed to close and dispose of the U.S. Naval Station Treasure Island, consisting of Treasure Island and certain portions of Yerba Buena Island.¹ The Department of Defense subsequently designated the City and County of San Francisco (City) as the Local Reuse Authority responsible for converting the naval station under the federal disposition process.

The City entered into a Base Caretaker Cooperative Agreement (Cooperative Agreement) with the United States Department of the Navy (Navy) in 1997 to temporarily manage the naval station during the disposition process. Under the Cooperative Agreement, the City assumed the following responsibilities.

- 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 repairs; and
- iv. Property management and caretaker services.

The Treasure Island Development Authority assumed these responsibilities in 1998.² However, since 1997, the City's Public Utilities Commission (SFPUC) has continued to provide utility services to the naval station, on behalf of the Treasure Island Development Authority. These utility services include the operation and maintenance of the water, waste water, storm water, electric and gas systems.

SFPUC purchases low-cost Federal National Defense Act power from the U.S. Department of Energy's Western Area Power Administration (WAPA) to provide electricity. To deliver WAPA electricity to Treasure Island and portions of Yerba Buena Island, SFPUC entered into an Interconnection Agreement with the Port of Oakland in September 1998 to use the Davis Substation, which is an electric transmission facility owned and operated by the Port of Oakland.³

In 2008, the City of Oakland entered into an agreement with the Port of Oakland to also use the Davis Substation.⁴ The Port of Oakland subsequently completed an assessment of historical

¹ The Commission acted under Public Law 101-510.

² The Treasure Island Development Authority is a non-profit, public benefit agency dedicated to the economic development of former Naval Station Treasure Island.

³ The 1998 Interconnection Agreement provides the delivery point for WAPA power and the use of at least 33 percent of the Davis Substation capacity.

⁴ In October 2008, the Oakland Army Reserve Base was conveyed from the Army to the City of Oakland.

costs of operating and maintaining the Davis Substation and determined that expenses exceeded the payments made by the City under the 1998 Interconnection Agreement.

DETAILS OF PROPOSED LEGISLATION

The original 1998 Interconnection Agreement, between the SFPUC and the Port of Oakland, under which the SFPUC provides electricity to Treasure Island and portions of Yerba Buena Island, expired in May 2015 and has been extended on a month-to-month basis. This termination resulted from the first transfer of property from the Navy to the City, and then to the Treasure Island Development Authority, which terminated the Cooperative Agreement between the City and County of San Francisco and the Navy on the portions of the property already transferred.⁵

In order for the SFPUC to continue to provide electricity to Treasure Island and portions of Yerba Buena Island, the proposed resolution would approve a new 20-year interconnection agreement between the SFPUC and the Port of Oakland for a not-to-exceed amount of \$8,000,000.

FISCAL IMPACT

As shown in Table 1 below, based on the provisions contained in the agreement, SFPUC would pay the Port of Oakland a total of approximately \$6,926,589 over the proposed 20-year period to provide electricity to Treasure Island and portions of Yerba Buena Island and to pay for related expenses under the proposed interconnection agreement. According to Mr. Samuel Laraño, SFPUC Redevelopment Manager, the electricity rates to be paid by Treasure Island and Yerba Buena Island property owners to SFPUC will continue to cover the costs.

Table 1. Estimated Expenditures Over Proposed 20-Year Interconnection Agreement

Interconnection Agreement Costs	Amount
Estimated Electricity Costs ¹	\$3,358,797
Past Due Operation and Maintenance Costs	567,792
Extraordinary Maintenance and Uninsured Casualty Losses	3,000,000
Total	\$6,926,589

Source: San Francisco Public Utilities Commission staff.
1/ The annual service cost of \$125,000 increases each year by the consumer price index, which is estimated at 3 percent.

Therefore, the proposed not-to-exceed agreement amount of \$8,000,000 should be reduced by \$1,000,000 to approximately \$7,000,000 (\$6,926,589 rounded).

⁵ The term of the original interconnection agreement commenced in September 1998, with a termination date the earlier of (a) the primary term, provided that gives a minimum of one-year notice; (b) the termination of the Port of Oakland and Navy lease; (c) the termination of the Cooperative Agreement between the City and County of San Francisco and the Navy; or (d) the mutual written agreement of the parties to terminate the agreement.

Increased Costs to Deliver Electricity to Treasure Island and portions of Yerba Buena Island

The Port of Oakland incurred a loss in 14 of the 17 years of the existing interconnection agreement. As a result, the Port of Oakland has increased the price for the SFPUC to use the Davis Substation in Oakland. SFPUC has paid the Port of Oakland a total of \$32,706 during the most recent year to provide electricity to Treasure Island and portions of Yerba Buena Island. The proposed agreement would require SFPUC to pay \$125,000 for the first year, an increase of \$92,294 or 282.2 percent. Each year, this cost would increase by the consumer price index, which is estimated at 3 percent, resulting in an average estimated annual cost of \$167,940.

Past Due Charges

As shown in Table 1 above, the Port of Oakland billed the SFPUC a total of \$567,792 for past due operation and maintenance charges since October 2008. This outstanding amount will be paid in four equal installments of \$141,948 over a four-year period.

Extraordinary Maintenance Costs & Uninsured Casualty Losses

The SFPUC may be liable to pay up to \$1,000,000 for uninsured casualty losses and extraordinary maintenance costs. The proposed interconnection agreement specifies that the three parties, the Port of Oakland, the City of Oakland, and the SFPUC, are equally liable for these expenses up to a maximum total cost of \$3,000,000 (\$1,000,000 each).

If the total extraordinary maintenance costs and uninsured casualty losses exceed \$3,000,000, the three parties may choose to pay the excess costs, opt out of paying these additional costs, or jointly agree on how to divide the expenses. If there is no agreement, all three parties may undergo a dispute resolution process, as outlined in the proposed interconnection agreement.

SFPUC requests that the maximum total of \$3,000,000 be included in the proposed agreement's not to exceed authorization to ensure that all costs for extraordinary maintenance and uninsured casualty losses are covered. According to Mr. Laraño, SFPUC can only provide electricity to Treasure Island and portions of Yerba Buena Island through the Davis Substation. If these funds are not available and the other two parties opt-out of paying these costs, SFPUC would not be able to pay these costs and would risk interrupting service to the residents of Treasure Island and portions of Yerba Buena Island.

RECOMMENDATIONS

1. Amend the proposed resolution to decrease the requested total not-to-exceed agreement amount by \$1,000,000 from \$8,000,000 to \$7,000,000.
2. Approve the proposed resolution as amended.

Items 4 and 5 Files 15-1006 and 15-1007	Department: Port
EXECUTIVE SUMMARY	
Legislative Objectives	
<ul style="list-style-type: none"> • 15-1006: Resolution further amending Resolutions of Intention (Resolution Nos. 110-12 and 227-12) to establish infrastructure Financing District No. 2 for the City and County of San Francisco at the Port of San Francisco. • 15-1007: Resolution of Intention to issue bonds in an amount not to exceed \$25,100,000 for City and County of San Francisco Infrastructure Financing District No. 2 for the Port of San Francisco. 	
Key Points	
<ul style="list-style-type: none"> • On March 27, 2012, the Board of Supervisors approved a Resolution of Intention to establish an Infrastructure Financing District (IFD) No. 2 on Port property, designating six project areas. On June 12, 2012, the Board of Supervisors approved a subsequent Resolution of Intent to create one more project area within the Port's IFD No. 2. • Under the proposed resolution (File 15-1006), a new Sub-Project Area G-1 would be created as a smaller Historic Core district within Pier 70. The major public infrastructure improvements that are intended to be financed by the IFD and through the related bonds in Sub-Project Area G-1 include streets and sidewalks, electrical system improvements, and Crane Cove Park improvements. 	
Fiscal Impact	
<ul style="list-style-type: none"> • State law allows a waterfront IFD at Pier 70 to be allocated Educational Revenue Augmentation Fund (ERAF) revenues to fund the Port's public facilities, such that 89.92% of incremental property taxes collected can be allocated to the IFD. • Initially, the IFD is projected to receive \$720,000 of incremental property tax revenues per year, such that incremental property tax revenues are estimated to be approximately \$49.2 million over the 45-year term. The Port estimates total costs of \$18.26 million for the infrastructure improvements, which would be paid on a pay-as-you-go basis and with issuance of an estimated \$8.7 million bond. The Port estimates that total principal and interest debt service costs on the \$8.7 million bonds would be approximately \$20 million, which is significantly less than the projected \$49.2 million of estimated incremental property tax revenue to be collected over the 45-year term of the IFD. • The Executive Director of the Port is directed to prepare an Infrastructure Financing Plan, which is currently being finalized by Keyser Marston Associates, Inc., under contract to the Port and will be submitted to the Board of Supervisors on November 9, 2015. The Infrastructure Financing Plan will be subject to future Board of Supervisors approval, prior to creating the IFD and/or issuing any bonds. 	
Recommendation	
<ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

California Government Code Section 53395 et seq. authorizes cities and counties to establish Infrastructure Financing Districts (IFD), subject to approval by the city council or county board of supervisors, to finance “public capital facilities of communitywide significance”. In addition, Section 53395.8 of the State Code specifically authorizes the establishment of an IFD by the Board of Supervisors on land under the jurisdiction of the Port of San Francisco to finance improvement projects along the San Francisco waterfront, such as structural repairs and improvements to piers, seawalls, wharves and other maritime facilities, removal of bay fill, shoreline restoration, utility infrastructure, public open space improvements, as well as historic restoration and seismic and life-safety improvements to existing buildings. Section 53395.8(g) in the State Code also allows the Board of Supervisors to adopt or amend one or more infrastructure financing plans for the Port, such that IFDs may be divided into project areas.

Background

On March 27, 2012, the Board of Supervisors approved a Resolution of Intention (File 12-0128; Resolution No. 110-12)¹ regarding the City’s intent to establish an Infrastructure Financing District (IFD) No. 2 on Port property. This Resolution of Intention initiated the State statutory requirements to form a waterfront IFD on Port property. This IFD designated the following project areas, with the caveat that the City intends to establish additional project areas from time to time in compliance with the IFD State law:

- Project Area A: Seawall Lot 330;
- Project Area B: Piers 30-32;
- Project Area C: Pier 28;
- Project Area D: Pier 26;
- Project Area F: Pier 48; and
- Project Area G: Pier 70.

On June 12, 2012, the Board of Supervisors approved a resolution to amend the earlier Resolution of Intention, in order to add Seawall Lot 351 as Project Area E to the City’s intent to establish an IFD No. 2 on Port property (File 12-0278; Resolution No. 227-12). Under both of these prior resolutions, the Executive Director of the Port was directed to prepare an infrastructure financing plan for the IFD, in compliance with State law. In addition, both of these Resolutions of Intent specified that the Board of Supervisors was not obligated to establish an IFD No. 2 on Port property.

¹ This resolution was adopted as part of the Host and Venue Agreement and Disposition Development Agreement for the 34th America’s Cup held in San Francisco.

DETAILS OF PROPOSED LEGISLATION

15-1006: The proposed resolution would further amend the previous Resolutions of Intention (Resolution Nos. 110-12 and 227-12) to establish and designate Sub-Project Area G-1 within Project Area G (Pier 70) in the City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco).

Under the proposed resolution, Sub-Project Area G-1 would be the smaller Historic Core district within Pier 70 and Project Area G would be the rest of the Pier 70 district. The proposed amended boundaries of Project Area G and G-1 are shown in the attached map.

In July 2014, the Board of Supervisors approved a long-term 66-year lease (Resolution No. 273-14) and Disposition and Development Agreement (DDA) with Orton Development, Inc. (Orton) for the development, rehabilitation and use of the 20th Street historic buildings at Pier 70. These agreements were for approximately 241,082 net square feet of space for industrial, office and retail tenants. At the time the lease and DDA agreements were approved, a portion of the public infrastructure improvements to support the rehabilitation of the historic buildings at Pier 70 were intended to be financed through the creation of an IFD. Under such an IFD, the City will allocate to the IFD possessory interest tax payments, in lieu of property taxes, from Orton to fund specific infrastructure improvements within Sub-Project Area G-1 and in areas around Sub-Project Area G-1 within Pier 70.

Similar to the prior Resolutions of Intent, the Executive Director of the Port is directed to prepare an infrastructure financing plan for Sub-Project Area G-1, which would be included as an appendix to the previously required Infrastructure Financing Plan. According to Ms. Elaine Forbes, Deputy Director of Finance and Administration for the Port, the Infrastructure Financing Plan for the IFD No. 2 is currently being finalized by Keyser Marston Associates, Inc., under contract to the Port and will be submitted to the Board of Supervisors on November 9, 2015. In addition, the proposed resolution states that the Board of Supervisors shall not be obligated to establish this IFD.

15-1007: The proposed Resolution of Intention would declare that it is the intent of the Board of Supervisors to issue bonds in an amount not to exceed \$25,100,000 for City and County of San Francisco Infrastructure Financing District No. 2 for the Port of San Francisco.

Under the proposed resolution, the Board of Supervisors would:

- 1- Issue one or more series of bonds to be secured with pledges of available tax increment funds allocated to the IFD under Sub-Project Area G-1 and other sources that could be identified by the Board of Supervisors to finance the cost of these public facilities.
- 2- Expect to pay certain cost of the facilities prior to the date of issuance of the bonds and use a portion of the bond proceeds to reimburse the expenditures for the facilities paid before the bonds are sold.

The major public infrastructure improvements that are intended to be financed by the IFD and through the related bonds in Sub-Project Area G-1 include:

- Streets and sidewalks serving Pier 70-Historic Core;
- Electrical system improvements to Building 102; and
- Phase 2 of Crane Cove Park improvements.

The proposed resolution states

- Estimated current 2015 cost of these public infrastructure improvements is approximately \$18.26 million;
- Estimated cost to prepare and issue each series of bonds (excluding underwriter's discount) is approximately 2% of the principal amount of the bonds.
- The Board of Supervisors intends to authorize the issuance and sale of IFD bonds for a maximum aggregate principal amount of \$25,100,000, excluding refinancing and/or refunding of the bonds, related reserve funds and the costs of issuance.
- The Board of Supervisors could increase this maximum aggregate principal amount by adopting a subsequent resolution, in compliance with IFD law.
- The Board of Supervisors estimates (as estimated by the Port) incremental property tax revenues available for Sub-Project Area G-1 would be approximately \$49.2 million over the 45-year term, such that the principal and interest debt service costs on the proposed bonds would be less than or equal to this level of incremental property tax revenues.
- This resolution does not obligate the Board of Supervisors to issue any bonds for the IFD for Sub-Project Area G-1. Rather, issuance and sale of the IFD bonds would be subject to separate subsequent approval by the Board of Supervisors.

FISCAL IMPACT

IFDs are being proposed as a financing mechanism to be used to fund improvements on waterfront land under jurisdiction of the Port because the Port does not generate sufficient revenues to complete the Port's necessary capital improvements for the Pier 70 project². Pursuant to IFD law, IFDs use incremental property tax revenue that would otherwise accrue to the City's General Fund to finance the necessary infrastructure improvements. As noted above, the City will allocate to the IFD possessory interest taxes, in lieu of property taxes, from Orton, to fund capital infrastructure improvements within Sub-Project Area G-1 and in areas around Sub-Project Area G-1 within Pier 70.

² The Port's overall Ten-Year Capital Plan identifies \$1.62 billion of capital projects to be completed over the next ten years. However, the Port also projects approximately \$609.4 of various funding sources, leaving an unfunded backlog of approximately \$1.01 billion of capital projects.

In general, for every \$1.00 of Property Taxes (not including property taxes designated to pay for the debt service on General Obligation bonds), \$0.65 is allocated to the City's General Fund, \$0.25 is allocated to Educational Revenue Augmentation Fund (ERAF)³, and \$0.10 is allocated to the other taxing entities (San Francisco Unified School District, Community College District, BART and the Bay Area Air Quality Management District). As shown in Table 1 below, State law allows a waterfront IFD at Pier 70 to be allocated ERAF revenues to fund the Port's public facilities, such that 89.92% of incremental property taxes collected can be allocated to the IFD.

Table 1: Share of Gross Property Tax Increment

City Share of Tax Increment Generated at Pier 70	64.59%
State of California ERAF Share of Tax Increment Generated at Pier 70	25.33%
Total Allocated Tax Increment to Pier 70 IFD	89.92%

Initially, the IFD would receive approximately \$720,000 of possessory interest taxes annually from Orton, which would increase over time. The IFD could extend up to 45 years from the date the IFD actually receives \$100,000 in incremental tax revenues, in accordance with State law. The proposed resolution (File 15-1007) states that incremental property tax revenues available for Sub-Project Area G-1 would be approximately \$49.2 million over the 45-year term. This resolution also identifies an estimated cost of \$18.26 million for the specified infrastructure improvements and a maximum aggregate principal issuance amount of \$25,100,000 of bonds.

According to Ms. Forbes, a portion of the \$18.26 million costs of the infrastructure improvements would be paid for on a pay-as-you-go basis. In addition, the Port anticipates initially issuing one 30-year bond in the principal amount of \$8.7 million in approximately 2123 to pay the remaining costs for the infrastructure improvements. The Port estimates that total principal and interest debt service costs on the \$8.7 million bonds would be approximately \$20 million, which is significantly less than the projected \$49.2 million of estimated incremental property tax revenue to be collected over the 45-year term of the IFD. Therefore, this resolution finds that the principal and interest debt service costs on the proposed bonds would be less than or equal to this level of incremental property tax revenues.

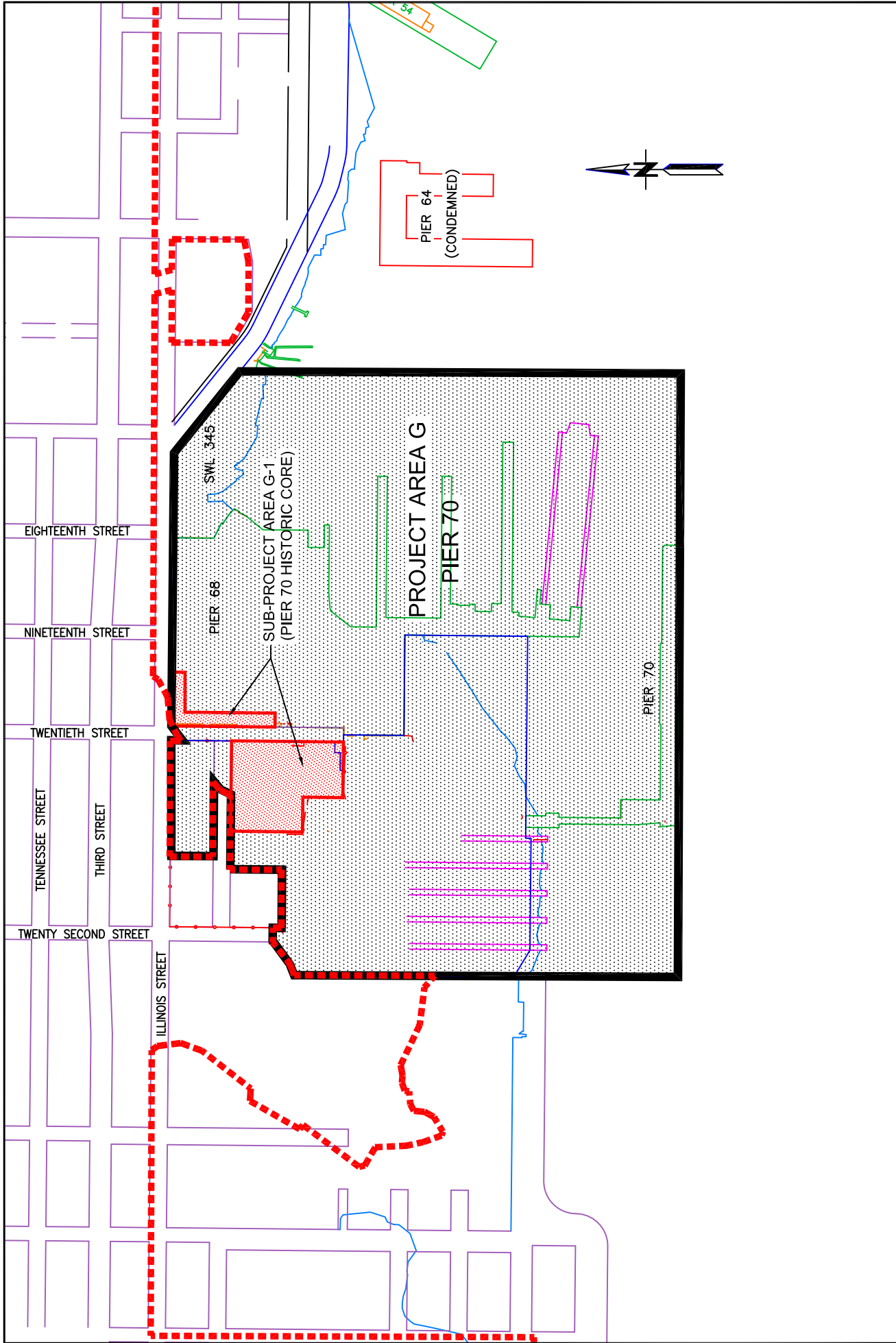
The proposed resolution also sets a maximum principal bond amount of \$25,100,000, which reflects the total bonding capacity of the IFD's tax, assuming (a) robust growth assumptions (30% higher than the actual projections), (b) more than one bond is issued over the 45-year term and (c) interest rates which are lower than current levels. This assumes that 100% of the City's General Fund portion and 100% of the ERAF portion of the tax increment are annually allocated to the IFD. Under State law, the amount of ERAF's share of tax increment allocated to the Port IFD must be proportional to the City's share of tax increment allocated to the Port IFD; the Board of Supervisors determines such allocation prior to approving the Port's IFD financing plan and issuance of debt.


³ ERAF redirects one-fifth of total statewide property tax revenue from cities, counties and special districts to school and community college districts, which is deposited into a countywide fund for schools and community colleges.

The specific infrastructure financing plan will be provided to the Board of Supervisors on November 9, 2015, which will be subject to future Board of Supervisors approval, prior to creating the IFD and/or issuing any bonds. The infrastructure financing plan will detail all of the components of the funding arrangements, including the fiscal impacts to the City's General Fund and the economic benefits to be generated by the Orton development project at Pier 70.

RECOMMENDATION

Approve the proposed resolutions.



APPROVED BY SAN FRANCISCO PORT COMMISSION DATE _____	CHIEF HARBOR ENGINEER _____	 SAN FRANCISCO PORT COMMISSION PORT OF SAN FRANCISCO DEPARTMENT OF ENGINEERING	PROJECT AREA G (PIER 70)		DRAWN BY: JD	DATE: SEPT 29, 2015
			CHECKED BY: _____ DRAWING NO. _____	SCALE: NONE	SHEET NO. 1 OF 1 SHEETS	

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Item 6 File 15-1010	Department: Port
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • Resolution retroactively authorizing the Port of San Francisco to accept and expend a grant in the amount of \$1,440,337 from the Department of Homeland Security’s 2014 Port Security Grant Program, including \$297,375 for Security Hardening of Pier 31, \$392,962 for Pier 50 Security Measures and \$750,000 for Port-wide CCTV Phase 3 for the period from September 1, 2014 through August 31, 2016. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • On September 24, 2014, the Port was awarded \$1,440,337 of U.S. Department of Homeland Security, Port Security Grant Program funds. On April 10, 2015, the Port Commission authorized the Port to accept and expend these \$1,440,337 grant funds. • Delays in requesting approval of these grant funds occurred because the Federal Emergency Management Agency (FEMA) had not yet completed their Environmental and Historic Preservation (EHP) required review of the three grant projects. • These three projects are slated to commence in January 2016 and be completed within the grant end date of August 31, 2016. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The subject \$1,440,337 (75%) Federal grant, together with the required Port’s \$480,112 (25%) matching funds will allow the Port to provide a total of \$1,920,449 of security infrastructure for three projects. • The three projects include: (a) <u>Security Hardening of Pier 31</u> to install perimeter high security fencing and lighting; (b) <u>Pier 50 Security Measures</u> to install access controls, a Closed Circuit Television (CCTV) system and high security fencing at the Port’s Maintenance Division offices, shops, parking and storage areas on Pier 50; and (c) <u>Phase 3 of the Port-wide CCTV System</u> to continue the build-out of the Port’s CCTV system, including fiber optics infrastructure, CCTV cameras, a CCTV control system and wireless communications. • The Port’s \$480,112 matching funds were budgeted in FY 2014-15 and FY 2015-16 as capital improvement funding for these projects. <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(b) states that the acceptance and expenditure of federal, state or other grant funds in the amount of \$100,000 or more, including any City matching funds required by the grant, is subject to the 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. On May 23, 2014, the Port of San Francisco applied for \$1,440,337 of grant funds under the U.S. Department of Homeland Security, Port Security Grant Program. On September 24, 2014, the Port was awarded \$1,440,337 of security infrastructure grant funds. On April 10, 2015, the Port Commission authorized the Port to accept and expend this \$1,440,337 Department of Homeland Security, Port Security Grant Program funds.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively authorize the Port of San Francisco to accept and expend a grant in the amount of \$1,440,337 from the Department of Homeland Security's 2014 Port Security Grant Program, including (a) \$297,375 for Security Hardening of Pier 31, (b) \$392,962 for Pier 50 Security Measures and (c) \$750,000 for Port-wide Closed Circuit Television's (CCTV) Phase 3 for the period retroactive from September 1, 2014 through August 31, 2016.

The subject \$1,440,337 (75%) Federal grant, together with the required Port's \$480,112 (25%) matching funds will allow the Port to provide a total of \$1,920,449 of security infrastructure, for the following three projects:

- 1- Security Hardening of Pier 31 will improve the perimeter security at Pier 31 with installation of high security fencing and lighting, to reduce the number of incursions onto Port facilities.
- 2- Pier 50 Security Measures will improve security at the Port's Maintenance Division offices, shops, parking and storage areas on Pier 50 with installation of access controls, a Closed Circuit Television (CCTV) system and high security fencing.
- 3- Phase 3 of the Port-wide CCTV System will continue the build-out of the Port's CCTV system at Port facilities, including fiber optics infrastructure, CCTV cameras, a CCTV control system and wireless communications.

As noted above, the subject grant was awarded to the Port on September 24, 2014. However, the Port Commission did not authorize the Port to accept and expend these funds until April 10, 2015, over six months later, and the proposed resolution is only now being brought to the Board of Supervisors for approval, over a year after the grant was awarded. According to Ms. Meghan Wallace, the Port's Budget Manager, these delays occurred because the Federal

Emergency Management Agency (FEMA) had not yet completed their Environmental and Historic Preservation (EHP) required review of these three grant projects. Ms. Wallace reports that FEMA's EHP approval was received for (a) the Pier 50 Security Measures on September 11, 2015 and (b) the Security Hardening of Pier 31 on September 23, 2015. Ms. Wallace notes that the EHP approval for Phase 3 of the Port-wide CCTV System project is expected to be approved by the end of November 2015.

As a result, although the grant period is for two years, retroactive from September 1, 2014 through August 31, 2016, there is only ten months prospectively for the Port to complete these three projects. Ms. Wallace advises that these three projects are slated to commence in January 2016 and be completed within the grant end date of August 31, 2016, as shown in Table 1 below.

Table 1: Estimated Timeline for Three Port Infrastructure Projects

Port Infrastructure Projects	Estimated Commencement	Estimated Completion
Security Hardening at Pier 31	1/1/2016	6/1/2016
Pier 50 Security Measures	1/15/2016	8/25/2016
Phase 3 of the Port-wide CCTV System	1/1/2016	8/31/2016

FISCAL IMPACT

The total budget for the proposed program of \$1,920,449 is shown below in Table 2.

Table 2: Federal and Local Funds for Three Port Infrastructure Projects

Port Infrastructure Projects	Federal Grant	Port Match	Total Project Costs
Security Hardening at Pier 31	\$297,375	\$99,124	\$396,499
Pier 50 Security Measures	392,962	130,988	523,950
Phase 3 of the Port-wide CCTV System	750,000	250,000	1,000,000
Total	\$1,440,337	\$480,112	\$1,920,449

The proposed federal grant requires a 25% match (\$480,112) of the total project costs (\$1,920,449). The Port's \$480,112 matching funds were budgeted in FY 2014-15 and FY 2015-16 as capital improvement funding for these projects.

Since all grant funds must be expended for direct project costs, the grant prohibits including indirect costs in the grant budget, such that the proposed resolution waives inclusion of indirect costs as part of this grant.

RECOMMENDATION

Approve the proposed resolution.

Item 7 File 15-0942	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would amend the San Francisco Public Utilities Commission adopted FY 2015-16 budget to (1) de-appropriate \$4,100,000 of Hetch Hetchy operating revenue from small renewable energy projects; (2) appropriate \$4,100,000 of proceeds from New Clean Renewable Energy Bonds for the PUC Hetch Hetchy small renewable energy projects in FY 2015-16; and (3) place \$4,100,000 of bond-funded appropriation on Controller's reserve, subject to receipt of proceeds of indebtedness. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In September 2015, the Board of Supervisors approved a resolution authorizing PUC to issue \$4,100,000 in New Clean Renewable Energy Bonds to finance the proposed solar energy facilities at the Police Academy and Marina Middle School (File No. 15-0916). Under the New Clean Renewable Energy Bond program, PUC will receive the refundable tax credit directly from the U.S. Department of the Treasury, thereby reducing PUC's interest payments on the bonds. • The two proposed solar energy facilities were previously budgeted using PUC's Hetch Hetchy Power Enterprise operating revenues on the condition that the funding source for these solar energy facilities would be replaced with bond funds if a New Clean Renewable Energy Bond allocation was granted by the IRS. PUC issued bonds pursuant to this allocation on October 15, 2015. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • De-appropriated funds of \$4,100,000 will be returned to the Hetch Hetchy Power Enterprise unappropriated fund balance. • The original supplemental appropriation only included funding for the two renewable energy projects. The proposed appropriation should be amended to also fund the costs of issuance of the bonds and the required Revenue Bond Oversight Committee expenses. <p style="text-align: center;">Recommendations</p> <ol style="list-style-type: none"> 1. Amend the proposed ordinance under the Appropriation Uses to appropriate \$2,078,000 (instead of \$2,100,000) for the Police Academy Solar Project, \$1,940,000 (instead of \$2,000,000) for the Marina Middle School Solar Project, and to include \$79,950 for bond issuance costs and \$2,050 for the Revenue Bond Oversight Committee. 2. Amend the proposed ordinance to delete references to placing the proceeds of the bond sale on Controller's reserve. 3. Approve the proposed ordinance, as amended. 	

MANDATE STATEMENT

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 Internal Revenue Code authorizes the Internal Revenue Service (IRS) to allocate federal tax credits to public entities, allowing the public entities to issue New Clean Renewable Energy Bonds to finance renewable energy projects. The bondholder who purchases the bonds receives federal tax credits in lieu of a portion of the traditional bond interest, resulting in a lower interest rate paid by the public entity that issued the bonds. In March 2010, Congress enacted legislation that allows bond issuers, such as the PUC, to receive the refundable tax credit directly from the U.S. Department of the Treasury in lieu of the tax credit that would otherwise have been provided to the bondholder.

In September 2015, the Board of Supervisors approved a resolution authorizing PUC to issue \$4,100,000 in New Clean Renewable Energy Bonds to finance the proposed solar energy facilities at the Police Academy and Marina Middle School (File No. 15-0916). Under the New Clean Renewable Energy Bond program, PUC will receive the refundable tax credit directly from the U.S. Department of the Treasury, thereby reducing PUC's interest payments on the bonds.¹

The proposed solar energy facilities at the Police Academy and Marina Middle School involve construction of a photovoltaic system, which is a power system with solar panels that absorb and convert sunlight into electricity. These proposed solar energy facilities were previously budgeted using Hetch Hetchy Power Enterprise operating revenues with the condition that these operating revenues would be reimbursed by the New Clean Renewable Energy Bond proceeds.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the PUC's adopted FY 2015-16 budget to (1) de-appropriate \$4,100,000 of Hetch Hetchy operating revenue from small renewable energy projects; (2) appropriate \$4,100,000 of proceeds from New Clean Renewable Energy Bonds for the PUC Hetch Hetchy small renewable energy projects in FY 2015-16; and (3) place the \$4,100,000 bond proceeds on Controller's reserve, pending receipt of the bond proceeds.

On October 15, 2015, the PUC issued \$4,100,000 of the New Clean Renewable Energy Bonds. The City received the proceeds of the bond sale, so it is no longer necessary to place the bond proceeds on Controller's reserve.

¹ As noted in the Budget and Legislative Analyst's report to the September 23, 2015 Budget and Finance Committee (File 15-0916), PUC will make estimated interest payments of \$1,826,703 on the \$4,100,000 principal bond amount and receive estimated subsidy payments of \$1,200,084 from the U.S. Department of the Treasury to partially offset the interest payments on the bonds.

FISCAL IMPACT

The PUC proposes to de-appropriate \$4,100,000 in Hetch Hetchy operating revenue that was previously approved for the acquisition and installation of solar energy facilities at the San Francisco Police Academy and the Marina Middle School, and instead use \$4,100,000 from the proposed appropriation of New Clean Renewable Energy Bond proceeds, as shown in Tables 1 and 2 below.

Table 1: De-Appropriation of Funds

Source	Use	Amount
Hetch Hetchy Operating Revenue	Small Renewable Energy Generation Projects	(\$4,100,000)

The original appropriation of \$4,100,000 of proceeds from the New Clean Renewable Energy Bonds for Hetch Hetchy Small Renewable Projects was proposed to finance only the solar energy facilities at the Police Academy and Marina Middle School. However, as shown in Table 2 below, the proposed appropriation should be amended to also fund the costs of issuance of the bonds and the required Revenue Bond Oversight Committee expenses.

Table 2: Original and Recommended Appropriation of Funds

Source	Original Appropriation	Amended Appropriation
Proceeds from sale of New Clean Renewable Energy Bonds	\$4,100,000	\$4,100,000
Uses		
San Francisco Police Academy Solar Energy Facility	\$2,100,000	\$2,078,000
Marina Middle School Solar Energy Facility	<u>2,000,000</u>	1,940,000
Costs of issuance		79,950
Revenue Bond Oversight Committee fee (1/20 of 1% gross proceeds)		<u>2,050</u>
Total	\$4,100,000	\$4,100,000

A breakdown of the costs of issuance is shown in Table 3 below.

Table 3: Costs of Issuance

	Amount
Bond counsel fee and expenses: Jones Hall	\$36,830
City Attorney's Office fee	10,870
Financial advisory fee: Kitahata & Company	15,000
Bank counsel fee: McGuireWoods	15,000
Filing agent fee: US Bank (1 st year upfront)	<u>2,250</u>
Total costs of issuance	\$79,950

According to Mr. Carlos Jacobo, PUC Budget Manager, the proposed de-appropriated funds of \$4,100,000 in Hetch Hetchy operating revenue will be returned to the Hetch Hetchy Power Enterprise unappropriated fund balance.

RECOMMENDATIONS

1. Amend the proposed ordinance under the Appropriation Uses to appropriate \$2,078,000 (instead of \$2,100,000) for the Police Academy Solar Project, \$1,940,000 (instead of \$2,000,000) for the Marina Middle School Solar Project, and to include \$79,950 for bond issuance costs and \$2,050 for the Revenue Bond Oversight Committee.
2. Amend the proposed ordinance to delete references to placing the proceeds of the bond sale on Controller's reserve.
3. Approve the proposed ordinance, as amended.