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 2, 2013 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Items 1, 2, 3 and 4 Files 13-0810, 13-0811, 13-0812, and 13-0813	Department: Office of Contract Administration (OCA)

EXECUTIVE SUMMARY

Legislative Objective

File 13-0810 is a resolution authorizing the Office of Contract Administration (OCA) to enter into the fourth amendment to the existing contract between the City and Cornerstone Technology Partners, JV (Cornerstone) to increase the not-to-exceed amount by $10,330,000, from $12,490,000 to $22,820,000, for the contract term ending December 31, 2013.

File 13-0811 is a resolution authorizing OCA to enter into the seventh amendment to the existing contract between the City and En Pointe Technology Sales, Inc. (En Pointe) to increase the not-to-exceed amount by $10,170,000, from $54,640,000 to $64,810,000, for the contract term ending December 31, 2013.

File 13-0812 is a resolution authorizing OCA to enter into the fifth amendment to the existing contract between the City and CCT Technologies, Inc., dba Computerland of Silicon Valley (ComputerLand) to increase the not-to-exceed amount by $8,900,000, from $34,950,000 to $43,850,000, for the term ending December 31, 2013.

File 13-0813 is a resolution authorizing OCA to enter into the seventh amendment to the existing contract between the City and XTech to increase the not-to-exceed amount by $11,450,000, from $68,380,000 to $79,830,000, for the term ending December 31, 2013.

Key Points

- City departments can purchase technology products and services through the City's Technology Store vendors without undergoing a separate competitive process. OCA, which administers the Technology Store vendor contracts, originally selected seven vendors through a competitive Request for Proposals (RFP) process, which were approved by the Board of Supervisors in 2008. The original contracts were for an initial three-year term from January 1, 2009 through December 31, 2011 with two one-year options to extend each of the seven contracts. OCA has exercised the options to extend these seven contracts through December 31, 2013, and will issue an RFP in October 2013 to select new Technology Store vendors for new contracts with start dates of January 1, 2014.
- OCA is requesting to increase the not-to-exceed amount of four of the seven contracts in order to have sufficient spending authority on these contracts through the term ending December 31, 2013, as noted above. One contract with Cornerstone is for as-needed technology services and three contracts with Computerland, En Pointe, and XTech are for as-needed technology products.
- OCA's projections for increased expenditure authority for each of the four contracts are based on: (1) average monthly spending for each of the contracts; (2) a three-month contingency for each of the contracts, which OCA considers necessary to allow for large technology purchases toward the end of the contract term; and (3) large projects planned by City departments and described in Table 3 below.

Fiscal Impact

- The four proposed resolutions would amend existing contracts with four Technology Store vendors, authorizing OCA to increase the not-to-exceed amount for each of the contracts through December 31, 2013, as shown in Table 2 below.
- All expenditures for technology services and products are subject to separate appropriation approval by the Board of Supervisors for each City department, through the Annual Appropriation Ordinance or through supplemental appropriation ordinances.

Recommendation

- Approve the four proposed resolutions.

MANDATE STATEMENT/ BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118(b), City agreements with anticipated expenditures of $10,000,000 or more, or amendments to such City agreements with anticipated expenditures of more than $500,000 are subject to approval by the Board of Supervisors.

Background

City departments can purchase technology products and services through the City's Technology Store's vendors without undergoing another separate independent competitive process.[1] The Office of Contract Administration (OCA), which administers the Technology Store vendor contracts, originally selected seven vendors through a competitive Request for Proposals (RFP) process in 2008.

The Board of Supervisors approved the original seven contracts in December 2008 (File 08-1416) for (a) an initial term of three years from January 1, 2009 through December 31, 2011, with two one-year options to extend each contract through December 31, 2013; and (b) a total not-to-exceed amount of $120,000,000, including:

- Three contracts for as-needed technology products, each in an amount not-to-exceed $24,000,000, or $72,000,000 for the three contracts; and
- Four contracts for as-needed technology services and related products, each in an amount not-to-exceed $12,000,000, or $48,000,000 for the four contracts.

The three vendors for as-needed technology products are:

- En Pointe Technology Sales, Inc. (En Pointe);
- CCT Technologies, Inc., dba ComputerLand of Silicon Valley (ComputerLand); and
- XTech.

The four vendors for as-needed technology services and related products are:

- En Pointe;
- Computerland;
- XTech; and
- Cornerstone Technology Partners (Cornerstone).

OCA has previously amended the contracts with the seven vendors to exercise the two one-year options to extend the contracts through December 31, 2013.

OCA has also previously amended the three contracts with the vendors for technology products to increase the not-to-exceed amount as shown in Table 1 below.

[1]Exceptions are made for products that are sold exclusively through specific manufacturers, federally-funded purchases, and specific projects that are large enough to require a separate RFP process. Purchases for technology products exceeding $100,000 require City departments to solicit bids from no fewer than three Technology Store vendors and to purchase the products from the lowest bidder.

Table 1: Prior Contract Amendments

	En Pointe As Needed Technology Products		Computerland As Needed Technology Products		XTech As Needed Technology Products	
Amendment	**Not-to-Exceed Amount**	**Increase**	**Not-to-Exceed Amount**	**Increase**	**Not-to-Exceed Amount**	**Increase**
Original	$24,000,000		$24,000,000		$24,000,000	
First	28,000,000	4,000,000			41,000,000	17,000,000
Second	28,475,000	475,000	24,490,000	490,000		
Third	38,000,000	9,525,000	34,460,000	9,970,000	51,000,000	10,000,000
Fourth	38,490,000	490,000	34,950,000	490,000	51,490,000	490,000
Fifth	54,150,000	15,660,000			67,890,000	16,400,000
Sixth	54,640,000	490,000			68,380,000	490,000
Total		**$30,640,000**		**$10,950,000**		**$44,380,000**

DETAILS OF PROPOSED LEGISLATION

File 13-0810 is a resolution authorizing OCA to enter into the fourth amendment to the existing contract between the City and Cornerstone to increase the not-to-exceed amount by $10,330,000, from $12,490,000 to $22,820,000, for the contract term ending December 31, 2013.

File 13-0811 is a resolution authorizing OCA to enter into the seventh amendment to the existing contract between the City and En Pointe to increase the not-to-exceed amount by $10,170,000, from $54,640,000 to $64,810,000, for the contract term ending December 31, 2013.

File 13-0812 is a resolution authorizing OCA to enter into the fifth amendment of the existing contract between the City and ComputerLand to increase the not-to-exceed amount by $8,900,000, from $34,950,000 to $43,850,000, for the term ending December 31, 2013.

File 13-0813 is a resolution authorizing OCA to enter into the seventh amendment of the existing contract between the City and XTech to increase the not-to-exceed amount by $11,450,000, from $68,380,000 to $79,830,000, for the term ending December 31, 2013.

The four proposed resolutions would increase the not-to-exceed amount of four contracts, one for as-needed technology services and three for as-needed technology products, through the end of the contract term on December 31, 2013. OCA will issue an RFP for new as-needed technology services and technology products vendors for the Technology Store in October 2013 with the start date for the new Technology Store contracts on January 1, 2014.

Table 2 below shows expected expenditures on the four contracts through December 31, 2013.

Table 2: Proposed Contract Amendments and Expenditure Projections

	Cornerstone As Needed Technology Services (13-0810)	EnPointe As Needed Technology Products (13-0811)	Computerland As Needed Technology Products (13-0812)	XTech As Needed Technology Products (13-0813)
Current Not to Exceed Amount	$12,490,000	$54,640,000	$34,950,000	$68,380,000
Expenditures through June 30, 2013	(11,671,087)	(49,014,019)	(31,118,229)	(61,138,525)
Unexpended Balance as of June 30, 2013	818,913	5,625,981	3,831,771	7,241,475
Projected Additional Expenditures as of December 31, 2013	(1,670,200)	(8,651,151)	(7,778,252)	(10,661,372)
Projected Surplus/ (Deficit)	(851,287)	(3,025,170)	(3,946,481)	(3,419,897)
Three-Month Contingency	(1,276,930)	(4,537,755)	(3,946,481)	(5,129,845)
Pending Large Projects	(8,200,000)	(2,600,000)	(1,000,000)	(2,900,000)
Total Projected Contract Need	(10,328,217)	(10,162,925)	(8,892,962)	(11,449,742)
Proposed Amendment	**$10,330,000**	**$10,170,000**	**$8,900,000**	**$11,450,000**
Difference	$1,783	$7,075	$7,038	$258
Proposed Total Authorization	**$22,820,000**	**$64,810,000**	**$43,850,000**	**$79,830,000**

OCA's expenditure projections for each of the four vendors consist of:

(1) Projected monthly spending through the end of the contract term on December 31, 2013;
(2) A three month contingency; and
(3) Expenditures for pending large technology projects.

According to Mr. Bill Jones of OCA, the three month contingency is necessary to provide expenditure authority for unanticipated technology purchases toward the end of the contract term. OCA has previously recommended and the Board of Supervisors has approved including a three month contingency in the prior contract amendments.

OCA has identified large technology projects which are projected to require purchases from each of the four vendors, as shown in Table 3 below.

Table 3: Technology Services and Products

Vendor	Department	Products or Services	Estimated Amount
Cornerstone	Human Services Agency	Quality assurance, business analyst, project management, desktop refresh and other services	$900,000
	Technology	Project implementation, network installation, contract management and other services	3,500,000
	District Attorney	Information system migration and equipment	200,000
	Public Health	Project management for electronic medical records	500,000
	Municipal Transportation Agency	Network installation, training and equipment	1,550,000
	Airport	Security and compliance services	1,200,000
	Sheriff	Software implementation	200,000
	JUSTIS	Server implementation and support	150,000
Total Cornerstone			**$8,200,000**
Computerland	Airport	Airport video network	1,000,000
Total Computerland			**$1,000,000**
EnPointe	Technology	Network, server, storage equipment	1,400,000
	Airport	Network cabling and equipment	1,100,000
	Port	Storage	100,000
Total EnPointe			**$2,600,000**
XTech	Airport	Local Area Network (LAN) project	207,000
	Recreation and Park	Phone systems	65,000
	Planning	Back-up systems	45,000
	Library	V-block system for networking	336,000
	PUC	Virtual desktop and upgrades	225,000
	Technology	Disaster recovery systems, mobile device management, fire station back up system	1,387,000
	JUSTIS	Server upgrades	186,000
	District Attorney	Disaster recovery system	59,000
	Public Health	Jail Health system	60,000
	Port	Storage upgrade	116,000
	Library	North Beach Branch Library and Digital Media Learning equipment	214,000
Total XTech			**$2,900,000**

FISCAL IMPACT

The four proposed resolutions would amend existing contracts with four Technology Store vendors, authorizing OCA to increase the not-to-exceed amount for each of the contracts through December 31, 2013, as shown in Table 2 above.

All expenditures for technology services and products are subject to separate appropriation approval by the Board of Supervisors for each City department, through the Annual Appropriation Ordinance or through supplemental appropriation ordinances.

RECOMMENDATION

Approve the four proposed resolutions.

Item 5 File 13-0790	Department: Office of the Treasurer and Tax Collector

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would: (1) amend Section 609 of the Business and Tax Regulations Code and Section 1215 of the Police Code to increase from 5 to 10 the number of parking spaces qualified residential parking operators may rent to non-residents, and (2) amend Section 609 of the Business and Tax Regulations Code to increase from $4,000 to $12,000 per quarter and from $15,000 to $40,000 annually the gross receipts qualified residential parking operators may earn from rent in order to qualify for certain regulatory exemptions under the Residential Parking Tax Simplification ordinance.

Key Points

- On September 25, 2012, the Board of Supervisors approved an ordinance to simplify the City's Parking Tax requirements for small residential property owners who rent five or fewer parking spaces and receive income of not more than $4,000 per quarter or $15,000 annually. Such qualified residential parking operators are still subject to collecting and paying the City's 25% Parking Taxes; however, such parking operators are exempt from obtaining a certificate of authority or a commercial parking permit, filing a bond, using specialized collection equipment, and making monthly tax payments. In addition, the Residential Parking Tax Ordinance provided an amnesty to qualified residential parking operators who registered with the Tax Collector's Office between January 1, 2013 and June 30, 2013 from paying all unpaid Parking Taxes, fees, penalties and interest prior to April 1, 2011.
- The proposed ordinance would: (1) increase from 5 to 10 the number of parking spaces qualified residential parking operators may rent to non-residents, and (2) increase from $4,000 to $12,000 per quarter and from $15,000 to $40,000 annually the gross receipts qualified residential parking operators may earn from such parking rent in order to qualify for the specified exemptions.

Fiscal Impact

- The proposed ordinance could increase Parking Tax revenue to the City, although by an unknown amount depending on the number of new residential parking operators that register with the Tax Collector's Office. The Tax Collector would not incur any significant new costs to implement the proposed ordinance.

Policy Considerations

- The proposed ordinance does not include an amnesty for new applicants. As such, prospective registrants may face a disincentive to register, which could result in the City collecting less Parking Tax revenues.
- The proposed ordinance does not amend the Planning Code to increase the number of parking spaces that may be rented to residents who live beyond 1,250 feet of the parking space.

Recommendation

- As the proposed ordinance would amend policy contained in the City's tax law, approval of the proposed ordinance is a policy decision for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Charter Section 2.105 requires that all legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

Background

Article 9, Section 602 of the City's Business and Tax Regulations Code imposes a Parking Tax of 25% on the rent of any parking space in the City. Additionally, unless otherwise exempted, parking operators doing business in San Francisco are required to (a) obtain a certificate of authority from the Tax Collector to collect Parking Taxes, (b) file a bond with the City, (c) make monthly tax payments to the Tax Collector, (d) utilize Revenue Control Equipment to document the amount of parking revenues collected, and (e) obtain a commercial parking permit from the Police Department.[1] The City's Business and Tax Regulations Code defines a parking operator as any proprietor who rents space for parking, ranging from a surface lot to a multi-level covered garage. According to the Tax Collector's Office, approximately 650 registered San Francisco parking operators remitted $81.2 million of Parking Taxes to the City in FY 2012-13.

On September 25, 2012, the Board of Supervisors approved an ordinance (File No. 12-0631) to simplify the City's Parking Tax requirements for small residential properties (Residential Parking Tax Simplification). Under the recently approved Residential Parking Tax Simplification ordinance, a qualified residential parking operator is a residential property owner or manager who:

- Rents five or fewer parking spaces;
- Rents parking spaces on the same residential parcel, or at another parcel within 50 or fewer feet;
- Rents parking space to individuals who do not reside at the property on a monthly basis;
- Maintains records of the names and billing addresses of the occupants of the rented parking space; and
- Receives income of not more than $4,000 in any quarter or $15,000 annually.

In accordance with the recently approved Residential Parking Tax Simplification ordinance, such qualified residential parking operators are still subject to collecting and paying the City's 25% Parking Taxes. However, such qualified residential parking operators are exempt from the following:

- Obtaining a certificate of authority from the Tax Collector to collect Parking Taxes;
- Filing a bond with the City;

[1] In accordance with various provisions of the City's Business and Tax Regulations Code and Police Code.

- Making monthly tax payments to the Tax Collector, such that tax payments would be due annually;
- Utilizing Revenue Control Equipment (RCE) to document the amount of parking revenues collected; and
- Obtaining a commercial parking permit from the Police Department.

In addition, the Residential Parking Tax Simplification ordinance granted amnesty to qualified residential parking operators who registered with the Tax Collector's Office between January 1, 2013 and June 30, 2013 from:

- Paying all unpaid Parking Taxes for the tax years ending before April 1, 2011; and
- Paying all fees, penalties and interest that would normally apply for failure to collect and pay such Parking Taxes.

Implementation of Current Parking Tax Simplification

According to Mr. Greg Kato, the Tax Collector's Policy and Legislative Manager, although required to pay Parking Taxes to the City, many small residential parking operators collect revenue from renting parking spaces but do not remit the required 25% Parking Tax to the City. As a result, Mr. Kato reported that in FY 2011-12, the City collected less than $100,000 in revenues from small residential parking operators who rented out five or fewer parking spaces.

According to Mr. Kato, after the Residential Parking Tax Simplification ordinance was approved, approximately 470 residential parking operators applied for the Residential Parking Tax Simplification program with the Tax Collector between January 1, 2013 and June 30, 2013. These 470 applications are approximately 1,965, or 81%, fewer than the 2,435 residential parking operator registrants that the Tax Collector advised could come forward under the current Residential Parking Tax Simplification program.[2]

Mr. Kato advises that the Tax Collector is currently verifying these applications from residential parking operators and has not begun collecting Parking Tax payments. Mr. Kato notes that although the Tax Collector proposed a supplemental appropriation of $170,011 to implement the Residential Parking Tax Simplification ordinance, no additional funds were appropriated for this purpose and the Tax Collector has used existing staff to implement the program.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would: (1) increase from 5 to 10 the number of parking spaces qualified residential parking operators may rent to non-residents (by amending Section 609 of the Business and Tax Regulations Code and Section 1215 of the Police Code), and (2) increase from $4,000 to $12,000 per quarter and from $15,000 to $40,000 annually the gross receipts qualified

[2] Memorandum from the Tax Collector to Supervisor Weiner dated August 7, 2012.

residential parking operators may earn from such parking rent (by amending Section 609 of the Business and Tax Regulations Code) in order to qualify for the exemptions noted above.

Based on anecdotal accounts, (a) some residential parking operators with more than five parking spaces, but fewer than 11 parking spaces, have evicted renters from parking spaces in order to qualify for the exemptions under the recent Residential Parking Tax Simplification ordinance, and (b) the gross receipts thresholds were too low for some residential parking operators who otherwise would have qualified for the exemptions under the Residential Parking Tax Simplification ordinance.

FISCAL IMPACTS

According to Mr. Kato, the proposed ordinance could increase Parking Tax revenue to the City, although by an unknown amount depending on the number of new residential parking operators that register with the Tax Collector's Office. According to Mr. Kato, an unknown number of residential parking operators continue to operate between 6 and 10 parking spaces and do not pay the City's Parking Tax. Therefore, Mr. Kato stated that the Tax Collector's Office is unable to provide a meaningful estimate of the number of residential parking operators who would register with the City if the existing Residential Parking Tax Simplification ordinance were expanded to include residential parking operators with up to 10 parking spaces and who earn up to $12,000 in gross receipts per quarter or $40,000 in gross receipts annually, as is proposed in the subject ordinance.

The current threshold for gross receipts of $4,000 per quarter and $15,000 per year reflects a maximum monthly rate per parking space of between $250 and $267 assuming the current maximum of five parking spaces. The proposed threshold for gross receipts of $12,000 per quarter to $40,000 per year reflects a maximum monthly rate per parking space of between $333 and $400 assuming the maximum of ten parking spaces. For those residential parking operators with fewer than ten parking spaces, the maximum monthly rates would be higher.

According to Mr. Kato, given that there are few, if any, residential parking operators with between 6 and 10 parking spaces that currently pay the $500 Revenue Control Equipment Compliance Fee, who would no longer be required to do so under the proposed ordinance, such revenue loss would be minimal.

According to Mr. Kato, the Tax Collector would not incur any significant new costs in order to implement the proposed ordinance. Mr. Kato notes that the costs to implement the original Residential Parking Tax Simplification ordinance are currently being absorbed by the Tax Collector's existing staff, without additional funds being appropriated. The minor additional administrative costs that would be incurred if the proposed ordinance is approved could also be absorbed into the Tax Collector's workload, according to Mr. Kato.

POLICY CONSIDERATIONS

Proposed Ordinance Does Not Include a Period of Amnesty for New Registrants

The proposed ordinance does not include a proposed amendment to the Business and Tax Regulations Code to grant amnesty to new applicants from paying all unpaid Parking Taxes for any prior tax years or from paying all fees, penalties and interest that would normally apply for failure to report and pay the Parking Taxes due to the City. Under the proposed ordinance, new applicants would be required to file and remit Parking Taxes, fees, penalties and interest for all tax years in which the new registrants operated a residential parking business. As such, prospective applicants that operate between 6 and 10 parking spaces and earn up to $12,000 per quarter or up to $40,000 annually from rent may face a disincentive to register with the City, relative to those residential parking operators that registered with the City between January 1, 2013 and June 30, 2013.

As a result of such disincentive, it is possible that qualifying small residential parking operators may not register with the City under the proposed ordinance, which could result in the City collecting less Parking Tax revenues than if the proposed ordinance included an initial amnesty period. However, it is impossible to estimate with any confidence or precision the likely response of residential parking operators.

Planning Code Would Still Allow for Only Up to Five Parking Spaces to be Rented to Residents Who Live Beyond 1,250 Feet of the Parking Space

Planning Code Section 204.5 Parking and Loading Accessory Uses limits to 5 the number of parking spaces that may be rented to residents who live beyond 1,250 feet (approximately one-quarter mile) of the parking space, provided they are rented to residents of the city. The proposed ordinance does not amend Planning Code Section 204.5 Parking and Loading Accessory Uses to increase from 5 parking spaces to 10 parking spaces the number of parking spaces that may be rented to residents who live beyond 1,250 feet of the parking space. As such, under the proposed ordinance, qualified residential parking operators would be permitted to rent up to 10 parking spaces and still qualify for the above noted exemptions under the Residential Parking Tax Simplification ordinance; however, in accordance with the existing Planning Code, no more than five of such parking spaces could be rented to residents who live beyond 1,250 feet of the parking space.

RECOMMENDATION

As the proposed ordinance would amend policy contained in the City's tax law, approval of the proposed ordinance is a policy decision for the Board of Supervisors.

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

EXECUTIVE SUMMARY

Legislative Objective

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

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

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

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

Key Points

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

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

Fiscal Impact

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

Policy Consideration

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

Recommendations

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

MANDATE STATEMENT

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

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

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

BACKGROUND

Treasure Island Cooperative Agreement

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

(i) Operation and maintenance of the water, waste water, storm water, electric and gas utility systems;

(ii) Security, public health and safety services;

(iii) Grounds and street maintenance and repair; and

(iv) Property management and caretaker services.

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

Conveyance and Development of Treasure Island and Yerba Buena Island

Development and Disposition Agreement

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

- Construct infrastructure, including utilities and roads, to support housing development on Treasure Island;

- Construct public parks and open spaces;

- Remediate certain hazardous and unstable geologic conditions; and

- Sell ground leases to developers to construct housing and commercial and public facilities.

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

Memorandum of Agreement

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

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

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

DETAILS OF PROPOSED LEGISLATION

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

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

File 13-0885 is a resolution:

(i) Authorizing the execution and delivery of not-to-exceed $13,500,000 of COPS or other forms of indebtedness to finance the costs of additions and improvements to the utility infrastructure of Treasure Island;

(ii) Authorizing the Director of Public Finance to cause the preparation of documents necessary for the execution and delivery of the certificates or other forms of indebtedness, including a Trust Agreement, a Property Lease, a Project Lease, Notice of Sale, Official Notice of Sale, an Official Statement, and if required, a Purchase Contract and such other necessary documents;

(iii) Authorizing the Director of Public Finance to issue commercial paper in an amount not to exceed $13,500,000 in anticipation of the issuance of the COPS or other forms of indebtedness;

(iv) Granting general authority to City officials to take necessary actions in connection with the authorization, issuance, sale and delivery of the commercial paper and COPS;

(v) Approving modifications to documents and agreements;

(vi) Making findings under the California Environmental Quality Act (CEQA) and determination of consistency with the General Plan; and

(vii) Ratifying previous actions taken.

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

Cooperative Agreement (File 13-0884)

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

Memorandum of Understanding (File 13-0886)

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

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

maintenance and operating costs[2]. TIDA and the PUC have not previously had an MOU setting the terms and conditions for PUC to maintain and operate the electricity, gas, water, wastewater and stormwater utility services. The proposed MOU between the PUC and TIDA documents their respective roles in providing these utility services under the existing Cooperative Agreement, including:

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

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

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

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

Status of Treasure Island and Yerba Buena Island Utilities Infrastructure

San Francisco Public Utilities Commission

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

Utility Infrastructure Improvements

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

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

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

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

Table 2: Priority Utility Infrastructure Improvements Identified by the PUC

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

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

Financing the Utility Infrastructure Improvements

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

Commercial Paper and Certificates of Participation Issuance

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

In accordance with the resolution, initial financing of the projects will come from the City's $250 million commercial paper program[3], previously authorized by the Board of Supervisors.

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

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

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

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

Interest Rates and Maturity

The proposed resolution provides for a true interest cost[4] of 12 percent per year with a maturity date of 25 years. According to Ms. Sesay, the estimated true interest cost on the proposed COPS ranges from 2.56 percent to 4.68 percent, and the actual maturity date is 10 years to conform to the useful life of the proposed utilities infrastructure projects.

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

Sale of COPS

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

California Environmental Quality Act and General Plan Conformance

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

- Since the original Environmental Impact Report (EIR) was made final, there have been no substantial project changes or circumstance that affect the EIR; and

- The previous finding that the proposed development on Treasure Island and Yerba Buena Island is consistent with the General Plan (File 11-0228) also applies to the proposed utility project.

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

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

FISCAL IMPACT

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

Table 3: Sources and Uses of Funds

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

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

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

Table 4: Sources of Revenues to Pay Annual Debt Service[1]

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

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

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

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

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

POLICY CONSIDERATION

Issuance of the COPS Would Have a General Fund Impact

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

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

Issuance of Commercial Paper and COPS Obligate the City

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

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

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

Recommendations

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

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

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

(a) Submit a 10-year financial plan to the Board of Supervisors to coincide with the projected debt service on the subject COPS at the same time that the Director of Public Finance submits the financial documents prior to the issuance of the COPS; and

(b) Enter into a separate MOU with the City to reimburse the General Fund for the potential future General Fund subsidies, other than the subsidy for the TIHDI residents, that may be required to meet TIDA's future annual debt service on the COPS.

RECOMMENDATIONS

1. Approve File 13-0883, which is an ordinance appropriating $13,500,000 in Certificates of Participation (COPS) proceeds to finance utility infrastructure improvements on Treasure Island and Yerba Buena Island.
2. Amend File 13-0884, which is a resolution approving the one-year extension of the Cooperative Agreement between the U.S. Navy and TIDA from October 1, 2013 through September 30, 2014, to be retroactive to October 1, 2013; and approve as amended.
3. Amend File 13-0885, which is a resolution authorizing the Director of Public Finance to issue not-to-exceed $13,500,000 of COPS to require TIDA to:

   (a) Provide a report to the Budget and Finance Committee during the annual budget review each year that details the General Fund share of annual debt service for TIHDI residents;

(b) Submit a 10-year financial plan to the Board of Supervisors to coincide with the projected debt service on the subject COPS at the same time that the Director of Public Finance submits the financial documents prior to the issuance of the COPS;

(c) Enter into a separate MOU with the City to reimburse the General Fund for the potential future General Fund subsidies, other than the subsidy for TIHDI residents, that may be required to meet TIDA's future annual debt service on the COPS.

4. Amend File 13-0886, which is a resolution approving a MOU between TIDA and PUC for PUC to maintain and operate Treasure Island and Yerba Buena Island utilities, to be retroactive to October 1, 2013; and approve as amended.

$12,095,000

City & County of San Francisco

Certificates of Participation - Treasure Island Utility Improvements

Debt Service Schedule

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