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

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: October 19, 2017 Rescheduled Budget and Finance Committee Meeting

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Item 1 File 17-0984	Department: Board of Supervisors (Board)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance appropriates $225,000 from the General Reserve to General City Responsibility to provide grants to businesses in Chinatown that have suffered economic losses due to unanticipated delays in construction of the Central Subway project.

Key Points

- The Central Subway project is now scheduled for completion in December 2019, nearly one year behind schedule. Many businesses along the Central Subway corridor claim to have suffered economic losses due to the impacts of construction.
- The proposed ordinance appropriates funding for grants to compensate Chinatown businesses that have been impacted by construction. The September 20, 2017 Government Audit and Oversight Committee meeting held a hearing on the financial impact to businesses due to Central Subway construction delays.

Fiscal Impact

- The appropriation of $225,000 would be drawn from the City's General Reserve.

Policy Consideration

- The proposed ordinance does not specify terms for awarding of grants to businesses impacted by delays in the Central Subway project. The Office of the Sponsor and Controller's Office are in discussion regarding the responsible City agency, geographic area to be covered by the grant program, and details on how the grant program would be administered.

Recommendation

- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

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

BACKGROUND

The Central Subway project, connecting the Muni Metro T line from the Caltrain station at 4th and King Streets to Washington and Stockton Streets in Chinatown, has faced construction delays and is now scheduled to open in December 2019. The project is nearly one year behind schedule, and many businesses along the construction corridor claim to have been impacted by construction and that they will continue to be impacted due to unanticipated delays. The September 20, 2017 Government Audit and Oversight Committee meeting held a hearing on the financial impact to businesses due to Central Subway construction delays.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance appropriates $225,000 from the General Reserve to General City Responsibility to provide grants to businesses in Chinatown that have suffered economic losses due to unanticipated delays in construction of the Central Subway project.

FISCAL IMPACT

The appropriation of $225,000 would be drawn from the City's General Reserve.

POLICY CONSIDERATION

The proposed ordinance does not specify terms for awarding of grants to businesses impacted by delays in the Central Subway project. The Office of the Sponsor and Controller's Office are in discussion regarding the responsible City agency, geographic area to be covered by the grant program, and details on how the grant program would be administered.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

Item 2 **File 17-0994** (*Continued from October 5, 2017)*	**Department:** General Services Agency - Department of Public Works (DPW)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the Third Amendment to the Revenue Agreement between San Francisco Public Works (Public Works) and JC Decaux San Francisco, LLC (JC Decaux), for the Automatic Public Toilet and Public Service Kiosk Program, extending the contract term by 90 days, changing the termination date from October 17, 2017 to January 15, 2018.

Key Points

- Public Works entered into an agreement with JC Decaux for a public toilet and public service kiosk pilot program in 1994. In 1998, the Board of Supervisors expanded the program beyond the pilot phase and extended it through October 17, 2016. Public Works issued a Request for Proposals (RFP) in 2015 to select a new contractor, but due to problems in the RFP process, was not able to proceed. Therefore, the Board of Supervisors approved an amendment to the agreement with JC Decaux to extend the term for an extra year through October 17, 2017, pending a new RFP process. Public Works reissued the RFP in April 2016 and JC Decaux was the only bidder.
- The current agreement between Public Works and JC Decaux expires on October 17, 2017. Public Works needs additional time to complete negotiations with JC Decaux on a new agreement and has requested a 90 day extension to the current agreement, extending it through January 15, 2018.

Fiscal Impact

- Public Works receives a base fee as well as 7 percent of JC Decaux's annual advertising revenues from the public toilets and kiosks. In 2016, the most recent calendar year with complete revenue information, Public Works received $778,539 in revenues. Assuming that advertising revenues continue at the same rate for 2017 and January 2018, and that the base fee increases 3.37 percent with the Consumer Price Index (CPI), Public Works can expect to receive approximately $194,972 over the 90 day extension of the agreement.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

In 1994, San Francisco Public Works (Public Works) and JC Decaux San Francisco, Inc. (JC Decaux) entered into an agreement for a public toilet and public service kiosk pilot program. Under the agreement, JC Decaux installs, owns, and maintains the toilets and kiosks, in exchange for the right to sell advertisements. In December 1998, the Board of Supervisors approved an expansion of the agreement (File No. 98-1599) beyond the pilot phase, extending the term through October 17, 2016. The length of the agreement provided long-term revenue certainty to JC Decaux for making a large upfront capital investment. In December 2015, the agreement was amended to allow installation of temporary personal wireless facilities in anticipation of events related to Super Bowl 50.

According to Ms. Julia Dawson, Public Works Deputy Director of Finance and Administration, Public Works issued a Request for Proposals (RFP) in mid-2015 for vendors to continue the program and received three bids: JC Decaux, Intersection, and Clear Channel. However, because the RFP lacked clarity, the bids could not be evaluated. As a result, Public Works rejected all bids. On April 29, 2016, Public Works re-advertised the revised RFP, and JC Decaux was the only responsive bidder. Public Works needed additional time to negotiate a replacement revenue agreement with JC Decaux, and on October 28, 2016, the Board of Supervisors approved an extension of the agreement (File No. 16-1019) for an additional year, through October 17, 2017.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the third amendment to the existing agreement between Public Works and JC Decaux, extending the agreement end date by approximately three months from October 17, 2017 to January 15, 2018. According to Ms. Dawson, Public Works needs additional time to complete negotiations with JC Decaux on a subsequent agreement and has requested to extend the current agreement for an additional 90 days. Under the forthcoming new agreement, subject to future Board of Supervisors approval, JC Decaux will remove the existing toilets and kiosks and replace them with new facilities featuring both digital and print advertising.

FISCAL IMPACT

Under its current agreement with JC Decaux, Public Works receives both an annual base fee and 7 percent of advertising revenue each calendar year. The base fee was $25,000 at the beginning of the agreement in 1998 and has been adjusted annually based on the Consumer

Price Index (CPI), to the most recent amount of $40,000 in 2016. Assuming the CPI increases by 3.37 percent[1] in 2017 and then does not change in January 2018, the base fee in 2017 would be $41,348. The prorated base fee for the 90 day extension would be $10,337. In 2016, the total advertising revenue was $10,550,550, and the revenue share paid to Public Works was $738,539. Assuming that the advertising revenue remains constant for 2017 and January 2018, Public Works would receive $184,635 for the 90 day extension period. Between the base fee and the revenue share, Public Works would receive $194,972 total. The revenue projections are shown in Table 1 below.

Table 1: 2016 Revenues and 2017-18 Projected Revenues

Year	Annual Advertising Revenues	7% Revenue Share to Public Works	Base Fee	Total Payment to Public Works
2016	$10,550,550	$738,539	$40,000	$778,539
2017-18 (expected)	10,550,550	738,539	41,348	779,887
Agreement Extension (90 days, prorated)*	**$2,637,638**	**$184,635**	**$10,337**	**$194,972**

**Assumes 3.37 percent increase in annual base fee and no increase in annual advertising revenues. Agreement extension period is calculated as 1/4 (3 months) of the total 2017 projected revenues.*

RECOMMENDATION

Approve the proposed resolution.

[1] The amount the CPI increased from the first half of 2016 to the first half of 2017.

Items 4 and 5 Files 17-1006 and 17-1012	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- File 17-1006: The proposed resolution would authorize the General Manager of the San Francisco Public Utilities Commission (SFPUC) to execute an agreement with Motorola Solutions Inc. (Motorola) for the purchase, installation and maintenance of a land mobile radio system, for an amount not-to-exceed $10,906,297, for a nine-year, 3 month term from approximately December 1, 2017 through February 28, 2027.
- File 17-1012: The proposed ordinance would appropriate $6,814,850 from the Water Enterprise fund balance to partially fund the installation of a new Water Enterprise Land Mobile Radio System in FY 2017-18.

Key Points

- The San Francisco Public Utilities Commission (SFPUC) Water Enterprise currently uses a radio system for day-to-day operations. The system is difficult to use and lacks critical features such as GPS to locate staff during emergencies. SFPUC selected Motorola through a competitive process to design, install, and implement a new radio system to support Water Enterprise operations across seven counties. According to SFPUC, the proposed new radio system will be interoperable with the City's Emergency Radio Replacement Project.
- The agreement with Motorola consists of three major elements: (a) complete system design and installation; (b) system network equipment; and (c) eight years of comprehensive system maintenance, repair, and upgrades for a total of $10,906,297.
- The SFPUC will continue using the legacy system, maintained by the Department of Technology, for two years until February 2019, when the new system is operational. The new system will be maintained by Motorola from March 2019 until February 2027.

Fiscal Impact

- Of the total $10,906,297, $9,121,131 is allocated to project support (planning, designing, engineering, installation and testing) and equipment; and $1,785,166 is allocated to annual maintenance in years two through nine. In addition, SFPUC will have estimated staff, rent, and power costs of $890,984 to support the radio system between FY 2017-18 and FY 2026-27.
- The Board of Supervisors previously appropriated $2,720,000 to the Water Enterprise FY 2016-17 and FY 2017-18 operating budget to fund the radio replacement project. Therefore, the Board of Supervisors should amend the proposed ordinance to appropriate $4,094,850 from Water Enterprise fund balance and $2,720,000 from the Water Enterprise FY 2016-17 and FY 2017-18 operating budget, totaling $6,814,850.

Recommendations

- Amend the proposed ordinance to appropriate $4,094,850 from Water Enterprise fund balance and $2,720,000 from the Water Enterprise FY 2016-17 and FY 2017-18 operating budget, for a total appropriation of $6,814,850.
- Approve the proposed resolution and ordinance as amended.

MANDATE STATEMENT

City Charter Section 9.103 states that Board of Supervisors may amend the appropriation ordinance for Capital Improvements.

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

The San Francisco Public Utilities Commission (SFPUC) currently uses two radio systems. The first system, operated by the Department of Emergency Management, is a public safety radio system used by City departments as well as the State Parole and the US Marshalls. The first system covers the City only, and is currently being replaced by a new standard Motorola system as part of the Emergency Radio Replacement Project.

The second system, which was deployed in 2004, is used by SFPUC's Water Enterprise for day-to-day operations such as power shutdowns and clearances, water valve operations, and disinfection processes. The second system is a legacy low-band radio system that has inadequate coverage across the seven counties in which SFPUC has facilities. The system is difficult to use and lacks critical features such as GPS to locate staff during emergencies and built-in portability that became an issue during the Rim fire.

In 2015, SFPUC hired AECOM, a private consulting firm, to determine options for replacing the Water Enterprise radio system. AECOM estimated in May 2015 that the design, installation and use of a new Standard 800 MHz system would cost between $45,000,000 and $60,000,000. Due to the high cost of the estimate, the SFPUC expanded options in their request for proposals to include cost-saving measures, such as use of existing City infrastructure.

In January 2017, SFPUC Information Technology Services issued a request for proposals (RFP) to replace the Water Enterprise's low frequency radio system. SFPUC received three proposals for a ten (10) year contract: Motorola Solutions, Inc. (Motorola), Metro Mobile Communications, and Crystal Communications, as seen in Table 1 below.

Table 1: Summary of bids to replace the Water Enterprise's radio system

Bidder	Cost	Lease or Own	Point total
Motorola Solutions, Inc.	$10,906,297	Own	120
Metro Mobile Communications	$4,821,620	Own/ lease	114
Crystal Communications	$9,304,000	Lease	104

The proposals were evaluated by the SFPUC's Contract Monitoring Division and subject matter experts consisting of City employees from SFPUC Information Technology Services, SFPUC Hetch Hetchy Water, and the Department of Technology. Although Metro Mobile Communications' bid was much lower than Motorola, the proposed system did not cover the seven counties in which SFPUC has facilities. Motorola was ranked the highest responsive bidder, and SFPUC entered into negotiations.

DETAILS OF PROPOSED LEGISLATION

File 17-1006: The proposed resolution would authorize the General Manager of the San Francisco Public Utilities Commission to execute an agreement with Motorola Solutions Inc. (Motorola) for the purchase, installation and maintenance of a land mobile radio system, for an amount not-to-exceed $10,906,297, for a nine-year, 3 month term from approximately December 1, 2017 through February 28, 2027.

File 17-1012: The proposed ordinance would appropriate $6,814,850 from the Water Enterprise fund balance to partially fund the installation of a new Water Enterprise land mobile radio system in FY 2017-18.

Agreement with Motorola Solutions, Inc. (File 17-1006)

The agreement with Motorola consists of three major elements: (a) complete system design and installation services; (b) system network equipment including radio infrastructure, dispatch consoles, 540 handheld radios, and 52 mobile radios for the life of the contract; and (c) eight years of comprehensive system maintenance and repair with all system upgrades for a total of $10,906,297.

The City may terminate the agreement if Motorola fails to provide deliverables or a system that meets the acceptance criteria and tests by the City. In addition to the acceptance tests, Motorola will perform an operation test to ensure no deficiencies in the communications system.

According to Mr. Ken Salmon, SFPUC IT Director and Chief Information Officer, the SFPUC will continue using the legacy system, maintained by the Department of Technology, for two years until February 2019, when the new system is operational. The new system will be maintained by Motorola from March 2019 until February 2027.

Interoperability with San Francisco's Emergency Radio Replacement Project

In October 2016, the Board of Supervisors authorized the Department of Emergency Management and Department of Technology to enter into an agreement with Motorola for purchase, installation, maintenance and support of the Citywide 800 MHz radio system as part of the City's Emergency Radio Replacement Project. The agreement extends through September 1, 2035 for not to exceed amount of $76,000,000. The City's Emergency Radio Replacement Project will combine the existing public safety and public service radio systems into one comprehensive network, including the Airport. According to Mr. Salmon, the Water Enterprise radio system will be interoperable, and the City will be able to patch both systems together during emergencies.

FISCAL IMPACT

Appropriation of Funds (File 17-1012)

The sources and uses of funds to pay for the proposed agreement between SFPUC and Motorola to install and maintain a radio system of SFPUC's operation of facilities in seven counties are shown in Table 2 below.

Table 2: Sources and Uses for the Agreement Between SFPUC and Motorola

Sources	
FY 2017-18 Funding	
Communication and Monitoring Program Capital Fund (previously appropriated)	$2,306,281
Water Enterprise Fund balance (File 17-1012 pending ordinance approval)	6,814,850
Subtotal, FY 2017-18 Funding	*$9,121,131*
Future Funding	
Water Enterprise Operating Budget	1,785,166
Total Sources	**$10,906,297**
Uses	
Project Support	
Planning and Design	$999,567
Engineering, Permitting, Site Development	2,599,291
Installation and Testing	1,561,366
Project Support Subtotal	5,160,225
Equipment	
Initial Project Equipment	366,412
Infrastructure Equipment	2,667,797
Portable Radios	926,697
Equipment Subtotal	3,960,906
Project Support and Equipment	$9,121,131
Annual Maintenance Year 2 thru 9	1,785,166
Total Uses	**$10,906,297**

Of the total $10,906,297, $9,121,131 is allocated to project support (planning, designing, engineering, installation and testing) and equipment; and $1,785,166 is allocated to annual maintenance in years two through nine. The SFPUC Communication and Monitoring Program Capital Fund will provide $2,306,281 for the project, and the remaining $6,814,850 will be appropriated from the Water Enterprise Fund balance pending approval of the proposed ordinance. If this ordinance is approved, the Water Enterprise Fund balance will be reduced from approximately $167 million to approximately $160 million.

Motorola Maintenance and Support Agreement

Of the total $10,906,297, $1,785,166 of the proposed system will be for eight years of comprehensive system maintenance and support. Table 4 below shows the yearly cost of the maintenance and support, including equipment upgrades. Annual maintenance will be funded by the annual operating budget of the Water Enterprise.

Table 4: Eight Year Maintenance and Support Costs

FY 2019-20	$232,621
FY 2020-21	236,145
FY 2021-22	239,764
FY 2022-23	243,483
FY 2023-24	203,437
FY 2024-25	206,616
FY 2025-26	209,876
FY 2026-27	213,224
Total	**1,785,166**

According to Mr. Salmon, the maintenance and support agreement between SFPUC and Motorola includes a system upgrade and refresh component, which will require Motorola to upgrade all of the radio and equipment software and hardware to be compatible with new releases every two years. This will allow SFPUC to follow the Emergency Radio Replacement Project's bi-annual upgrades to allow for consistent interoperability.

Other City Costs

SFPUC estimates additional costs of $890,984 between FY 2017-18 and FY 2026-27 to pay for a partial SFPUC Communications Manager position, rent for new radio sites, and power connections.

Table 5: Projected Additional City Costs from FY 2017-18 through FY 2026-27

Communications Manager (Partial position through FY 2021-22)	$414,984
Rent of three new radio sites	396,000
Power connection for radio site (potential)	80,000
Total	**$890,984**

The Communications Manager will be paid with funds from the SFPUC Communication and Monitoring Program Capital Fund. The rents for the three new radio sites will be paid through the Water Enterprise's Operating Budget, while the power connection, if necessary, is included in the contingency amount of the project.

POLICY CONSIDERATION

Recommended Reduction in Requested Appropriation

The Board of Supervisors previously appropriated $2,720,000 to the Water Enterprise FY 2016-17 and FY 2017-18 operating budget to fund the radio replacement project. Therefore, the Board of Supervisors should amend the proposed ordinance to appropriate $4,094,850 from Water Enterprise fund balance and $2,720,000 from the Water Enterprise FY 2016-17 and FY 2017-18 operating budget, for a total appropriation of $6,814,850.

RECOMMENDATIONS

1. Amend the proposed ordinance to appropriate $4,094,850 from Water Enterprise fund balance and $2,720,000 from the Water Enterprise FY 2016-17 and FY 2017-18 operating budget, for a total appropriation of $6,814,850.

2. Approve the proposed resolution and ordinance as amended.

Items 6 and 7 **Files 17-1011 and 17-1010**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- **File 17-1011**: The proposed ordinance would appropriate $12,600,000 of Water Revenue Bond proceeds to fund the vegetation restoration and Bioregional Habitat Restoration (BHR) projects in order to mitigate the environmental impacts of the Water System Improvement Program (WSIP).
- **File 17-1010:** The proposed ordinance would amend Ordinance No. 112-16, as amended by Ordinance No. 154-17, to increase the issuance of Water Revenue Bonds by $12,600,000, from the amount of $274,130,430 previously authorized by the Board of Supervisors under Ordinance No. 154-17 to the new amount of $286,730,430.

Key Points

- The WSIP consists of 83 critical water infrastructure projects needed to meet water quality requirements, ensure seismic and delivery reliability and meet water supply goals in an environmentally sustainable manner. In order to construct the WSIP projects, the SFPUC committed, through federal and state regulatory permits, to perform on site and off site mitigation of the program's environmental impacts. Two major initiatives required from the federal and state regulatory permits and approvals for WSIP include the vegetation restoration of WSIP construction sites, and habitat restoration and enhancements at various locations on property owned by the SFPUC in the Alameda Creek and Peninsula watersheds as part of the BHR program.
- The Board of Supervisors previously approved the issuance of (a) $264,997,468 in Water Revenue Bonds in June 2016 (Ordinance No. 112-16) to fund various water capital projects, and (b) $9,132,962, increasing the Water Revenue Bond authorization to $274,130,430 in June 2017 to purchase the Rollins Road property (Ordinance No. 154-17). The increase $12,600,000 to pay for vegetation restoration and BHR projects would increase the total Water Revenue Bond authorization to $286,730,430.

Fiscal Impact

- SFPUC estimates a 4 percent annual interest for 30-year revenue bonds, to be sold during the winter of FY 2017-18. Based on total costs of $13,023,256 ($12,600,000 allocated to projects plus underwriter's discount and issuance costs), debt service over 30-years is estimated at $22,594,085, including interest of $9,570,829. Average annual debt service of $753,136 will be funded through rates and charges to SFPUC Water customers.

Policy Consideration

- SFPUC pays for debt service on Water Revenue Bonds and other Water Enterprise debt through water rates charged to customers. According to SFPUC's FY 2017-18 through FY 2026-27 Financial Plan, water rates charged to retail customers are expected to increase by approximately 11 percent in FY 2018-19 and 10 percent in FY 2019-20 to cover Water Enterprise operating costs and debt service.

Recommendation

- Approve the proposed ordinances.

MANDATE STATEMENT

Charter Section 8B.124 authorizes the San Francisco Public Utilities Commission (SFPUC) to issue revenue bonds, including notes, commercial paper or other forms of indebtedness, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors, to reconstruct, replace, expand, repair or improve water or clean water facilities under the jurisdiction of the SFPUC.

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

On November 5, 2002, San Francisco voters approved Proposition E, which authorized the San Francisco Public Utilities Commission (SFPUC) to issue water revenue bonds to reconstruct, replace, expand, repair, or improve SFPUC water facilities when authorized by ordinance and approved by a two-thirds vote of the Board of Supervisors.

The Water System Improvement Program (WSIP) consists of 83 critical water infrastructure projects needed to meet water quality requirements, ensure seismic and delivery reliability and meet water supply goals in an environmentally sustainable manner. In order to construct the WSIP projects, the SFPUC committed, through federal and state regulatory permits, to perform on site and off site mitigation. Two of the three[1] major initiatives required from the federal and state regulatory permits and approvals for WSIP include the following as part of the Long Term Monitoring Permit Program (LTMPP):

- Vegetation Restoration of WSIP Construction Sites: The purpose of this program is to revegetate the WSIP construction sites to preconstruction conditions or better. The program includes planting, monitoring and maintenance activities related to restoring and revegetating the WSIP project sites.
- Bioregional Habitat Restoration (BHR) Program: The purpose of this program is to compensate for the WSIP construction impacts to a broad range of habitats and special status species by restoring and enhancing habitats primarily through constructing wetlands, removing non-native species and planting native vegetation. The program includes approximately 2,000 acres of habitat restoration and enhancements at various locations on property owned by the SFPUC in the Alameda Creek and Peninsula watersheds.

[1] The third major initiative is fisheries monitoring and habitat restoration in the Alameda and Peninsula watersheds, which is not part of this appropriation request.

DETAILS OF PROPOSED LEGISLATION

File 17-1010: The proposed ordinance would amend Ordinance No. 112-16, as amended by Ordinance No. 154-17, to authorize an increase of the issuance and sale of tax-exempt or taxable Water Revenue Bonds and other forms of indebtedness by the SFPUC in an aggregate principal amount not to exceed $286,730,430 to finance the costs of various capital water projects benefitting the Water Enterprise, including certain BHR program and vegetation restoration costs pursuant to amendments to the Charter of the City and County of San Francisco enacted by the voters on November 5, 2002, as Proposition E; authorize the issuance of Water Revenue Refunding Bonds; declare the Official Intent of the SFPUC to reimburse itself with one or more issues of tax-exempt or taxable bonds or other forms of indebtedness; and ratify previous actions taken in connection therewith.

File 17-1011: The proposed ordinance would appropriate $12,600,000 of proceeds from Water Enterprise Revenue Bonds to fund the LTMPP for vegetation restoration of the WSIP construction sites and the BHR program, as required by the related federal and state regulatory permits in FY 2017-18 and place $12,600,000 of proceeds on Controller's Reserve pending receipt of proceeds of indebtedness.

Increase in Water Revenue Bond Authorization by $12,600,000 (File 17-1010)

On June 14, 2016, the Board of Supervisors approved the issuance of not to exceed $264,997,468 of SFPUC Water Revenue Bonds to finance various SFPUC water capital projects (File 16-0468, Ordinance No. 112-16). On June 15, 2017, the Board approved the increase of the issuance and sale of tax-exempt or taxable Water Revenue bonds and other forms of indebtedness by SFPUC to an aggregate principal amount not to exceed $274,130,430 to finance the costs of various capital water projects benefitting the Water Enterprise, including new funding of $9,132,962 to finance the cost of the acquisition of the Rollins Road property (File 17-0678, Ordinance No. 154-17).

The proposed ordinance would amend Ordinance No. 154-17, increasing the bond authorization amount by $12,600,000, from $274,130,430 to $286,730,430. Revenue bonds will be issued during the winter of FY 2017-18.

$12,600,000 Appropriation to WSIP Programs (File 17-1011)

The proposed ordinance would appropriate $12,600,000 of Water Revenue Bond proceeds as follows:

- $10,400,000 for the BHR program
- $2,200,000 for vegetation restoration of the WSIP construction sites

According to Mr. Tim Ramirez of SFPUC, the appropriation would allow the continuation of both programs that are part of the SFPUC's ongoing fulfillment of federal and state permitting requirements and California Environmental Quality Act (CEQA) commitments associated with WSIP environmental impacts. The specific requirements for SFPUC's mitigation obligations on BHR sites were established by the permitting agencies issuing the environmental permits for WSIP projects, including the United States Army Corps of Engineers, United States Fish and

Wildlife Service, National Marine Fisheries Service, San Francisco Bay Regional Water Quality Control Board, and the California Department of Fish and Wildlife. The BHR program also fulfills requirements of WSIP CEQA documents developed by the City's Planning Department.

According to Mr. Ramirez, the appropriation is needed because SFPUC neglected to allocate funding for these programs in the FY 2017-18 budget due to internal miscommunication during the mid-cycle budget process. Mr. Ramirez stated that this is being rectified in the current budget process for future fiscal years.

Issuance of Water Revenue Bonds and Commercial Paper

According to Mr. Mike Brown of SFPUC, costs for the BHR program and the vegetation restoration of the WSIP construction sites at $12,600,000 would be immediately funded through SFPUC's commercial paper program[2], which would allow SFPUC to begin work on the projects before the bond issuance. The commercial paper would then be refunded with the issuance of SFPUC revenue bonds during the winter of FY 2017-18. To date, Mr. Brown advises that the SFPUC has not issued any of the previously authorized Water Revenue Bonds, totaling $274,130,430.

Under the proposed ordinance authorizing the increase in the amount and issuance of Water Revenue Bonds, Mr. Brown advises that these bonds will be sold on a competitive and tax-exempt basis.

FISCAL IMPACT

Table 1 below shows the breakdown of the requested supplemental appropriation ordinance (File 17-1011) for the $12,600,000 required for the vegetation restoration and BHR programs in FY 2017-18.

[2] Commercial paper is short term, low interest debt that can used as interim funding for capital projects pending the issuance of long term bonds. The Board of Supervisors previously authorized the Water Enterprise Commercial Paper Program in an amount not-to-exceed $500 million.

Table 1: Total FY 2017-18 Cost of Programs and Remaining $12,600,000 to be Appropriated

Activity	Total Estimated Cost	Appropriated to Date	Remaining Funds Required
Vegetation Restoration of WSIP Construction Sites Program			
Planning, Program Management, and Environmental Review	$495,000	$120,000	$375,000
On-going Construction and Habitat Improvements	$1,065,000	$200,000	$865,000
Compliance Monitoring	$1,170,000	$210,000	$960,000
Total Cost for Vegetation Restoration of WSIP Construction Sites Program	*$2,730,000*	*$530,000*	*$2,200,000*
BHR Program			
Planning, Program Management, and Environmental Review	$1,733,000	$280,000	$1,453,000
On-going Construction and Habitat Improvements	$4,654,000	$774,000	$3,880,000
Compliance Monitoring	$6,873,000	$1,806,000	$5,067,000
Total Cost for BHR Program	*$13,260,000*	*$2,860,000*	*$10,400,000*
Total Cost for All Programs	**$15,990,000**	**$3,390,000**	**$12,600,000**

Debt Financing

Table 2 below shows the estimated cost for the issuance of the $12,600,000 of revenue bonds to finance the LTMPP for vegetation restoration of the WSIP construction sites and the BHR program.

Table 2: Estimated Costs of Issuance

	Amount
Project Funds	$12,600,000
Underwriter's Discount *	32,558
Cost of Issuance**	390,698
Estimated Total Costs of Issuance	**$13,023,256**

* Underwriter's Discount is the difference between the price that the underwriter pays the issuer for the bonds and the price at which it sells the bonds in a public offering.
**Cost of Issuance includes fees for rating agencies, financial advisors, attorneys, Revenue Bond Oversight Committee, City Services Auditor
Source: SFPUC

The projected $423,256 expense for the underwriter's discount and cost of issuance for the $12,600,000 project would be funded from previous SFPUC authorized appropriations.

The SFPUC estimates an approximate 4 percent annual interest rate for 30-year revenue bonds, which are anticipated to be sold during the winter of FY 2017-18. Based on a total cost of $13,023,256 shown in Table 2 above, total debt service over the 30-year term is estimated at $22,594,085, including interest costs of $9,570,829 and average annual debt service payments of $753,136. Annual debt service will be budgeted each year in the SFPUC's Water Enterprise operating budget, subject to Board of Supervisors appropriation approval, and funded through rates and charges to SFPUC Water customers.

Water Enterprise Capital Projects Bond Authorization

The total authorization of the issuance and sale of water revenue bonds in an aggregate principal amount not to exceed $286,730,430 includes the requested funding of $12,600,000 to finance the LTMPP, for vegetation restoration of the WSIP construction sites and the BHR program (File 17-1010).

Table 3 below shows the projects to be funded by the $286,730,430 in Water Revenue Bond proceeds, including $274,130,430 previously appropriated by the Board of Supervisors (Files 16-0468 and 17-0677) and $12,600,000 requested for appropriation (File 17-1011).

Table 3: Sources and Uses of $286,730,430 in Water Revenue Bond Proceeds

Source of Funds	
Proceeds from Sale of Water Revenue Bonds	$286,730,430
Total Sources	**$286,730,430**
Uses of Funds	
Previously Appropriated	
Appropriated Under File 16-0648	
Regional Water Treatment Program	10,013,000
Water Transmission Program	13,979,000
Buildings & Ground Regional	14,743,000
Local Water Conveyance/Distribution	105,300,000
Automated Water Meter Program	2,000,000
Buildings & Ground Improvements	1,750,000
Systems Monitoring & Control	600,000
Local Water Supply – Other Recycled Water Projects	3,500,000
Pump Station Upgrades	4,000,000
San Francisco Groundwater Supply	4,995,000
SF Westside Recycled Water Project	27,806,000
Water Infrastructure	15,100,000
Joint Water - Bonds	3,150,000
Mountain Tunnel - Joint Water	*21,245,400*
Subtotal, File 16-0648	*$228,181,400*
Rollins Road (File 17-0677)	9,132,962
Subtotal, Previously Appropriated	***$237,314,362***
LTMPP: Vegetation Restoration and BHR Programs (File 17-1011)	12,600,000
Subtotal Project Costs	***249,914,362***
Financing Costs	35,958,018
City Services Auditor	725,552
Revenue Bond Oversight Committee	132,498
Subtotal Financing/Other Costs	***36,816,068***
Total Uses	**$286,730,430**

POLICY CONSIDERATION

Impact of Debt Service on Water Rates Charged to Retail Customers

According to SFPUC's FY 2017-18 through FY 2026-27 Financial Plan, estimated annual debt service in FY 2017-18 on SFPUC's Water Revenue Bonds and other Water Enterprise debt is $260.7 million, increasing to $305.8 million in FY 2019-20, which would include debt service on the proposed $286,730,430 in Water Revenue Bonds.

SFPUC pays for debt service on Water Revenue Bonds and other Water Enterprise debt through water rates charged to customers. According to SFPUC's FY 2017-18 through FY 2026-27 Financial Plan, water rates charged to retail customers are expected to increase by approximately 11 percent in FY 2018-19 and 10 percent in FY 2019-20 to cover Water Enterprise operating costs and debt service.

In accordance with Charter Section 8B.125, the SFPUC is responsible for setting the rates, fees and other charges for water and sewer. The SFPUC's action on all rates, fees and charges is subject to rejection, within 30 days of submission, by resolution of the Board of Supervisors. If the Board of Supervisors does not act within 30 days, the SFPUC proposed rates become effective without further Board of Supervisors action.

RECOMMENDATION

Approve the proposed ordinances.

Item 8 File 17-0981	Departments: Controller's Office Department of Technology (DT)

EXECUTIVE SUMMARY

Legislative Objectives

- Resolution authorizing the Controller to enter into the 15th amendment of a software license and support agreement between Oracle America Inc., and the City and County of San Francisco, to extend the contract term through November 30, 2022 and increase the maximum expenditure by $4,183,660 for a total amount not-to-exceed $12, 211,194.

Key Points

- Based on a competitive Request for Proposal (RFP) process, on November 21, 2007 the City entered into an initial one-year agreement with Oracle for $1,341,195, which was renewable annually at the City's option, for perpetual database software licenses and software support services for the City's Human Capital Management System.
- Since the original 2007 one-year database license and support agreement with Oracle was approved, the agreement has been amended 14 times, such that the existing agreement extends through November 29, 2017 for a not to exceed total $8,027,534.

Fiscal Impact

- The City has expended a total of $7,680,624 under the existing almost ten-year Oracle database license and support agreement. The existing agreement provides authorization of up to $8,027,534, or a remaining $346,910 authorization.
- Under the proposed five-year Amendment #15 for an additional $4,183,660, the Controller will be responsible for $2,573,103 and the Department of Technology will be responsible for $1,610,557, based on their separate responsibilities.
- As of November 30, 2019, the Department of Technology payments to Oracle will decrease from $469,148 to $224,087 annually, a reduction of $245,061 per year, or a total of $735,183 over the remaining three years of this agreement because the Exadata/Exalogic Oracle Engineered Systems hardware support will be reduced as the product reaches the manufacturer's stated end of life. The City will then seek to extend support, upgrade to the newest Exadata/Exalogic Oracle Engineered Systems or move to a cloud-based solution.
- Assuming projected inflationary adjustment rates of 3% annually, the Controller estimates this five-year extension agreement rather than annual amendments will save the City approximately $235,712.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 21.30 states that the Board of Supervisors approves the execution of perpetual, nonexclusive software licensing agreements which warrant performance of the software according to specifications and which are for less than $10 million, without further Board of Supervisors approval.

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

Based on a competitive Request for Proposal (RFP) process, on November 21, 2007 the City and County of San Francisco (City)[1] entered into an initial one-year agreement with Oracle America, Inc. (Oracle) for a maximum expenditure of $1,341,195, which was renewable annually at the City's option, for perpetual database software licenses and software support services for the City's Human Capital Management System. This agreement complies with all City Administrative Code provisions. The City's Human Capital Management (HCM) System is an Oracle PeopleSoft system, to provide human resources, benefits, payroll and e-learning functionality for 35,000 City employees. In August 2012, the City implemented the Human Capital Management System, previously known as Project eMerge.

To operate the City's HCM System requires both an Oracle Database Agreement and an Oracle Applications Agreement. According to Mr. Keith Miller of the Controller's Office Systems Division, the subject Oracle Database Agreement provides database licenses and support, including regular system updates and verifications to identify and protect the City's database system from possible cybersecurity vulnerabilities. In March 2016, the Board of Supervisors separately approved a resolution for the 10th amendment to the Oracle Applications Agreement to provide licenses and support for the various programs in the HCM System through April 2021 for a total cost of $14,287,737 (File 16-0097), that depend on the subject databases. The Controller's Office anticipates that the City's HCM System will be useful for at least another 15 years.

In addition, in 2015, the Board of Supervisors approved (File 15-0531) the Controller's agreement with Oracle for the City's comprehensive, integrated Financial & Procurement System (F$P). The Controller's Office advises that together, these agreements are part of the substantial commitment the City has made to using Oracle products for many years for the City's integrated human capital and financial management systems.

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[1] This agreement with Oracle was originally under the Department of Human Resources (DHR) control. The Controller's Office assumed primary responsibility and costs for this Oracle agreement after the system was transferred from DHR in FY 2009-10. Since FY 2015-16, this Oracle agreement has been managed and costs assumed by both the Controller' Office and the Department of Technology (DT).

Oracle Agreement and Amendment History

As shown in Table 1 below, the original 2007 one-year database license and support agreement with Oracle has been amended 14 times, such that the existing agreement extends through November 29, 2017 for a not to exceed total $8,027,534. Mr. Miller advises that the agreement has already been amended 14 times because the City has needed to purchase additional licenses as the number of people using the system expanded. The purchase of additional support was also required as the license counts and product line and functionality increased because the system applications expanded which required more patching and updates.

Table 1: Oracle Agreement and Amendment History

Agreement/ Amendments	Contract Date	End Date	Contract Amendment	Total License Cost	Total Support Cost	Total Contract Amount
Original[2]	11/21/2007					
Amendment #1	11/21/2007	11/21/2008	1,341,195	1,099,340	241,855	$1,341,195
Amendment #2	11/17/2008	2/21/2010	297,515	1,099,340	539,370	1,638,710
Amendment #3	2/22/2010	2/21/2011	241,855	1,099,340	781,225	1,880,565
Amendment #4	10/5/2010	2/21/2012	241,855	1,099,340	1,023,080	2,122,420
Amendment #5	5/22/2011	5/22/2011	680,846	1,608,529	1,194,737	2,803,266
Amendment #6	5/22/2012	5/22/2013	353,877	1,608,529	1,548,614	3,157,143
Amendment #7	4/1/2013	7/15/2014	425,696	1,608,529	1,974,310	3,582,839
Amendment #8	10/1/2013	7/15/2014	658,068	2,147,929	2,092,978	4,240,907
Amendment #9	5/30/2014	7/15/2014	611,464	2,649,129	2,203,242	4,852,371
Amendment #10	7/14/2014	11/29/2017	1,634,082	2,649,129	3,837,324	6,486,453
Amendment #11	8/15/2014	11/29/2017	633,434	3,149,329	3,970,558	7,119,887
Amendment #12	3/5/2015	11/29/2017	8,908	3,149,329	3,979,466	7,128,795
Amendment #13	7/6/2015	11/29/2017	499,222	3,149,329	4,478,688	7,628,017
Amendment #14	11/2/2015	11/29/2017	399,517	3,149,329	4,878,205	8,027,534

[2] The Original Oracle agreement is the basic License Service Agreement, which does not contain contract terms or costs. Under Amendment #1, the City purchased the licenses and support and established the terms and conditions of the agreement.

As the subject Oracle agreement has not exceeded a term of ten years or $10 million, this agreement has not previously been subject to Board of Supervisors approval.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Controller to enter into the 15th amendment to the existing software license and support agreement between the City and County of San Francisco (City) and Oracle America Inc., (Oracle) to

(a) extend the term of the agreement by five years from November 30, 2017 through November 30, 2022; and

(b) increase the maximum expenditure by $4,183,660 from $8,027,534 to a total amount not to exceed $12,211,194.

If the proposed five-year extension is approved, the total contract term will be 15 years from November 21, 2007 through November 30, 2022.

FISCAL IMPACT

The increased agreement expenditures of $4,183,660 are anticipated to all be for Oracle support costs, to be added to the $4,878,205 total support costs shown in Table 1 through Amendment #14, for a total of $9,061,865. The support costs have increased annually with the purchase of additional software licenses. The cost of support from November 2016 to November 2017 is $943,597, and is projected to be $983,679 in the first year of the proposed amended agreement. However, the City will be able to lock in the cost for the five year term under the proposed amended agreement. Therefore, of the proposed total $12,211,194 agreement maximum expenditures, up to $3,149,329 would be expended for licenses and up to $9,061,865 would be expended for support.

As shown in Table 2 below, as of September 26, 2017, the City had expended a total of $7,680,624 under the existing Oracle agreement. The current contract expires on November 29, 2017. The existing Oracle agreement provides a not to exceed authorization of $8,027,534, leaving a remaining authorization of $346,910. The Controller's Office advises that this remaining authorization will be fully expended by the end of the agreement.

Table 2: City Expenditures to Date

Contract Year	Department of Human Resources	Controller's Office	Department of Technology	All Departments
2007-2008	$1,341,195	$0	$0	$1,341,195
2008-2009	189,353	0	0	189,353
2009-2010	108,161	115,184	0	223,345
2010-2011	0	804,612	0	804,612
2011-2012	0	421,698	0	421,698
2012-2013	176,217	176,938	0	353,155
2013-2014	249,478	1,846,215	0	2,095,693
2014-2015	0	616,785	0	616,785
2015-2016	0	499,958	305,077	805,034
2016-2017	0	404,643	425,110	829,753
Total Cost	**$2,064,405**	**$4,886,032**	**$730,187**	**$7,680,624**

Under the proposed Amendment #15, of the total $4,183,660 additional amount, the Controller will be responsible for a projected $2,573,103 and the Department of Technology will be responsible for $1,610,557, as summarized in Table 3 below. Specifically, the Controller's Office is responsible for the Exalogic/Exadata Oracle Engineered Systems that run the PeopleSoft HCM applications under this agreement. The Department of Technology is responsible for the Exalogic/Exadata Oracle Engineered Systems that run the City's Identity & Access Management applications under this agreement. Both the Controller's and DT's Oracle contract costs were included in their FY 2017-18 budgets.

Table 3: Projected Cost Breakdown of Amendment #15

Start Date	End Date	Controller	Technology	Total
11/30/2017	11/29/2018	$514,621	$469,148	$983,769
11/30/2018	11/29/2019	514,621	469,148	983,769
11/30/2019	11/29/2020	514,621	224,087*	738,708
11/30/2020	11/29/2021	514,621	224,087	738,708
11/30/2021	11/29/2022	514,621	224,087	738,708
Total		**$2,573,103****	**$1,610,557**	**$4,183,660**

**Beginning in the third year of the agreement, the support contract for Exadata/Exalogic Oracle Engineered Systems hardware will end.*
***Not exact total, due to rounding.*

As shown in Table 3 above, as of November 30, 2019, the Department of Technology's payments to Oracle will decrease from $469,148 to $224,087 annually, a reduction of $245,061 per year, or a total of $735,183 over the remaining three years of this contract. This is because the Exadata/Exalogic Oracle Engineered Systems hardware support will be reduced on November 29, 2019 when the product line reaches the manufacturer's stated end of life. Mr. Miller explains that the City will then seek to extend support, upgrade to the newest Exadata/Exalogic Oracle Engineered Systems or move to a cloud-based solution.

Assuming projected inflationary adjustment rates of 3% annually, the Controller estimates this five-year extension agreement rather than annual amendments will save the City approximately $235,712, as summarized in Table 4 below.

Table 4: Projected Savings

	Controller	Technology	Total
5-Year Costs assuming 3% annual increases	$2,732,190	$1,687,182	$4,419,372
Subject 5-Year Contract	$2,573,103	$1,610,557	$4,183,660
Projected Savings	**$159,087**	**$76,625**	**$235,712**

RECOMMENDATION

Approve the proposed resolution.

Item 9 File 17-1039	Department: San Francisco Public Utilities Commission (SFPUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution (a) approves and authorizes the execution of a Purchase and Sale Agreement with Buddhi Dharma Lien Guo Foundation (Buyer) for the sale by the City and County of San Francisco (City), acting through the San Francisco Public Utilities Commission (SFPUC), for approximately 84 acres of improved real property located at 7484 Sheridan Road, Sunol, California for $3,305,000; (b) adopts findings under the California Environmental Quality Act (CEQA); (c) adopts findings that the sale is consistent with the General Plan and the priority policies of Planning Code, Section 101.1; and (d) authorizes the Director of Property and/or SFPUC's General Manager to execute documents, make modifications and take certain actions in furtherance of this resolution.

Key Points

- Due to construction of the adjacent New Irvington Tunnel Project, the City, through the SFPUC, purchased 7484 Sheridan Road in Sunol for $3,721,500 in November, 2013. The price of $3,721,500 was $337,366 more than the then appraised value of $3,384,134.
- The SFPUC property was marketed for sale in 2016-2017. Bids were solicited in May, 2017 for a minimum purchase price of $3,290,000 based on an updated appraisal. The SFPUC received three initial bids ranging in price from $3,500,000 to $3,550,000.
- An initial offer for $3,550,000 was not completed. On July 14, 2017, another offer for $3,305,000 was submitted, which is now the highest and best responsible offer.

Fiscal Impact

- The SFPUC rents the property for $2,500 less $1,250 management fees for net income of $1,250 per month. To maintain the property costs $6,700 per month, net expenses of $5,450 per month, or $65,400 annually plus $5,000 of annual property taxes.
- On March 29, 2017, the subject property appraised for $3,290,000. An appraisal review conducted on May 17, 2017 found the appraised value of $3,290,000 to be reasonable.
- The Director of Property determined the sale price of $3,305,000 plus the value of the three easements (Well Easement, Tunnel Easement and Tower Easement) meet the requirements of Section 23.3 of the Administrative Code for conveyance of real property.
- At a sale price of $3,305,000, SFPUC will receive estimated net proceeds of $3,212,412.

Policy Consideration

- Over four years, there were three different appraisals of this property, ranging from $3,290,000 to $4,200,000. The proposed sale price of $3,305,000 is $15,000 more than the $3,290,000 fair market value as determined by the 2017 appraisal and appraisal review.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Charter Section 8B.121(a) grants the SFPUC the exclusive charge of real property assets under the SFPUC's jurisdiction, such that Charter Section 8B.121(e) provides that the SFPUC may transfer real property the SFPUC declares to be surplus to the needs of the utility.

Charter Section 9.118(a) requires Board of Supervisors approval by resolution of any City contract resulting in anticipated revenue of $1,000,000 or more.

City Administrative Code Section 23.1 requires the Director of Real Estate to recommend approval of real property transactions prior to approval by the Board of Supervisors. Administrative Code Section 23.3 requires that before the Board of Supervisors approves a conveyance of property, the Director of Property will obtain an appraisal for property exceeding $10,000 in value and an appraisal review for property exceeding $200,000 in appraised value.

BACKGROUND

New Irvington Tunnel Project

The New Irvington Tunnel Project is a key part of the SFPUC's Water System Improvement Project (WSIP), which is a $4.8 billion multi-year capital program to improve and upgrade the SFPUC's regional and local water systems. The New Irvington Tunnel Project, which is now complete, provides a new seismically-designed 3.5-mile water transmission tunnel between Sunol Valley and the City of Fremont in Alameda County, parallel to the previous Irvington Tunnel, which was constructed between 1928 and 1932. Both tunnels will remain in service during normal operations.

To construct the New Irvington Tunnel, the groundwater table had to be lower than the height of the tunnel to prevent water intrusion during the tunnel's construction. To lower the groundwater table, the SFPUC had to install dewatering wells on the adjacent property at 7484 Sheridan Road in Sunol. Due to a much greater volume of groundwater than anticipated, the dewatering wells were required throughout the New Irvington Tunnel's construction.

Temporary Construction Easement and SFPUC Purchase of Property

To install the dewatering wells, the SFPUC obtained a 24-month temporary construction easement, with one option to extend for an additional six months, through an eminent domain action on March 11, 2011. The SFPUC paid $63,020 for the temporary construction easement to Kenneth and Janice Mackin (Mackins), who then owned the property at 7484 Sheridan Road in Sunol. When the temporary easement expired on September 30, 2013, the Mackins were unwilling to extend the temporary easement term because the Mackins wanted to sell the property and believed extending the term of the temporary easement would hinder the potential sale of the property. The Mackins then offered to sell the property to the SFPUC.

Because of the SFPUC's immediate need to continue construction on the New Irvington Tunnel Project, the SFPUC approved the purchase of the Mackins property for $3,721,500 on

November 12, 2013 (SFPUC Resolution No. 13-0173). According to Ms. Rosanna Russell, SFPUC Real Estate Director, the purchase price of $3,721,500 was negotiated based on the City's appraised value of $3,384,134[1] at that time and the Mackins' desire for $4 million for the property. Although the City paid $337,366 more ($3,721,500 purchase price less $3,384,134 appraisal) than the appraised value at the time, Ms. Russell advises that the SFPUC saved approximately $3 million by immediately purchasing this property and avoiding damage claims for construction delays and cost of change orders if the contractors could not access the wells on this property to dewater the New Irvington Tunnel Project.

Escrow closed on the 7484 Sheridan Road in Sunol property in December 2013. The purchase was not subject to Board of Supervisors approval as the $3,721,500 purchase price was under the Charter Section 9.118 threshold amount of $10 million.

7484 Sheridan Road Property in Sunol

The property known as the Mackin Ranch located at 7484 Sheridan Road in Sunol, California consists of an 84-acre ranch zoned for agricultural activities[2], and includes:

- 1,930 square foot single-family house with swimming pool;
- 2,496 square foot barn/office;
- 1,740 square foot shop/store;
- pump shed;
- mobile home;
- various other structures; and
- related agricultural equipment.

The entire property comprises 13,236 square feet of gross building area and is fenced and the entrance is gated.

The property is currently rented to a tenant on a month-to-month lease for $2,500 (net $1,250) per month. The tenant manages the property, supervises an outside handyman and maintains some livestock and related equipment on the property.

Surplus Property Determination

On December 18, 2015, the SFPUC Water, Wastewater and Power Enterprises declared that the subject property was no longer essential to the SFPUC's utility needs. On September 12, 2017, the SFPUC determined that the subject property is no longer required for SFPUC operational needs and authorized the sale of the property (Resolution No. 17-0200).

In 2016, in accordance with California Surplus Property Statutes and the City's Surplus Property Ordinance, the City's Real Estate Division offered the subject property to public entities or those requested to be notified at fair market value. No notified parties expressed any interest in purchasing this property.

[1] July 2013 appraisal for $3,384,134 conducted by Associated Right of Way Services for the SFPUC.
[2] The zoning classification for agricultural activities includes growing crops, maintaining plant nurseries, livestock, fish hatcheries, hiking and riding trails.

Proposed Sale of Property

On May 29, 2015, the City's Real Estate Division issued a Request for Bids (RFB) for commercial real estate brokers to sell the subject property and five other SFPUC underutilized properties[3]. The City, on behalf of the SFPUC, contracted with Colliers International CA, Inc. for real estate broker services at the lowest bid of 2.75% commission of the gross sales price. Colliers marketed the property for one year from April 2016 to May 2017 at $4.2 million, based upon a 2016 appraisal[4]. Colliers then solicited bids for the 7484 Sheridan Road property in Sunol between May 10 and 19, 2017 for a minimum price of $3,290,000 based on an updated appraisal[5]. The SFPUC received three initial bids ranging in price from $3,500,000 to $3,550,000.

On May 17, 2017, Timothy Su and Lan Fong Chen, husband and wife, submitted an offer to purchase the property for $3,550,000, which the SFPUC determined to be the highest and most responsible offer. However, on July 7, 2017, the highest bidder declined to proceed with the purchase. The SFPUC retained this bidder's deposit of $40,000 from escrow.

The second bidder withdrew their original purchase price. This second bidder then offered $2.2 million, which was below the appraised value. The SFPUC declined this offer.

On July 14, 2017, the third place bidder submitted an offer to purchase the subject property for $3,305,000, which the SFPUC has now determined to be the highest and best responsible offer.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution

(a) approves and authorizes the execution of a Purchase and Sale Agreement with Buddhi Dharma Lien Guo Foundation (Buyer) for the sale by the City, acting through the SFPUC for approximately 84 acres of improved real property located at 7484 Sheridan Road, Sunol, California for $3,305,000;

(b) adopts findings under the California Environmental Quality Act (CEQA);

(c) adopts findings that the sale is consistent with the General Plan and the priority policies of Planning Code, Section 101.1; and

(d) authorizes the Director of Property and/or the SFPUC's General Manager to execute documents, make certain modifications and take certain actions in furtherance of this resolution.

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[3] The five SFPUC underutilized properties include (1) Bernal Avenue in Pleasanton, Alameda County, which sold in April 2017 for $4,200,000 (File 17-0052; Resolution No.58-17); (2) Helen Drive in Millbrae, San Mateo County, which sold in November 2016 for $2,340,000 (File 17-0053; Resolution No. 59-17); (3) 38208 Canyon Heights Road, Fremont in Alameda County, which went through a bidding process and negotiations to sell in 2016 but due to anti-development sentiment in Fremont, bidders declined to proceed with purchase and the SFPUC is re-evaluating disposition strategy; (4) Right-of-way adjacent to California Drive in Burlingame, San Mateo County, where the SFPUC is working on survey issues; and (5) Manzano Way at Oak Creek Way in Sunnyvale, Santa Clara County where the SFPUC is working on title and survey issues.

[4] May 2016 appraisal for $4,200,000 conducted by Associated Right of Way Services for the SFPUC.

[5] March 2017 appraisal for $3,290,000 conducted by CBRE for John Updike, City's Director of Property.

On June 15, 2017, the Planning Department determined that the sale of the subject property at 7484 Sheridan Road in Sunol did not constitute a project under CEQA guidelines as this action did not result in a physical change in the environment. On June 15, 2017, the Planning Department also found that the subject sale of the SFPUC property at 7484 Sheridan Road in Sunol is consistent with the City's General Plan and eight priority policies of Planning Code Section 101.1.

The proposed resolution would authorize the City's Director of Property and/or the SFPUC General Manager to take all necessary or appropriate actions and enter into any amendments or modifications to the subject Purchase and Sale Agreement to complete the proposed sale of the SFPUC's property at 7484 Sheridan Road in Sunol which do not materially decrease the City's benefits or materially increase the City's liabilities or obligations.

Under the Purchase and Sale Agreement, SFPUC will retain three easements on the property. One Well Easement would allow for two dewatering wells on the property to allow for future construction or maintenance on the tunnels. One Tunnel Easement will allow for subsurface maintenance and use of two aqueduct tunnels and a surface easement for an electric transmission line and telephone line. And one right-of-way Tower Easement will allow for maintenance, repair or replacement for two lines of electrical towers.

FISCAL IMPACT

Appraised Value

As noted above, Administrative Code Section 23.3 requires that before the Board of Supervisors approves a conveyance of property, the Director of Property will obtain an appraisal for property exceeding $10,000 and an appraisal review for property exceeding $200,000 in appraised value. On March 29, 2017, CBRE provided an appraisal report to the City's Director of Property, which appraised the property for $3,290,000. An appraisal review conducted on May 17, 2017 by Colliers International found the appraised value of $3,290,000 to be reasonable.

The Director of Property has determined that the sale price of $3,305,000 plus the value of the three easements (Well Easement, Tunnel Easement and Tower Easement) together meet the requirements of Section 23.3 of the City's Administrative Code for conveyance of real property.

Monthly Property Income and Expenses

As shown in Table 1 below, the SFPUC currently rents the subject property for $2,500, less property management fees of $1,250, for a net income of $1,250 per month. In addition, the cost to maintain this property is $6,700 per month, primarily for a handyman's salary, as outlined in Table 1 below. This results in monthly net expenses of $5,450 per month, or $65,400 of annual costs to the SFPUC. In addition, the SFPUC pays approximately $5,000 of annual property taxes to Alameda County. Therefore, the total annual operating cost to the SFPUC for this property is approximately $70,400.

According to Ms. Russell, this is a large specialty high value ranch and if the SFPUC did not retain the services of an on-site property manager, the property would be at immediate risk of fire, deterioration, vandalism and theft.

Table 1: Monthly Income and Expenses

Monthly Income	
-Monthly Rent	$2,500
-Less On-Site Property Management Services	(1,250)
Total Monthly Income	**$1,250**
Monthly Expenses	
-Maintenance*	$556
-Handyman Salary	5,632
-Handyman Medical Reimbursement	512
Total Monthly Expenses	**$6,700**
Net Monthly Costs	**$5,450**

*Maintenance expenses include landscaping, pool maintenance and pool supplies.
Source: SFPUC

Sale Costs and Net Proceeds

Under the proposed Purchase and Sale Agreement, the buyer will pay 100% of the one-time transfer tax, estimated to be approximately $39,600. The SFPUC will pay 50% of the closing costs. As shown in Table 2 below, if the proposed resolution is approved to sell the property at 7484 Sheridan Road in Sunol for $3,305,000, the SFPUC will receive estimated net proceeds of $3,212,412.

Table 2: Net Proceeds to SFPUC from Sale of Property

Purchase Price	$3,305,000
Less Broker's Commission (2.75%)	(90,888)
Less Closing Costs (50%)	(1,700)
Net Proceeds to the SFPUC	**$3,212,412**

Net proceeds from the property sale will be deposited into the Water Enterprise Fund Balance and used to support future Water Enterprise activities.

POLICY CONSIDERATION

As discussed above, over the past four years, there have been three different appraisals for this property at 7484 Sheridan Road in Sunol:

- In July, 2013 for $3,384,134 by Associated Right of Way Services for the SFPUC;
- In May, 2016 for $4,200,000 by Associated Right of Way Services for the SFPUC; and
- In March, 2017 for $3,290,000 by CBRE for John Updike, City's Director of Property.

In summary, the recent appraisal of $3,290,000 in March 2017 is $94,134 less than the 2013 appraised value and $910,000 less than the 2016 appraised value.

However, Ms. Russell advises that the Mackin Ranch is a very unique property that is difficult to value, according to third-party appraisers, due to the scarcity of comparable properties for sale. Furthermore, Ms. Russell notes that the real estate market never supported the higher 2016 $4.2 million appraised value because, even after a year of dedicated marketing of the property by the Colliers brokers, the SFPUC never received any offers above the ultimately withdrawn bid of $3,550,000.

As discussed above, the City, through the SFPUC, paid $3,721,500 or $337,366 more than the $3,384,134 appraised value to purchase the subject property in 2013. The SFPUC is now requesting sale of the subject property for $3,305,000 which is $416,500 less than the $3,721,500 SFPUC's purchase price for the property. However, the SFPUC advises that the negotiated purchase of the property for $3,721,500 in 2013 resulted in approximately $3 million of savings to the SFPUC's adjacent New Irvington Tunnel Project by avoiding costly construction delays and change orders.

In addition, since 2013, the SFPUC has incurred net operating expenses to own this property of approximately $70,400 annually, or approximately $280,000 over four years. These SFPUC operating expenses will be eliminated when the SFPUC sells the subject property.

The proposed sale price of $3,305,000 is $15,000 more than the $3,290,000 fair market value as determined by the 2017 appraisal and appraisal review. After the SFPUC's brokerage fees and closing costs are deducted[6], the net proceeds of $3,212,412 will be $77,588 less than the $3,290,000 appraised value. However, this difference of $77,588 reflects approximately one year of operating expenses for the SFPUC to continue to own the subject property.

RECOMMENDATION

Approve the proposed resolution.

[6] The brokerage fee and closing costs are ordinary and customary expenses typically borne by sellers of real property in California.