CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: April 25, 2012 Budget and Finance Sub-Committee Meeting

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Item 1 **File 12-0320**	**Departments:** Public Health

EXECUTIVE SUMMARY

Legislative Objective

- The proposed ordinance would appropriate $2,694,000 from the General Fund Reserve to the Department of Public Health (DPH) to pay for a 4% salary increase for staff nurses, represented by Service Employees International Union (SEIU) Local 1021, and a 5% salary increase for supervising nurses, represented by Teamsters Local 856, from March 31, 2012 through June 30, 2012.

Key Points

- The FY 2011-12 DPH budget, as finally approved by the Board of Supervisors, did not include scheduled salary increases for nurses in the expectation that the labor unions representing nurses would waive or defer the scheduled salary increases because of the City's previously projected budgetary shortfall. However, the unions representing staff nurses, SEIU Local 1021, and supervising nurses, Teamsters Local 856, did not agree to waive or defer salary increases that went into effect on March 31, 2012. Therefore, the Department of Public Health's FY 2011-12 budget has insufficient funds to pay for the MOU-mandated salary increases for staff nurses and supervising nurses.

Fiscal Impacts

- The proposed ordinance would appropriate $2,694,000 in General Fund monies to the DPH FY 2011-12 budget, including (a) $2,407,000 to pay for a 4% salary increase for staff nurses, and (b) $287,000 to pay for a 5% salary increase for supervising nurses for the three-month period from March 31, 2012 through June 30, 2012.

- The current General Fund Reserve balance is $25,000,000. Approval of the proposed ordinance would reduce the General Fund Reserve by $2,694,000, resulting in a remaining balance of $22,306,000.

Recommendation

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

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Charter Section 9.105 requires that amendments to the Annual Appropriation Ordinance be subject to approval by an ordinance of the Board of Supervisors, and may not be adopted unless the Controller certifies the availability of funds.

Background

The FY 2011-12 Department of Public Health (DPH) budget, as finally approved by the Board of Supervisors, did not include scheduled salary increases for nurses in the expectation that the labor unions representing nurses would waive or defer scheduled salary increases because of the City's previously projected budgetary shortfall. However, the unions representing staff nurses, Service Employees International Union (SEIU) Local 1021, and supervising nurses, Teamsters Local 856, did not agree to waive or defer salary increases that went into effect on March 31, 2012. The Memoranda of Understanding (MOUs) between the City and SEIU Local 1021 and Teamsters Local 856 do not expire until June 30, 2012.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate $2,694,000 from the General Fund Reserve to pay for a 4% salary increase for staff nurses, represented by by SEIU Local 790, and 5% salary increase for supervising nurses, represented by Teamsters Local 856, from March 31, 2012 through June 30, 2012.

FISCAL IMPACTS

The requested $2,694,000 would pay for the MOU-mandated salary increases and the associated increases to variable fringe benefits for staff nurses and supervising nurses from March 31, 2012 through June 30, 2012. According to Ms. Risa Sandler, Controller's Office Senior Budget and Revenue Analyst, the Controller's Office calculated the $2,694,000, based on staff nurses' and supervising nurses' (a) projected salaries for FY 2011-12, and (b) actual holiday pay, premium pay, and overtime pay for FY 2010-11.[1] Table 1 below shows the details requested supplemental appropriation.

Table 1
Proposed Supplemental Appropriation

Bargaining Unit	Scheduled Salary Increase on March 31, 2012	Estimated Annual Salaries and Variable Fringe Benefits	Estimated Salaries and Variable Fringe Benefits March 31, 2012 through June 30, 2012	Estimated Amount Needed to Pay MOU-Mandated Salary and Associated Variable Fringe Benefit Increase
SEIU Local 1021 (Staff Nurses)	4%	$240,700,000	$60,175,000	$2,407,000
Teamsters Local 856 (Supervising Nurses)	5%	22,960,000	5,740,000	287,000
Total		**$263,660,000**	**$65,915,000**	**$2,694,000**

Source: Controller's Office

[1] According to Ms. Sandler, salary amounts are budgeted according to job classification, while overtime, holiday, and premium pay are budgeted by department as a whole, not by job classification. Therefore, the best estimate of the overtime, holiday and premium pay component of the total estimated salary expenditures for nurses and supervising nurses is the actual expenditure for these pay categories in the most recently completed fiscal year

The City's current General Fund Reserve balance is $25,000,000. Approval of the proposed ordinance would reduce the General Fund Reserve by $2,694,000, resulting in a remaining General Fund Reserve balance of $22,306,000.

RECOMMENDATIONS

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

Item 2 **File 12-0354**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objective

The proposed ordinance would authorize an increase of $150,000,000 in the San Francisco Public Utilities Commission (PUC) Wastewater Enterprise's Commercial Paper program, from an amount not to exceed $150,000,000 to an amount not to exceed $300,000,000, to be issued from time to time by the PUC to finance various Wastewater Enterprise capital projects pursuant to Proposition E (City Charter Section 8B.124).

Key Points

- The PUC's Sewer System Improvement Program (SSIP) was initiated to overhaul the City's municipal sewer and stormwater treatment and collection systems. The SSIP is projected to have a 15-year cost of $6.0 billion, from 2011 to 2026.
- Under Charter Section 8B.124, the PUC may issue Commercial Paper to provide short-term financing for Wastewater Enterprise capital projects and associated costs. The PUC currently has authorization from the Board of Supervisors to issue up to $150,000,000 in Wastewater Commercial Paper, for use on SSIP projects.
- As of April 19, 2012, the PUC had expended, allocated, or encumbered $146,871,000 against its $150,000,000 Wastewater Commercial Paper issuance authorization, requiring the PUC at this time to either (1) issue long-term debt rather than short-term commercial paper to fund SSIP projects or (2) request the subject proposed increase to the Wastewater Commercial Paper not-to-exceed limit.
- Under San Francisco Charter Section 8B.124, approval of the proposed ordinance requires two-thirds of the Board of Supervisors.

Fiscal Impact

- Any Commercial Paper issued would be refunded by proceeds from Wastewater Revenue Bonds, which are projected to be issued in February 2013 in an amount of up to $297,756,235, as previously authorized by the Board of Supervisors. The Water Revenue Bonds will be repaid from sewer service fees charged to San Francisco residents and businesses.
- According to the PUC Deputy Chief Financial Officer, Mr. Charles Perl, approval of the proposed ordinance would authorize the PUC to issue long-term debt (revenue bonds) with less frequency, thereby reducing the PUC's SSIP-related borrowing costs. Increasing the Wastewater Commercial Paper Program does incur an annual financing fee of approximately $975,000 that is included in the PUC's Wastewater capital budget.

Recommendation

Approve the proposed ordinance.

MANDATE STATEMENT & BACKGROUND

Mandate Statement

Under San Francisco Charter Section 8B.124, the San Francisco Public Utilities Commission (PUC) is authorized to issue revenue bonds, including notes, commercial paper or other forms of indebtedness for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities, subject to approval by two-thirds of the Board of Supervisors. The Board of Supervisors authority to authorize the issuance of debt under Charter Section 8B.124 is subject to (a) certification from an independent engineer that (i) the projects to be financed by such debt meet utility standards and (ii) estimated net revenue will be sufficient to meet operating, maintenance, debt service coverage and other indenture or resolution requirements, and (b) certification by the San Francisco Planning Department that facilities under the PUC's jurisdiction that are to be funded by such debt will comply with the California Environmental Quality Act (CEQA).

Background

In January 2009, the PUC began planning the Sewer System Improvement Project (SSIP) to overhaul San Francisco's municipal sewer and stormwater treatment and collection systems (together, "the sewer system"). The SSIP consists of approximately 20 sewer system capital improvement projects to be constructed from 2011 through 2040 at an estimated cost of $6.9 billion. According to Ms. Karen Kubick, PUC Wastewater Enterprise Capital Program Director, the PUC expects to complete or commence 17 of the 20 sewer system capital improvements and expend and/or encumber $6.0 billion in costs in the first 15 years of the SSIP, between 2011 and 2026. The SSIP was included in the City's Ten Year Capital Expenditure Plan, previously approved by the Board of Supervisors on March 29, 2011 (File 11-0284).

The SSIP is primarily funded through the use of PUC Wastewater Revenue Bonds, which will be repaid from sewer service fee revenues charged to San Francisco residents and businesses. The PUC may initially issue short-term indebtedness, including the issuance of Commercial Paper, in anticipation of the issuance of its Wastewater Revenue Bonds. On October 31, 2006, the Board of Supervisors authorized the PUC to issue Commercial Paper for Wastewater Enterprise capital improvements in an aggregate principal amount not to exceed $150,000,000 (File 06-1298). On April 27, 2010, the Board of Supervisors authorized the PUC to issue $297,756,235 in Wastewater Revenue Bonds for the SSIP (File 10-0340).

On December 13, 2011 the PUC Commission authorized an increase of $150,000,000 in commercial paper from $150,000,000 to $300,000,000 to provide additional short-term financing of Wastewater capital projects, including SSIP-related costs. According Mr. Frank McPartland, Capital Project Budget Manager for the PUC, as of April 19, 2012, the PUC had expended, allocated, or encumbered $146,871,000 against its existing $150,000,000 Wastewater Commercial Paper issuance authorization, leaving a balance of $3,129,000.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would authorize an increase of the San Francisco Public Utilities Commission (PUC) Wastewater Enterprise's Commercial Paper program by $150,000,000, from an amount not to exceed $150,000,000 to an amount not to exceed $300,000,000 to finance various SSIP-related capital projects.

Table 1, below, lists the SSIP and other Wastewater capital projects included in the PUC's FY 2011-12 Capital Budget, totaling an estimated $124,311,550, that are projected to be expended, allocated, or encumbered against the requested additional requested $150,000,000 in Wastewater Commercial Paper issuance authorization. In addition, the PUC anticipates requiring an additional $25,688,450 in Wastewater Commercial Paper authorization for FY 2012-13 capital projects through February 2013, for a total estimated additional Wastewater Commercial Paper authorization need of $150,000,000

Table 1. Anticipated Expenditures, Allocations, and/or Encumbrances, from FY 2011-12 through February 2013

FY 2011-12 Project Title	**FY 2011-12 Remaining**
Sewer Repair	$31,196,000
Treatment Facilities Improvements	43,700,000
Treasure Island Capital Improvements2	3,000,000
Biofuel Alternative Energy Program	2,000,000
Low Impact Design Project	1,500,000
WWE RNR Collection System	7,445,550
Outfall Inspection/Receiving Water	3,500,000
Central Bayside System Improvements	15,000,000
Biosolids/Digester Project Budget	13,000,000
SSIP Planning Project	2,000,000
Bayside & Westside Pump Stations	1,020,000
Richmond Basin Improvements	950,000
Total FY 2011-12 Projects	**$124,311,550**
Estimated Project Costs through February 2013	$25,688,450
Total Anticipated Commercial Paper Need Prior to February 2013 Bond Issuance	**$150,000,000**

As is discussed in the Background section above, as of April 19, 2012 the PUC had expended, allocated, or encumbered $146,871,000 against its existing $150,000,000 Wastewater Commercial Paper issuance authorization, leaving a balance of $3,129,000. However, the PUC is requesting a full additional $150,000,000 in Wastewater Commercial Paper authorization in order to provide the PUC with flexibility for funding capital projects through February 2013 and throughout the life of the SSIP.

As is noted in the Mandate Statement section above, the Board of Supervisors' authority to authorize an issuance of debt under Charter Section 8B.124 is subject to (a) certification from an independent engineer that (i) the projects to be financed by such debt meet utility standards and (ii) estimated net revenue will be sufficient to meet operating, maintenance, debt service coverage and other indenture or resolution requirements, and (b) certification by the San Francisco Planning Department that facilities under the PUC's jurisdiction that are to be funded by the bonds will comply with the California Environmental Quality Act (CEQA). According to Mr. Mike Brown, Capital Finance Analyst for the PUC, these conditions have been met and the related documentation has been filed with the Clerk of the Board.

As is noted in the Mandate Statement section above, under City Charter Section 8B.124, approval of the proposed ordinance requires two-thirds of the Board of Supervisors.

FISCAL IMPACT

Any Commercial Paper costs would be refunded by revenue from Wastewater Revenue Bonds, which are projected to be issued in February 2013 in an amount of up to $297,756,235, as previously authorized by the Board of Supervisors. The debt service on the Wastewater Revenue Bonds is repaid from sewer service fee revenues.

According to PUC Deputy CFO Mr. Charles Perl, the proposed ordinance would allow the PUC to proceed with the SSIP with greater efficiency by authorizing an increase of an amount not-to-exceed $150,000,000 in Commercial Paper, which would result in issuing long-term debt with less frequency, thereby reducing the PUC's borrowing costs. Mr. Perl notes that current estimated average Commercial Paper rates of 0.97 percent provide a low cost, short-term financing alternative to Wastewater Revenue Bonds. According to Mr. Brown, the PUC's 0.97 percent Wastewater Commercial Paper rate consists of (a) dealer fees of 7 basis points, (b) interest of 25 basis points, and (c) bank fees of 65 basis points, for a total of 97 basis points, or 0.97 percent. According to Mr. Brown, the bank fees of 65 basis points are charged to the PUC regardless of the amount of outstanding Wastewater Commercial Paper. Therefore, increasing the Commercial Paper allocation by $150,000,000 would result in a corresponding annual cost of $975,000 (0.65 percent of $150,000,000). According to Mr. Brown, the Wastewater Commercial Paper Program fee would be included the PUC's Wastewater capital budget.

As compared to the 0.97 percent for Commercial Paper, the PUC estimates that the issuance of Water Revenue Bonds at this time would result in interest rates of 4.5 percent to 5.0 percent.

POLICY CONSIDERATION

The Alternatives to Increasing PUC's Wastewater Commercial Paper Not-to-Exceed Limit Include Issuing Long-term Debt

According Mr. McPartland, as of April 19, 2012, the PUC had expended, allocated, and/or encumbered $146,871,000 against its existing $150,000,000 Wastewater Commercial Paper issuance authorization. Because, as shown in Table 1 above, the PUC anticipates a need of an additional $150,000,000 for expenditures for SSIP projects and other Wastewater capital improvements, the PUC either has to issue an estimated up to $150,000,000 of long-term debt to fund such projects, or request the proposed subject increase of Wastewater Commercial Paper in a not-to-exceed amount of $150,000,000. The advantage of utilizing Commercial Paper is that it would allow the PUC to delay issuance of SSIP Wastewater Revenue Bonds from Spring/Summer 2012 until Spring 2013 and allow the PUC to issue long-term debt with less frequency over the life of SSIP. As noted above in the Fiscal Impact section of this report, the interest rate paid on Commercial Paper is presently estimated at 0.97 percent, as compared to the estimated 4.5 to 5.0 percent interest rates on Wastewater Revenue Bonds.

RECOMMENDATION

Approve the proposed ordinance.

Item 3 File 12-0355	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objective

The proposed resolution would approve (a) San Francisco Public Utilities Commission's (PUC) issuance of previously authorized Water Revenue Bonds in a total not-to-exceed amount of $692,000,000, including (1) an amount not to exceed $675,000,000 (Series 2012A) to finance various projects under the Water System Improvement Program (WSIP), pursuant to City Charter Section 8B.124; and (2) an amount not to exceed $17,000,000 (Series 2012B) to finance the reimbursement of legal settlement costs related to various projects under the PUC's Water Enterprise Capital Improvement Program, pursuant to Proposition A, enacted by voters on November 5, 2002; (b) PUC's issuance of Water Revenue Refunding Bonds to refinance outstanding Water Revenue bonds at a lower interest rate; (c) affirming covenants contained in the indenture pursuant to which the Water Revenue Bonds are issued; and (d) related matters.

Key Points

- The Water System Improvement Program (WSIP) was initiated to repair, replace, and seismically upgrade the Hetch Hetchy water system's aging pipelines, tunnels, pumps, tanks, reservoirs and dams. The approved WSIP project budget is $4,113,856,317, plus $471,700,000 in financing costs, for a total cost of $4,585,556,317. WSIP is funded with PUC Water Revenue Bonds, the debt service from which will be repaid from revenues received from water rates charged to the PUC's water customers.
- Series 2012B, in an amount not to exceed $17,000,000, would reimburse the PUC Water Enterprise for settlement costs incurred in nine lawsuits involving the PUC and Mitchell Engineering, pertaining to a water-related construction project. The Board of Supervisors previously approved the Mitchell Settlement on October 4, 2011 (File 11-0955).
- Although the PUC is requesting Water Revenue Bond issuance authorization in an amount not to exceed $675,000,000 for Series 2012A, the PUC requires issuance authority in the amount of $636,079,195. Therefore the issuance authorization for Series 2012A should be reduced by $38,920,805 to meet the PUC's actual need.
- Similarly, although the PUC is requesting Water Revenue Bond issuance authority in an amount not to exceed $17,000,000 for Series 2012B, the PUC requires issuance authority in the amount of $16,439,670. Therefore the issuance authorization for Series 2012B should be reduced by $560,330 to meet the PUC's actual need.
- However, the PUC notes that any market volatility could result in increased borrowing rates with corresponding increased borrowing costs. Therefore, the PUC has requested a reduction for the Series 2012A bond issuance in the amount of $25,000,000 instead of $38,920,805, which would result in a Water Revenue Bond amount not to exceed $650,000,000. The PUC also requested that there be no reduction of the Series 2012B bond issuance.
- The proposed resolution also includes authorization to issue Water Revenue Refunding Bonds, which the PUC would use to refinance outstanding Water Revenue Bonds at a lower interest rate, and thereby generate savings.

Fiscal Impact

- The PUC would authorize the issuance of up to $692,000,000 in Water Revenue Bonds in June 2012 for both WSIP projects ($675,000,000 - Series 2012A) and litigation costs related to other PUC Water Enterprise capital projects ($17,000,000 – Series 2012B). Debt service for the up to $692,000,000 Water Revenue Bonds issuance would total an estimated $1,350,881,550 for series 2012A and $34,352,600 for 2012B, or a total of $1,385,234,150 over 30 years, including $599,570,000 in principal and $785,664,150 in interest. The PUC estimates the average annual debt service for Series 2012A and Series 2012B would be $45,566,913 per year for 30 years. This new debt service would impact the average single San Francisco family's water bill by $0.11 per month in FY 2012-13; $0.12 per month in FY 2013-14; $0.85 per month in FY 2014-15; and $1.72 per month in both FY 2015-16 and FY 2016-17. Full repayment would impact water rates for 30 years. Repayment of debt for WSIP uses would be paid by both the PUC's retail water customers and wholesale water customers.
- The proposed resolution would also authorize the PUC to refund outstanding Water Revenue Bonds with Water Revenue Refunding Bonds in the future if market rates were favorable to such an exchange. Under the proposed resolution, there is no set limit on the proposed Water Revenue Refunding Bonds that the PUC may issue. However, any issuance of Water Revenue Refunding Bonds would need to meet the City's minimum refunding bond standards of exceeding a 3 percent savings at the time of sale. Based on the PUC's plans to refund outstanding Series 2001A, 2002A, and 2002B Water Revenue Bonds in the amount of $139,172,999, the PUC would realize an estimated savings of $9,000,000 based on estimated lower interest rates on a present value basis over the life of the bonds.

Recommendations

- Amend the proposed resolution by reducing the PUC's total requested Water Revenue Bond issuance authorization by $25,000,000, from $692,000,000 to $667,000,000 ($650,000,000 for Series 2012A and $17,000,000 for Series 2012B), to meet the PUC's actual anticipated need by replacing $675,000,000 with $650,000,000 on page 1, line 5; page 3, line 25; and page 5, line 9.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT & BACKGROUND

Mandate Statement

Under San Francisco Proposition A (November 5, 2002), the San Francisco Public Utilities Commission (PUC) is authorized to issue revenue bonds and other forms of financing in an amount of up to $1,628,000,000 to finance the acquisition and construction of improvements to the City's water system, subject to Board of Supervisors approval.

Under San Francisco Charter Section 8B.124 (Proposition E, November 5, 2002), the PUC is authorized to issue revenue bonds, including notes, commercial paper or other forms of indebtedness for the purpose of reconstructing, replacing, expanding, repairing or improving water facilities or clean water facilities, subject to approval by two-thirds of the Board of Supervisors. The Board of Supervisor's authority to authorize an issuance of debt under Charter Section 8B.124 is subject to (a) certification from an independent engineer that (i) the projects to be financed by such debt meet utility standards and (ii) estimated net revenue will be sufficient to meet operating, maintenance, debt service coverage and other indenture or resolution requirements, and (b) certification by the San Francisco Planning Department that facilities under the PUC's jurisdiction that are to be funded by the debt will comply with the California Environmental Quality Act (CEQA).

Background

The PUC's Water System Improvement Program (WSIP) consists of 86 projects organized into 11 project regions to repair, replace, and seismically upgrade the Hetch Hetchy water system's aging pipelines, tunnels, pumps, tanks, reservoirs and dams. PUC commenced the WSIP in FY 2002-03 and is scheduled to complete all projects by the end of July 2016. The approved WSIP project budget is $4,113,856,317, plus $471,700,000 in financing costs, for a total cost of $4,585,556,317. WSIP is funded with PUC Water Revenue Bonds, the debt service from which will be repaid from revenues received from water rates charged to the PUC's water customers.

As is noted in the Mandate Statement section above, on November 5, 2002, San Francisco voters approved (a) Proposition A, authorizing the PUC to issue up to $1,628,000,000 in revenue bonds and other forms of financing to finance the acquisition and construction of improvements to the City's water system, subject to Board of Supervisors approval, and (b) Proposition E, authorizing the PUC to issue revenue bonds and other forms of financing water and clean water facilities and services, subject to approval by two-thirds of the Board of Supervisors. Total Water Revenue Bond authorization for the WSIP is $4,585,556,317, which includes $1,628,000,000 authorized by Proposition A and $2,957,556,317 authorized by the Board of Supervisors in accordance with Proposition E.

As shown in Table 1 below, the PUC has issued Water Revenue Bonds totaling $1,331,815,000 of the total of $1,628,000,000 authorized under Proposition A, and $1,968,425,000 of the total of $2,957,556,317 previously authorized by the Board of Supervisors for WSIP-related costs in accordance with Proposition E.

Table 1. Water Revenue Bond Issuance History

	WSIP	Non-WSIP	Total
Proposition A			
Total Authorization	**$1,628,000,000**		
Prop A WSIP Bonds Issued			
Series	**Par**	**Par**	
2006A	$507,815,000	$0	$507,815,000
2009A	412,000,000	0	412,000,000
2009B	412,000,000	0	412,000,000
Total Issued, Prop A	**$1,331,815,000**	**0**	**1,331,815,000**
Remaining Capacity, Prop A	**$296,185,000**	**0**	**296,185,000**
Proposition E			
Total Prop. E WSIP Authorization*	**$2,957,556,317**	**$139,574,840**	**$3,097,131,157**
Prop E WSIP Bonds Issued			
Series	**Par**	**Par**	
2010A	$0	$ 56,945,000	$ 56,945,000
2010B	417,720,000	0	417,720,000
2010D	71,360,000	0	71,360,000
2010E	344,200,000	0	344,200,000
2010FG	532,430,000	0	532,430,000
2011A	602,715,000	0	602,715,000
2011B	0	28,975,000	28,975,000
2011C	0	33,595,000	33,595,000
Total Issued, Prop E	**$1,968,425,000**	**$119,515,000**	**$2,087,940,000**
Remaining Capacity, Prop E	**$989,131,317**	**$20,059,840**	**$1,009,191,157**
Total Bond Authorization	**$4,585,556,317**	**$139,574,840**	**$4,725,131,157**
Total Bonds Issued	**$3,300,240,000**	**$119,515,000**	**$3,419,755,000**
Total Remaining Bond Authorization	**$1,285,316,317**	**$20,059,840**	**$1,305,376,157**

Source: PUC

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve (a) the PUC's issuance of Water Revenue Bonds previously authorized by the Board of Supervisors in a total not-to-exceed amount of $692,000,000, including (1) an amount not to exceed $675,000,000 (Series 2012A) to finance various projects under the

PUC's Water Enterprise Water System Improvement Program (WSIP), pursuant to City Charter Section 8B.124; and (2) an amount not to exceed $17,000,000 (Series 2012B) to finance the reimbursement of legal settlement costs related to various projects under the PUC's Water Enterprise Capital Improvement Program, pursuant to Proposition A, enacted by voters on November 5, 2002; (b) the PUC's issuance of Water Revenue Refunding Bonds to refund outstanding debt; (c) affirming covenants contained in the indenture pursuant to which the Water Revenue Bonds are issued; and (d) related matters.

Water Revenue Bonds

Under the proposed resolution, the PUC could issue up to $692,000,000 in Water Revenue Bonds in June 2012 for both WSIP projects ($675,000,000 - Series 2012A) and litigation costs related to other Water Enterprise capital projects ($17,000,000 – Series 2012B).

According to Mr. Mike Brown, Capital Finance Analyst for the PUC, Water Revenue Bonds Series 2012A, the up to $675,000,000 Water Revenue Bonds, would be allocated to the WSIP projects listed in the Attachment to this report, provided by the PUC. As is shown in the Attachment, the Water Revenue Bond allocations to the various projects total $530,000,000. Debt issuance costs are shown in Table 2, below.

The Water Revenue Bond Series 2012B would be in an amount not to exceed $17,000,000 in Proposition A Bonds in order to reimburse the PUC Water Enterprise for settlement costs incurred in nine lawsuits involving the SFPUC and Mitchell Engineering, related to water-related construction projects, including associated financing costs. The bonds will be sold as Series 2012B and under the authority of Proposition A. The Board of Supervisors previously approved the Mitchell Settlement on October 4, 2011 (File 11-0955).

Breakdowns of the projected uses for both Series 2012A and 2012B are shown in Table 2, below.

Table 2. Anticipated Water Revenue Bond Uses

	Series 2012A	Series 2012B	Total
Project Fund	$530,000,000	$15,500,000	$545,500,000
Capitalized Interest Fund	69,766,216		69,766,216
Debt Service Reserve Fund	32,966,980	850,557	33,817,537
Cost of Issuance	421,036	10,863	431,899
Underwriter's Discount	2,922,450	75,400	2,997,850
Additional Proceeds	2,513	2,851	5,364
Total	**$636,079,195**	**$16,439,670**	**$652,518,865**
Issuance Authorization Requested	**$675,000,000**	**$17,000,000**	**$692,000,000**
Difference	**$38,920,805**	**$560,330**	**$39,481,135**

Source: PUC presentation to San Francisco Revenue Bond Oversight Committee, April 16, 2012.

As Table 2 shows, for both Series 2012A and 2012B, the projected totals uses are $39,481,135 less than the $692,000,000 in Water Revenue Bond authorization being requested. This issue is discussed in the Policy Considerations section below.

Water Revenue Refunding Bonds

The proposed resolution would also authorize the issuance of Water Revenue Refunding Bonds, which the PUC would use to refinance outstanding Water Revenue Bonds at a lower interest rate, and thereby generate savings. Under the proposed resolution, there is no set limit on the proposed Water Revenue Refunding Bonds that the PUC may issue. However, any issuance of Water Revenue Refunding Bonds would need to meet the City's minimum refunding bond standards of meeting or exceeding a 3 percent savings at the time of sale. The PUC reports that few of the PUC's outstanding Water Revenue Bonds would qualify for refunding, due in part to much of the PUC's debt being issued during a period of historically low borrowing rates. However, at this time, the PUC's objective is to use Water Revenue Refunding Bonds to refinance the outstanding PUC's Series 2001A, 2002A, and 2002B Water Revenue Bonds, in an amount totaling $139,172,999.

As is noted in the Mandate Statement section above, the Board of Supervisor's authority to authorize an issuance of debt under Charter Section 8B.124 is subject to (A) certification from an independent engineer that (i) the projects to be financed by such debt meet utility standards and (ii) estimated net revenue will be sufficient to meet operating, maintenance, debt service coverage and other indenture or resolution requirements, and (B) certification by the San Francisco Planning Department that facilities under the PUC's jurisdiction that are to be funded by the bonds will comply with the California Environmental Quality Act (CEQA). According to Mr. Brown, these documents have been filed with the Clerk of the Board.

FISCAL IMPACTS

According to Mr. Brown, debt service for the up to $692,000,000 Water Revenue Bonds issuance would total an estimated $1,350,881,550 for series 2012A and $34,352,600 for 2012B, or a total debt service of $1,385,234,150 over 30 years, including $599,570,000 in principal and $785,664,150 in interest. The PUC estimates the average annual debt service for Series 2012A and Series 2012B would be $45,566,913 per year for 30 years. This new debt service would impact the average single San Francisco family's water bill by $0.11 per month in FY 2012-13; $0.12 per month in FY 2013-14; $0.85 per month in FY 2014-15; and $1.72 per month in both FY 2015-16 and FY 2016-17. Full repayment would impact water rates for 30 years. Repayment of debt for WSIP uses would be paid by both the PUC's retail water customers and wholesale water customers.

The proposed resolution would also authorize the PUC to refund outstanding Water Revenue Bonds with Water Revenue Refunding Bonds in the future if market rates were favorable to such an exchange. According to Mr. Brown, based on the PUC's plans to refund outstanding Series 2001A, 2002A, and 2002B Water Revenue Bonds in a total estimated amount of $139,172,999, the PUC would realize an estimated savings of $9,000,000, on a present value basis over the life of the bonds at a blended interest rate of between 2.75 percent and 5.0 percent.

POLICY CONSIDERATIONS

As Shown in Table 2 above, the Requested Water Revenue Bond Issuance Authorization Exceeds the PUC's Current Anticipated Needs by $39,481,135

As shown in Table 2 above, although the PUC is requesting Water Revenue Bond issuance authorization in an amount not to exceed $675,000,000 for the Series 2012A, the PUC reports that it currently anticipates requiring issuance authority in amount of $636,079,195.

As also shown in Table 2 above, similarly, although the PUC is requesting Water Revenue Bond issuance authorization in an amount not to exceed $17,000,000 for the Series 2012B, the PUC reports that it currently anticipates requiring issuance authority in amount of $16,439,670.

Therefore, as shown in Table 2 above and based on the PUC's current anticipated needs, the requested issuance authorization for Series 2012A should be reduced by $38,920,805, from $675,000,000 to $636,079,195 and Series 2012B should be reduced by $560,330, from $17,000,000 to $16,439,670.

However, the PUC notes that any market volatility could result in increased borrowing rates with corresponding increased borrowing costs. Therefore, the PUC has requested a reduction for the Series 2012A bond issuance in the amount of $25,000,000 instead of $38,920,805, which would result in a Water Revenue Bond amount not to exceed $650,000,000. The PUC also requested that there be no reduction for of the Series 2012B bond issuance.

RECOMMENDATION

1. Amend the proposed resolution by reducing the PUC's total requested Water Revenue Bond issuance authorization by $25,000,000, from $692,000,000 to $667,000,000 ($650,000,000 for Series 2012A and $17,000,000 for Series 2012B), to meet the PUC's actual anticipated need by replacing $675,000,000 with $650,000,000 on page 1, line 5; page 3, line 25; and page 5, line 9.
2. Approve the proposed resolution, as amended.

Region	Project ID	Project Name	Total 2012 A Bonds	
San Joaquin Region	CUW37301	San Joaquin Pipeline System	$	17,794,741
	CUW37302	Rehabilitation of Existing San Joaquin Pipelines	$	281,950
	CUW38401	Tesla Treatment Facility	$	963,749
Sunol Valley Region	CUW35201	Upper Alameda Creek Filter Gallery	$	5,463,362
	CUW35901	New Irvington Tunnel	$	12,156,809
	CUW35902	Alameda Siphon #4	$	12,578
	CUW37401	Calaveras Dam Replacement	$	51,165,390
	CUW37403	San Antonio Backup Pipeline	$	34,190,273
	CUW38101	SVWTP Expansion & Treated Water Reservoir	$	12,621,870
Bay Division Region	CUW35302	Seismic Upgrade of BDPL Nos. 3 & 4	$	55,038,943
	CUW36801	BDPL Reliability Upgrade - Tunnel	$	25,646,134
	CUW36802	BDPL Reliability Upgrade - Pipeline	$	3,086,458
	CUW38001	BDPL Nos. 3 & 4 Crossovers	$	2,170,864
Peninsula Region	CUW35401	Lower Crystal Springs Dam Improvements	$	24,586
	CUW36105	Pulgas Balancing - Modifications of the Existing Dechloramination Facility	$	43,679
	CUW36701	HTWTP Long-Term Improvements	$	19,311,644
	CUW36702	Peninsula Pipelines Seismic Upgrade	$	4,079,971
	CUW37101	Crystal Springs/San Andreas Transmission Upgrade	$	16,603,250
	CUW37801	Crystal Springs Pipeline No. 2 Replacement	$	6,673,778
	CUW39101	Baden and San Pedro Valve Lots Improvements	$	32,571
San Francisco Regional Region	CUW30103	Regional Groundwater Storage and Recovery	$	49,611,063
Support Projects	CUW36302	System Security Upgrades	$	4,591,801
	CUW38802	Bioregional Habitat Restoration	$	13,925,500
	CUW39201	Program Management Project	$	16,466,046
	CUW39401	Watershed Environmental Improvement Program	$	16,388,516
Reservoirs	CUW31901	Hunters Point Reservoir Rehab & Seismic Upgrade	$	21,134
	CUW33701	Sutro Reservoir Rehab & Seismic Upgrade	$	6,907,894
Pump Stations / Tanks	CUW30901	Lake Merced Pump Station Essential Upgrades	$	602,407
	CUW32001	Forest Hill Pump Station Upgrades	$	1,260,113
	CUW33801	La Grande Pump Station Upgrades	$	36,183
Local Water Supply	CUW30101	Lake Merced Water Level Restoration	$	3,787,912
	CUW30102	San Francisco Groundwater Supply	$	37,838,690
	CUW30201	San Francisco Westside Recycled Water	$	107,412,036
	CUW30204	Harding Park Recycled Water	$	38,216
	CUW30205	San Francisco Eastside Recycled Water	$	3,749,888
2012 A Bonds		**TOTAL**	**$**	**530,000,000**

Item 5 File 12-0274	Department: Recreation and Park Department

EXECUTIVE SUMMARY

Legislative Objective

- Ordinance amending the San Francisco Park Code, Article 12, by: (1) amending Section 12.35 to increase Music Concourse Parking Garage rates and eliminate the early bird rate; (2) amending Section 12.20 to clarify the requirements for annual fee adjustments; and, (3) adding a new Section 12.49 to ratify prior fees and fee adjustments; and making environmental findings and findings of consistency with the City's General Plan.

Key Points

- The Music Concourse Community Partnership (MCCP), a non-profit organization, entered into a 35-year ground lease with the Recreation and Park Department in 2004 for the construction and operation of the Music Concourse Parking Garage. Music Concourse Parking Garage revenues are intended to cover the parking garage's expenditures, including lease revenues to the Recreation and Park Department and debt service on debt incurred for the construction of the Music Concourse Parking Garage. MCCP partially financed construction of the Music Concourse Parking Garage through Bond Anticipatory Notes, which were refinanced in 2010 with Bank Qualified tax-exempt bonds. According to the City's Office of Public Finance, the Bank Qualified tax-exempt bonds are not a debt of the City.
- The proposed ordinance would (a) increase the weekday parking rate by $1.00 per hour, from $3.50 per hour to $4.50 per hour, and the weekend parking rate by $1.00 per hour, from $4.00 per hour to $5.00 per hour; (b) increase the flat rate for parking after 6:00 p.m. from $12.00 to $15.00; and (c) eliminate the early bird rate which has been $11.00. The monthly flat rate of $200.00 is unchanged.
- The proposed ordinance would also eliminate the Park Code provision that limit Recreation and Park Department parking garage rates and fees for programs, services, and use of facilities to the amount necessary to recover costs. The provision limiting parking garage rates and other fees to the amount needed to recover costs was intended for regulatory fees covering permits, licenses, and other regulatory requirements, and not for parking garage rates and other non-regulatory fees.

Fiscal Impacts

- The proposed increase in parking garage rates as of June 1, 2012 would result in estimated increased parking garage revenues in FY 2011-12 of $93,135 for the month of June. However, there would still be an estimated budgetary shortfall of $1,188,754 in FY 2011-12. According to Ms. Jan Berckefeldt, MCCP Managing Director, MCCP will offset the projected budgetary shortfall in FY 2011-12 through deferred payments to City Park, which serves as the Music Concourse Parking Garage operator through a management agreement between City Park and MCCP.

- According to Ms. Berckefeldt, the proposed $1.00 per hour parking rate increases for both weekdays and weekends are estimated to generate sufficient revenues in FY 2012-13 to cover expenditures. According to Ms. Berckefeldt, MCCP is also working with City Park to reduce operating expenditures.

Recommendation

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

BACKGROUND

In 1998 voters approved Proposition J, authorizing the construction of an underground parking garage in the Music Concourse of Golden Gate Park. In 2004, the City entered into a ground lease with the Music Concourse Community Partnership (MCCP), a non-profit organization which had been formed to construct and manage the Music Concourse Parking Garage until its eventual transfer to the City in 2039 when the debt on the garage is scheduled to be retired. In 2005, the 800-space parking garage opened to the public.

According to Ms. Jan Berckefeldt, Managing Director of MCCP, the construction of the parking garage was funded through a combination of $36.4 million in private contributions and $26.5 million in Bond Anticipatory Notes (BANs) incurred by MCCP. In December 2010, MCCP refinanced the BANs, via a Bank Qualified tax-exempt bond program through the American Recovery and Reinvestment Act (ARRA) of 2009. First Republic Bank is the loaning institution and Bank of New York Mellon acts as the Trustee. Debt on the parking garage is scheduled to be retired in 2039. Title to the parking garage will then be transferred to the Recreation and Park Department. According to Ms. Berckefeldt, the City's General Fund is not liable for MCCP's debt through the Bank Qualified tax-exempt bond program[1].

Ms. Katherine Petrucione, Recreation and Park Department Director of Administration and Finance, advises that the proposed ordinance is being requested in partnership with MCCP. The current parking garage rates were previously approved by the Board of Supervisors in July 2010 (File 10-0708), and are intended to cover the parking garage's operating expenses, including the annual rent of $100,000 paid by MCCP to the Recreation and Park Department and the annual debt service of $2,158,130 ($179,844 monthly).

MCCP staff compiled various parking garage rates with the help of the San Francisco Municipal Transportation Agency's (SFMTA) Off-Street Parking Director in order to compare parking rates at SFMTA parking garages and at private parking garages located in San Francisco. Parking garage rates varied greatly in the area with some parking garages charging $3.00 per hour (such as 560 Mission Garage, Jessie Square Garage, and San Francisco Museum of Modern Art Garage), $10.00 per hour (such as 455 Market Garage and Paramount Garage), and as high as $25.00 per hour (such as Red Cross Garage).

[1] According to the November 9, 2010 memorandum from the City's Director of Public Finance to the Board of Supervisors, the Bank Qualified tax-exempt bonds are not a debt of the City, nor will any funds of the City be pledged to the repayment of Bonds.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the San Francisco Park Code, Article 12, by: (1) amending Section 12.35 to increase Music Concourse Parking Garage rates and eliminate the early bird rate; (2) amending Section 12.20 to clarify the requirements for annual fee adjustments; and, (3) adding a new Section 12.49 to ratify prior fees and fee adjustments; and making environmental findings and findings of consistency with the City's General Plan.

Table 1 below shows the proposed changes to the Music Concourse Parking Garage rates.

Table 1
Proposed Music Concourse Parking Garage Rate Increases

	Existing Rate	Proposed New Rate	Increase
Weekdays	$3.50	$4.50	$1.00
Weekends	$4.00	$5.00	$1.00
Flat Rate After 6:00 p.m.	$12.00	$15.00	$3.00
Early Bird Rate	$11.00	Rate will be eliminated	n/a
Monthly Rate (daytime)	$200.00	$200.00	n/a

Annual Parking Rate and Other Fee Increases

The proposed ordinance would eliminate the existing language in Park Code Section 12.20, which requires the Controller to certify that the parking fees in Article 12 do not produce revenue significantly more than the costs of providing the services for which the fees are assessed ("cost recovery limitation"). This limitation is intended to apply to a category of fees called "regulatory fees." Regulatory fees are imposed to recover costs incurred from providing regulatory services, such as issuing licenses, performing investigations, inspections and audits.

However, parking rates charged by the Music Concourse Community Partnership (MCCP) and other fees included in Park Code Article 12 are not regulatory fees, and thus, are not intended to be subject to the cost recovery limitation. Parking rates and other fees in Article 12 are charged for entrance to, rental or use of Recreation and Park Department properties, facilities and programming. Therefore, the proposed ordinance clarifies that these parking rates are not subject to cost recovery limitation.

FISCAL IMPACTS

According to Ms. Berckefeldt, Music Concourse Parking Garage revenues, based on existing parking rates, do not cover the parking garage's operating expenditures. The Music Concourse Parking Garage revenues have decreased in FY 2011-12 compared to FY 2010-11 due to a decrease in parking garage usage. As shown in Table 2 below, the Music Concourse Parking Garage has a budgetary shortfall in FY 2011-12 from July 1, 2011 through January 31, 2012.

Table 2: Music Concourse Parking Garage Budgetary Shortfall

	Actual July 1, 2011 to January 31, 2012
Parking Revenues	$2,147,143
Operating Expenditures (Including Debt Service)	2,994,555
Shortfall	($847,413)

Source: MCCP

At the current parking garage rates, MCCP projects a FY 2011-12 budgetary shortfall of $1,281,889. The proposed increase in parking garage rates as of June 1, 2012 would result in estimated increased parking garage revenues in FY 2011-12 of $93,135 for the month of June, resulting in a FY 2011-12 budgetary shortfall of $1,188,754. According to Ms. Jan Berckefeldt, MCCP Managing Director, MCCP will offset the projected budgetary shortfall in FY 2011-12 through deferred payments to City Park, which serves as the Music Concourse Parking Garage operator through a management agreement between City Park and MCCP.

According to Ms. Berckefeldt, the proposed $1.00 per hour parking rate increases for both weekdays and weekends are estimated to generate sufficient revenues in FY 2012-13 to cover Music Concourse Parking Garage operating expenditures, including debt service. According to Ms. Berckefeldt, MCCP is also working with City Park to reduce operating expenditures.

RECOMMENDATION

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

Item 6 **File 12-0379**	**Departments:** Port

EXECUTIVE SUMMARY

Legislative Objective

- The proposed ordinance would appropriate $58,700,580, including $45,000,000 in Certificates of Participation (COPs) to be issued by the City, and $13,700,580 in Port funds, to (a) fund Port infrastructure projects required by the Lease Disposition Agreement (LDA) between the City and the America's Cup Event Authority, and (b) partially fund Phase One of the Pier 27 Cruise Terminal project.

Key Points

- The proposed ordinance would appropriate $45,000,000 in COPs, for which legislation authorizing the City to issue $45,000,000 in COPs is also being considered by the Budget and Finance Committee of the Board of Supervisors (File 12-0380).
- Additionally, the proposed ordinance would de-appropriate $9,161,243 (included in the $13,700,580 in Port funds, noted above) in 2010 Port Revenue Bonds that were previously appropriated to other Port projects. The projects to be de-appropriated are (a) the Pier 35 project, which includes a substructure project that is currently on hold until a financing plan is developed, and other Pier 35 projects that have incurred project savings; (b) the Piers 94-96 Backlands project to construct improvements to expand the Port's Eco-Industrial park for leasing activities, which is delayed and requires an updated project and financing plan; and (c) the Piers 19 and 23 design projects, which are currently on hold until an updated project and use plan is completed.
- The proposed ordinance would appropriate (a) $23,800,003 to Phase One of the Pier 27 Cruise Terminal project, (b) $18,740,662 to Port infrastructure projects required by the LDA; (c) $5,700,000 to the Pier 70 shoreside power project (File 12-0124); and (d) $10,459,915 for debt issuance costs, including $6,540,000 for a reserve pending the issuance of the COPs, in accordance with the City's Office of Public Finance Policy.

Fiscal Impacts

- The requested supplemental appropriation of $58,700,580 would fund all but $5,700,000 for Phase One of the Pier 27 Cruise Terminal project, and all but $800,000 for the Port infrastructure projects related to the America's Cup and required by the LDA.
- Although the Port infrastructure projects required by the LDA were approved by the Board of Supervisors when the Board approved the LDA on March 27, 2012, the projected costs of these infrastructure improvements has increased by $3,527,217, or 16.3 percent, from the original cost estimate of $21,612,000 to $25,139,217.

Policy Consideration

- The Phase One budget of the Pier 27 Cruise Terminal has increased by $5,014,367, or 8.0 percent, from the January 12, 2012 budget of $62,359,983 to the current budget of $67,374,350.[1] Even with approval of the requested supplemental appropriation, $5,700,000 of Phase One of the Pier 27 Cruise Terminal project and $800,000 of the Port infrastructure projects required by the LDA would be unfunded, totaling $6,500,000. To fund the $6,500,000, the Mayor's Office intends to include in the Port's FY 2012-13 budget (a) $4,900,000 in General Fund monies and $800,000 in America's Cup Organizing Committee contribution monies (totaling $5,700,000) to fully fund Phase One of the Pier 27 Cruise Terminal project; and (b) $800,000 of America's Cup Organizing Committee contribution monies to fully fund the Port infrastructure projects required by the LDA.

Recommendation

Approve the proposed ordinance.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Charter Section 9.105 requires that amendments to the Annual Appropriation Ordinance be subject to approval by ordinance of the Board of Supervisors, and may not be adopted unless the Controller certifies the availability of funds.

Background

The Board of Supervisors approved the Lease Disposition Agreement (LDA) between the City and the America's Cup Event Authority on March 27, 2012, which requires the Port to construct infrastructure improvements for the 34th America's Cup (File 12-0127). Under the LDA, the Port must construct improvements to Piers 30-32 and other Port properties, mitigate environmental impacts, and complete Phase I of the Pier 27 Cruise Terminal project in time for the 34th America's Cup sailing events, which are scheduled to begin in August 2012, with the final sailing competition to be held in August 2013.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate $58,700,580 for the Port to fund (a) Port infrastructure improvements required by the LDA, and (b) a portion of Phase One of the Pier 27 Cruise Terminal project. Funding sources include (a) $45,000,000 in Certificates of Participation

[1] The $67,374,350 budget for Phase One of the Pier 27 Cruise Terminal includes some infrastructure projects that are required by the LDA, including Pier 29 end wall repairs ($800,000), shed demolition ($1,200,000), and shoreside power relocation ($2,000,000).

to be issued by the City, also being considered the Budget and Finance Committee of the Board of Supervisors (File 12-0380 of this report), (b) $4,539,337 of Port fund balance, and (c) a re-appropriation of $9,161,243 from 2010 Port Revenue Bond funded projects. Table 1 below shows the sources and uses of funds ($4,539,337 plus $9,161,243 total $13,700,580 in Port funds).

Table 1
The Port's Supplemental Appropriation

	COPs	Port Funds	Total
Sources			
COPs Series 2010A	$5,277,000		$5,277,000
COPs Series 2010B	39,723,000		39,723,000
Re-allocation and defunding of Port Capital Funds		$4,539,337	4,539,337
Re-appropriation of 2010 Port Revenue		9,161,243	9,161,243
Total Sources	**$45,000,000**	**$13,700,580**	**$58,700,580**
Uses			
Pier 27 Cruise Terminal	$21,048,760	$2,751,243	$23,800,003
America's Cup Projects	7,860,544	10,880,118	18,740,662
Pier 70 Shoreside Power	5,700,000		5,700,000
Subtotal, Port Projects	$34,609,304	$13,631,361	$48,240,665
City Services Auditor COPs Contribution		$69,219	$69,219
Debt Issuance Costs	$3,850,696		3,850,696
Reserve Pending Bond Sale	6,540,000		6,540,000
Subtotal, Other Costs	$10,390,696	$69,219	$10,459,915
Total Uses	**$45,000,000**	**$13,700,580**	**$58,700,580**

Sources of Funds

The proposed ordinance would appropriate:

- $45,000,000 in COPs Series 2012A and Series 2012B, as discussed in Item 7, File 12-0380 also being considered by the Budget and Finance Committee.
- $4,539,337 in Port capital funds, including reallocation of funds from prior capital budgets, appropriation of funds in the proposed FY 2012-13 capital budget, and fund balance.
- $9,161,243 in 2010 Port Revenue Bonds, which are re-appropriated from Pier 35 and Backlands projects to the Pier 27 Cruise Terminal and Piers 30-32 projects respectively.

According to the Port's April 12, 2012 memorandum to the City's Capital Planning Committee, the Port has defunded the Piers 94-96 Backlands project, improvements to Pier 35, the Amador Street Forced Sewer Main project, the Crane Cove upgrade project, and funding availability for tenant improvements. According to the Port, defunding of these projects would have the following impact to existing Port projects:

(a) The Pier 35 project, which includes a substructure project that is currently on hold until a financing plan is developed, and other Pier 35 projects that have incurred project savings;

(b) The Piers 94-96 Backlands project to construct improvements to expand the Port's Eco-Industrial park for leasing activity, which is delayed and requires an update project and financing plan; and

(c) The Piers 19 and 23 design projects, which are currently on hold until an updated project and use plan is completed.

Uses of Funds

Pier 27 Cruise Terminal - $23,800,003

The LDA requires the Port to complete Phase One of the Pier 27 Cruise Terminal project and transfer Pier 27 to the America's Cup Event Authority by March 2013 as an event venue. As shown in Table 2 below, Phase One of the Pier 27 Cruise Terminal project has increased by $5,014,367 from the amount reported to the Board of Supervisors on January 12, 2012. The increase in the budget is due to (a) inclusion of work that was previously the responsibility of the America's Cup Event Authority, (b) earlier procurement of Phase II expenses, (c) higher than budgeted construction bids, (d) contractor change orders, and (e) other costs.

As shown in Table 2 below, if the Board of Supervisors approves the requested supplemental appropriation, the Phase One budget of the Pier 27 Cruise Terminal project will have a remaining balance of $5,700,000. The Port proposes to request $4,900,000 in General Fund monies in the FY 2012-13 budget and $800,000 in America's Cup Organizing Committee contributions, committed to the City to fund the remaining balance.

Table 2
Pier 27 Cruise Terminal Phase One Budget

	January 12, 2012	April 19, 2012	Increase/ (Decrease)
Budget	$62,359,983	$67,374,350	$5,014,367
Previously Appropriated Funds	(38,359,983)	(37,874,347)	485,636
Current Balance	***24,000,000***	***29,500,003***	***5,500,003***
Proposed Supplemental Appropriation	(17,500,000)	(23,800,003)	(6,300,003)
Remaining Balance	***6,500,000***	***5,700,000***	***(800,000)***
Proposed FY 2012-13 General Fund Contribution [1]	(6,500,000)	(4,900,000)	1,600,000
Proposed Contribution from America's Cup Organizing Committee [1]	0	(800,000)	(800,000)
Final Balance	***0***	***0***	***0***

[1] The proposed FY 2012-13 General Fund contribution of $4,900,000 and proposed America's Cup Organizing Committee contribution of $800,000 total $5,700,000.

America's Cup Projects - $18,740,662 (see Table 1)

The Port is planning improvements to Piers 30-32 to serve as the team bases for the America's Cup teams. The various improvements to Piers 30-32, include (a) repairs to the marginal wharf, (b) emergency vehicle access improvements, and (c) various other improvements extending the useful life of portions of the facility from ten to 30 years.

In addition to the improvements at Piers 30-32, the Port is requesting funding for (a) repairs to the south apron for public access on Pier 19, (b) installation of a handrail on Pier 23 for public safety, (c) electrical upgrades to Pier 23 to support broadcasting and other uses for the America's Cup, (d) dredging, and (e) removal of Piers ½ and 64.

According to Ms. Meghan Wallace, Port Budget Manager, the supplemental appropriation amount of $18,740,662 is not sufficient to fund $800,000 in Pier 29 pile repairs, required by the LDA. Therefore, even with the requested supplemental appropriation, $800,000 in Port infrastructure repairs required by the LDA will be unfunded.

Pier 70 Shoreside Power - $5,700,000 (see Table 1)

Funding for the Pier 70 Shoreside Power, a total of $5,700,000 will include installation of a shoreside power project consisting of the construction of a 12 megawatt power system to serve ships berthing in the drydock at Pier 70 as previously approved by the Board of Supervisors (File 12-0124).

Debt Issuance and Other Costs - $10,459,915 (see Table 1)

Under the proposed ordinance, debt issuance and related costs include: (a) $69,219 for City Services Auditor; $3,850,696 for debt issuance costs related to the issuance of the COPs; and (c) in accordance with the policies of the Office of Public Finance, a reserve of $6,540,000 pending the issuance of the COPs to allow for variations in potential interest rates and market conditions between now and July 2012 when the COPS are issued.

FISCAL IMPACTS

According to the Port's April 12, 2012 memorandum to the City's Capital Planning Committee, the projected costs for Port infrastructure improvements required by the LDA have increased from $21,612,000, reported to the Board of Supervisors on March 27, 2012, to $25,139,217, an increase of $3,527,217 or 16.3 percent, as shown in Table 3 below.

Table 3
Comparison of Costs of Port Infrastructure Improvements

Project	March 27, 2012	April 19, 2012	Increase/ (Decrease)
Cruise Terminal Project			
Shoreside power relocation	$2,000,000	$2,000,000	$0
Demo of Pier 27 shed, Annex Bldg & portion of Pier 29	1,200,000	1,200,000	0
North tip drainage	2,000,000	1,598,555	(401,445)
Pier 29 end wall	800,000	800,000	0
General cruise terminal construction	0	0	0
Subtotal, Cruise Terminal	**6,000,000**	**5,598,555**	**(401,445)**
America's Cup Requirements			
Pier 30-32 repairs and improvements	7,412,000	10,356,020	2,944,020
Pier 23 electrical upgrades	500,000	607,624	107,624
Pier 29 pile repairs	800,000	950,000	150,000
Soft costs (project management & other costs)	0	600,000	600,000
Total, America's Cup	**8,712,000**	**12,513,644**	**3,801,644**
Dredging & Inspection^	1,600,000	536,000	(1,064,000)
America's Cup and Cruise Terminal Project Mitigation Measures			
Pier 19 south apron improvements	3,000,000	3,351,197	351,197
Pier 23 handrail	700,000	705,703	5,703
Pier 64 removal	900,000	1,280,548	380,548
Pier 1/2 removal	700,000	1,153,570	453,570
Subtotal, Mitigation	**5,300,000**	**6,491,018**	**1,191,018**
Total Uses	**21,612,000**	**25,139,217**	**3,527,217**

Source: Port

Increases in the April 19, 2012 cost estimates for Port infrastructure projects required by the LDA, compared to March 27, 2012 cost estimates are due to (a) recent engineering cost estimates, (b) inclusion of Port project management costs, and (c) other cost revisions. Cost increases are offset by a decrease in Dredging and Inspections due to the Port decreasing the number of dredging sites from four to one. The Port notes that costs may be increased at a later date if the Event Authority can show the demand for super yachts.

POLICY CONSIDERATION

$6,500,000 of Pier 27 Cruise Terminal Project and Port Infrastructure Improvements Required by the LDA Remain Unfunded

As shown in Table 2 above, the Phase One budget of the Pier 27 Cruise Terminal has increased by $5,014,367, or 8.0 percent, from the January 12, 2012 budget of $62,359,983 to the current budget of $67,374,350.[2]

[2] The $67,374,350 budget for Phase One of the Pier 27 Cruise Terminal includes some infrastructure projects that are required by the LDA, including Pier 29 end wall repairs ($800,000shed demolition ($1,200,000), , and shoreside power relocation $2,000,000).

Even with approval of the requested supplemental appropriation, $5,700,000 (see Table 2 above) of Phase One of the Pier 27 Cruise Terminal project would remain unfunded. Additionally, as noted above $800,000 of the Port infrastructure projects required by the LDA would be unfunded, for a total of $6,500,000 in unfunded projects.

To fund the $6,500,000, the Mayor's Office intends to include in the Port's FY 2012-13 budget (a) $4,900,000 in General Fund monies and $800,000 in America's Cup Organizing Committee contribution monies (totaling $5,700,000) to fully fund Phase One of the Pier 27 Cruise Terminal project; and (b) $800,000 of America's Cup Organizing Committee contribution monies to fully fund the Port infrastructure projects required by the LDA.

RECOMMENDATION

Approve the proposed ordinance.

Item 7 File 12-0380	Departments: Office of Public Finance (OPF), Port

EXECUTIVE SUMMARY

Legislative Objective

The proposed resolution would (1) authorize the sale and delivery of Certificates of Participation (COPs) in an aggregate principal amount of not to exceed $45,000,000 to finance the design, acquisition, construction, reconstruction, expansion, improvement, equipping, renewal, restoration and/or replacement of certain capital improvements to properties of the Port Commission; (2) authorize the selection of a trustee by the City's Director of Public Finance and approve the form of a trust agreement for the COPs between the City and the trustee (including certain indemnities contained therein); (3) approve the forms of a property lease and a project lease between the City and the trustee for the COPs (4) approve the form of a memorandum of understanding (MOU) between the Port Commission and the City for the repayment of the COPs and other related matters; (5) approve the form of an official notice of sale and notice of intention to sell for the COPs; (6) authorize the selection of underwriters by the City's Director of Public Finance and approving the form of a purchase agreement between the City and the underwriters relating to the COPs, if sold by negotiated sale; (7) approve the forms of a preliminary and final official statement with respect to the COPs; (8) approve the form of a continuing disclosure certificate; (9) approve the issuance and sale of COPs (either on a tax-exempt or taxable basis) in an aggregate principal amount not to exceed $45,000,000 following a public hearing; (10) grant general authority to City officials to take necessary actions in connection with the authorization, issuance, sale and delivery of the COPs; (11) approve modifications to documents and agreements; and (12) ratify previous actions taken in connection with the proposed project.

Key Points

- The proposed resolution would authorize the City to issue up to $45,000,000 in COPs, on behalf of the Port, to fund Port infrastructure improvements, including (a) improvements required by the Lease Disposition Agreement (LDA) between the City and the America's Cup Event Authority for the 34th America's Cup, and (b) phase one of the Pier 27 Cruise Terminal project. These projects will be funded with a combination of the COPs proceeds and Port funding, as discussed in Item 6, File 12-0379, also being considered by the Budget and Finance Committee of the Board of Supervisors.
- Based on current cost estimates, project schedules, and market conditions, the City's Office of Public Finance expects to issue $38,460,000 of COPs, which would provide $34,609,304 of project funding and $3,850,696 for related COPs expenses. The $3,850,696 in related COPs expenses includes $2,906,360 for a debt service reserve and $944,336 for other debt issuance costs. The balance of $6,540,000 ($45,000,000 less $38,460,000) allows for variations in potential interest rates and market conditions prior to the proposed COPs issuance in July 2012, in accordance with Office of Public Finance policies.
- Under the proposed resolution, the Office of Public Finance would have the authority to sell the COPs by either a competitive or negotiated sale, subject to the Director of Public Finance's determination that a negotiated sale will result in the lowest borrowing cost to the City. According to Ms. Nadia Sesay, Director of Public Finance, the COPs are anticipated to be sold on a competitive basis.

- The City, rather than the Port, is selling the COPs because the City has a higher credit rating, which will result in a lower interest rate and lower total interest payments over the 30-year term of the COPs. The City will secure the COPs with City-owned assets through a lease agreement with a third party trustee. Under the proposed resolution, a portion of Laguna Honda Hospital, which is the City asset that possesses the necessary value to secure the COPs, would be used as collateral. According to the Office of Public Finance, the Pier 27 Cruise Terminal would replace Laguna Honda Hospital as collateral once construction of the Pier 27 Cruise Terminal is completed.
- The City would lease the City property used as collateral back from the third-party trustee. The annual lease payments made by the City to the third-party trustee would repay the holders of the COPs, with total lease payments over the 30-year term of the COPs equal to total principal and interest owed on the COPs. While the City's General Fund secures the COPs, and is liable for such COPs in the event of a Port default, actual annual lease payments are to be paid from Port revenues and not from General Fund revenues.
- Prior to issuance of the COPs in approximately July 2012, the Office of Public Finance will use short-term debt, in accordance with the City's Commercial Paper program, to fund the infrastructure projects.

Fiscal Impact

- According to the Office of Public Finance, the total cost to the City over the 30-year term of the COPS is $71,211,617, including $38,460,000 for project costs and issuing expenses, and $32,751,617 for total estimated interest payments. The average annual debt service cost of the COPs, paid by Port revenues, is approximately $2,410,322 per year, over 30 year period.
- The Port provided financial projections through 2042 that demonstrate the capacity of the Port to pay the Port's existing debt on its 2010 Port revenue bonds, as well as to pay for the debt service on the proposed COPs. Based on the documentation provided by the Port, the Budget and Legislative Analyst agrees that the Port's projections of revenues are sufficient to pay for the Port's expenditures, including the debt service on the existing 2010 Port revenue bonds and the proposed COPs.

Recommendation

Approve the proposed resolution.

MANDATE STATEMENT & BACKGROUND

Mandate Statement

According to San Francisco Charter Section 9.118, any agreement with a term of more than ten years or expenditures of more than $10,000,000 is subject to approval by the Board of Supervisors. The proposed issuance of $45,000,000 in Certificates of Participation requires the City to enter into an agreement which exceeds ten years and $10,000,000.

Background

The Board of Supervisors approved the Lease Disposition Agreement (LDA) between the City and the America's Cup Event Authority on March 27, 2012, which requires the Port to construct infrastructure improvements for the 34th America's Cup (File 12-0127). Under the LDA, the Port must construct improvements to Piers 30-32 and other Port properties, mitigate environmental impacts, and complete Phase I of the Pier 27 Cruise Terminal project in time for the 34th America's Cup sailing events, which are scheduled to begin in August 2012, with the final sailing competition to be held in August 2013.

The Port is proposing to fund the infrastructure improvements with a combination of Certificates of Participation (COPs) to be sold by the City and Port funding, as detailed Item 6, File 12-0379, also being considered by the Budget and Finance Committee of the Board of Supervisors. The proposed resolution would authorize the sale by the City of $45,000,000 in COPs to partially fund the needed infrastructure improvements.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) authorize the sale and delivery of Certificates of Participation (COPs) in an aggregate principal amount of not to exceed $45,000,000 to finance the design, acquisition, construction, reconstruction, expansion, improvement, equipping, renewal, restoration and/or replacement of certain capital improvements to properties of the Port Commission; (2) authorize the selection of a trustee by the City's Director of Public Finance and approve the form of a trust agreement for the COPs between the City and the trustee (including certain indemnities contained therein); (3) approve the forms of a property lease and a project lease between the City and the trustee for the COPs (4) approve the form of a memorandum of understanding (MOU) between the Port Commission and the City for the repayment of the COPs and other related matters; (5) approve the form of an official notice of sale and notice of intention to sell for the COPs; (6) authorize the selection of underwriters by the Director of Public Finance and approving the form of a purchase agreement between the City and the underwriters relating to the COPs, if sold by negotiated sale; (7) approve the forms of a preliminary and final official statement with respect to the COPs; (8) approve the form of a continuing disclosure certificate; (9) approve the issuance and sale of COPs (either on a tax-exempt or taxable basis) in an aggregate principal amount not to exceed $45,000,000 following a public hearing; (10) grant general authority to City officials to take necessary actions in connection with the authorization, issuance, sale and delivery of the COPs; (11) approve modifications to documents and agreements; and (12) ratify previous actions taken in connection with the proposed project.

The proposed sale of the COPs by the City, in an amount not to exceed $45,000,000, would be used to finance the costs of various facilities and improvements under the jurisdiction of the Port, including facilities expected to be used as venues for the 34th America's Cup events. Specifically, the Port has identified the following improvements to certain Port properties:

(a) America's Cup projects, which include (1) repairs to the south apron for public access on Pier 19, (2) installation of a handrail on Pier 23 for public safety, (3) various improvements to Piers 30-32, including repairs to the marginal wharf, emergency vehicle access improvements, and various other improvements extending the useful life of portions of the facility from ten to 30 years;

(b) Construction of a primary cruise terminal at Pier 27 to replace the existing primary terminal at Pier 35; and

(c) Installation of a shoreside power project consisting of the construction of a 12 megawatt power system to serve ships berthing in the drydock at Pier 70.

Based on current cost estimates, project schedules, and market conditions, the City's Office of Public Finance expects to issue $38,460,000 of COPs, which would provide approximately $34,609,304 of project funding for the Port's infrastructure improvements, and $3,850,696 for related COP expenses, as shown in Table 1 below.

Table 1: Anticipated Sources and Uses of Certificates of Participation Proceeds

	Series A	Series B	Aggregate
Sources			
Par Amount	$4,510,000	$33,950,000	$38,460,000
Total Sources	**$4,510,000**	**$33,950,000**	**$38,460,000**
Uses			
Project Funding			
America's Cup Projects	$4,056,900	$3,803,644	$7,860,544
Cruise Terminal Pier 27		21,048,760	21,048,760
Shoreside Power		5,700,000	5,700,000
Subtotal - Project Fund	**4,056,900**	**30,552,404**	**34,609,304**
Related COP Expenses			
Debt Service Reserve	340,813	2,565,547	2,906,360
Other Cost of Issuance	78,462	577,424	655,886
Other Underwriter's Discount	33,825	254,625	288,450
Subtotal - Related COP Expenses	**453,100**	**3,397,596**	**3,850,696**
Total Uses	**$4,510,000**	**$33,950,000**	**$38,460,000**

Source: Office of Public Finance

The Office of Public Finance does not anticipate issuing the proposed COPs until July 2012 (see "Short Term Financing through Commercial Paper" section below). The proposed not-to-exceed amount of $45,000,000, which is $6,540,000 greater than $38,460,000 amount shown in Table 1 above, allows for variations in potential interest rates and market conditions between now and July 2012, in accordance with the policies of the Office of Public Finance.

Under the proposed resolution, the Director of Public Finance would have the authority to sell the COPs by either a competitive or negotiated sale, subject to the Director of Public Finance's determination that a negotiated sale will result in the lowest borrowing cost to the City. According the Office of Public Finance, the COPS are anticipated to be sold on a competitive basis.[1]

[1] According to Ms. Nadia Sesay, Director of Public Finance, since the City is the issuer of the COPs, the City can sell the bonds competitively; however, if the Port were the issuer, the transaction would be sold via negotiated sale because the Port is not a frequent issuer. The Office of Public Finance wanted the flexibility to pursue a negotiated sale if market conditions dictate.

The Office of Public Finance expects to sell two series of COPs, Series 2012A and Series 2012B.

- Series 2012A are tax-exempt COPs for projects that are for public use. According to the Director of Public Finance, governmental entities such as the City, generally issue obligations financing public facilities that are characterized by the Internal Revenue Code as publicly available, or facilities that qualify for public use, and interest received by owners of obligations, such as COPs, is excluded from gross income for federal income tax purposes. Under the Internal Revenue Code (IRC), Series 2012A COPs, which will finance projects, such as the public spaces on Piers 19 and 23, are exempt from the IRC alternative minimum tax, or AMT.

- Series 2012B are COPs for infrastructure projects that may have some private use, and therefore, may not be completely exempt from federal income taxation under the Internal Revenue Code. According to the Director of Public Finance, enterprise departments may issue obligations that finance facilities that are identified as not publicly available and are characterized as private activity bonds.[2] The interest on such private activity bonds may be subject to the AMT.[3] The City's Bond Counsel has determined that interest with respect to the Series 2012B COPs is subject to the alternative minimum tax, or AMT under Section 57(a)(5)(C) of the IRC.

Additionally, the proposed resolution provides the authority to issue Taxable Series 2012C if necessary due to the facilities qualifying as certain private use according to the IRC.[4]

Lease of City Property

Under the proposed resolution, the City would lease City-owned property to a third-party trustee to secure the COPs financing. The lease would be in effect from the issuance of the COPs for approximately 30 years, or through approximately 2042, while the COPs remain outstanding. Under the proposed resolution, the City would lease the City property back from the third-party trustee in consideration for annual lease payments due from the City to holders of the COPs that

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[2] According to the Office of Public Finance, under Federal tax law, private activity bonds are bonds of which more than 10 percent or more of the proceeds are used in the trade or business for nongovernmental purpose and 10 percent or more of the debt service is secured by or derived from the property used in the trade or business for nongovernmental purpose, or five percent or more of the proceeds are loaned for nongovernmental purpose. However, Section 142 of the IRC permits the issuance of certain types of qualified private activity bonds, most of which are subject to AMT. Examples of these types of bonds are bonds issued for docks and wharves, airports, multifamily housing, stadiums, etc.

[3] Interest on the private activity bonds is tax exempt only if certain requirements of Section 141 and 142 of the IRC are satisfied. According to the Office of Public Finance, a taxpayer (or an owner of the obligation(s)) is either subject to alternative minimum tax (AMT) or not subject to AMT, therefore in consultation with Tax Counsel, it was determined that Series 2012A which will finance public improvements to the Piers 19 & 23 are tax-exempt and interest with respect to the Series 2012A is not subject to AMT (or non-AMT). The Series B is subject to AMT because these are for improvements for non-governmental purpose, and are qualified private activity bonds.

[4] Series 2012B are qualified private activity bonds and subject to AMT. If there are additional uses that are considered private (non-governmental) and do not qualify under the qualified activity bond exception in Sections 141 and 142 of the IRC, then Series 2012C (Taxable) would need to be issued for those improvements. Because the Port is still working through the intended long term uses of some of the property being improved through the issuance of COPs, it is necessary to have the flexibility to issue Series 2012C COPs. For example, a vendor leasing space on Port property that is not a dock and wharf use (such as parking lot) would be considered a non-qualified private use therefore necessitating taxable debt.

are equal to the amounts required to amortize the repayment for debt revenue on the COPs. During the life of the proposed lease, the City would make lease payments to the trustee two times per year. The City's General Fund secures the City's covenants and obligations for the life of the COPs and is liable for the debt in the event of a Port default, although Port revenues would be used to make the lease payments. Under the proposed resolution, the Director of Public Finance would have the authority to select the third-party trustee, to be selected based on the lowest fees and other considerations through a competitive Request for Proposal (RFP).

The leased property securing the COPs is expected to have a fair market value approximately 125 percent of the COPs outstanding, or approximately $48,075,000 (125 percent times the $38,460,000, shown in Table 1 above). According to the Office of Public Finance, to facilitate the financing, the proposed resolution encumbers Pier 27 James R. Herman Cruise Terminal and a portion of the Laguna Honda Hospital known as the South Residence located at 375 Laguna Honda Boulevard. According to the Office of Public Finance, the Laguna Honda Hospital South Residence was selected because it was determined to be the City asset possessing the necessary value to support the transaction. According to the Office of Public Finance, the Laguna Honda Hospital South Residence will be used to initially secure the COPs, but the Cruise Terminal at Pier 27 will replace the Laguna Honda Hospital asset as collateral after construction of the Cruise Terminal is complete.

Lease Payments

The Office of Public Finance anticipates structuring the COPs with lease payments due from the City twice a year during the life of the COPs, commencing in March 2013. Payments would be made from Port, rather than General Fund, revenues.

According to lease payment (or debt service) estimates provided by the Office of Public Finance, the fiscal year net lease payments on the COPs would average approximately $2,410,322. The total estimated COPs par amount of $38,460,000 is estimated to result in approximately $32,751,617 in net interest payments over the life of the COPs.

Debt Service Fund

As shown in Table 1 above, the debt service reserve is $2,906,360. As discussed above, the proposed resolution requires lease (or debt service) payments to be deposited in the debt service fund maintained by the third-party trustee. Commencing March 1, 2013 and semi-annually thereafter, the trustee will apply such amounts as is necessary to make lease payments with respect to the COPs.

According to the Office of Public Finance, the debt service reserve of $2,906,360 is a special fund from which monies can be drawn to make lease payments if the issuer is otherwise unable to make the lease payments. The Office of Public Finance reports that a typical reserve fund would be an amount equal to maximum annual debt service payments, but not to exceed 10 percent of the original principal amount.

Short Term Financing through Commercial Paper

If the proposed resolution is approved by the Board of Supervisors, the Office of Public Finance expects that the COPs will be issued in July 2012. According to the Office of Public Finance, the City's Commercial Paper program would be used to finance any costs, including preliminary design, planning, and permitting costs for the infrastructure projects, incurred between the approval of the proposed resolution and the issuance of the COPs. The Commercial Paper would be repaid by COPs proceeds. The debt revenue on the COPs will be repaid from Port revenues.

According to the Office of Public Finance, the planned use of Commercial Paper is in accordance with the City's Commercial Paper program, previously approved by the Board of Supervisors on April 6, 2010 (File 10-0269). The Office of Public Finance notes, "Commercial paper is an alternative form of short-term (or interim) financing for capital projects that permits the City to pay project costs as project expenditures are incurred."

Memorandum of Understanding between the City and the Port

According to Office of Public Finance, in accordance with the memorandum of understanding (MOU) between the City and the Port, the City and the Port agree that 1) the COPs are the most efficient manner to structure the financing in order to achieve the Port's objectives; 2) the COPs will not be sold or delivered without the Port's acknowledgement and agreement that the Port will submit for approval by the Board of Supervisors and the Mayor a budget for each fiscal year that includes funding for all costs of lease payments, additional rent, and other obligations due in connection with the COPs; and 3) the Port's obligations under the MOU are and will be expressly subordinate to any Port revenue bonds.[5]

FISCAL IMPACTS

The proposed resolution calls for the issuance of up to $45,000,000 in Certificates of Participation (COPs). As noted above, the Office of Public Finance currently estimates that $38,460,000 (see Table 1 above) would actually be issued, based on current project costs and market conditions.

The Office of Public Finance reports that based on conservative estimates, the total debt service cost of the proposed COPs would be $71,211,617, including $38,460,000 for project costs and issuing expenses, as shown in Table 1 above, and $32,751,617 for total estimated interest payments. According to Ms. Nadia Sesay of the Office of Public Finance, the total annual interest costs assume an average annual interest rate of 5.35 percent on the COPs.[6] The average cost of the COPs to the Port would be approximately $2,410,322 per year, over a 30 year period, with payments starting in FY 2012-13. The Attachment provided by the City's Office of Public Finance shows that the total estimated debt service of $71,211,617 for the proposed COPs.

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[5] According to the Office of Finance, the Port issued $36,650,000 in Revenue Bonds to finance the design, construction, reconstruction, repair and/or improvements to various facilities of the Port on February 3, 2010. In connection with the delivery of the Port's revenue bonds, the Port Commission agreed that it will maintain rentals, rates, fees and charges so that net revenue in each fiscal year will be at least equal to 130 percent of annual debt service on the revenue bonds for such fiscal year.

[6] According to Ms. Nadia Sesay of the Office of Public Finance, interest rates for Series 2012B are higher because they are subject to AMT as opposed to completely tax-exempt; additionally, taxable bonds (Series 2012C) have higher interest rates than AMT bonds.

According to the Port and the Office of Public Finance, Port revenues will be sufficient to repay the proposed COPs. The Port provided financial projections through 2042 that demonstrate the capacity of the Port to pay the Port's existing debt on the Port's 2010 revenue bonds and the debt service on the proposed COPs. As noted above, the Port's obligations for the proposed COPs are subordinate to any Port revenue bonds.

Based on the documentation provided by the Port, the Budget and Legislative Analyst agrees that the Port's projections of revenues are sufficient to pay for the Port's expenditures, including debt service on the existing 2010 Port revenue bonds and the proposed COPs.

POLICY CONSIDERATION

The Port's Charter Authority to Issue Revenue Debt

The City Charter provides the Port with the authority to issue revenue bonds, which was exercised in 2010 with a debt issuance of $36,650,000 in such Port revenue bonds. However, under the proposed resolution, the City, not the Port, would sell the COPs. According to the Port and the Office of Public Finance, the City's COPs issuance is preferable because the City has a higher credit rating than the Port.[7] According to the Port, the City's higher credit rating would improve the pricing of the COPs by approximately 25 basis points, reducing interest costs by approximately $1,000,000 over the 30-year term of the COPs.

RECOMMENDATION

Approve the proposed resolution.

Harvey M. Rose

cc: Supervisor Chu
Supervisor Avalos
Supervisor Kim
President Chiu
Supervisor Campos
Supervisor Cohen
Supervisor Elsbernd
Supervisor Farrell
Supervisor Mar
Supervisor Olague
Supervisor Wiener
Clerk of the Board
Cheryl Adams
Controller
Kate Howard

[7] The City and County of San Francisco's COP ratings are A1/AA-/A+ by Moody's, Standards & Poor's and Fitch respectively. The Port's revenue bond ratings are A1/A-/A by Moody's, Standards & Poor's and Fitch respectively.

BOND DEBT SERVICE BREAKDOWN

City and County of San Francisco
2012 Certificates of Participation
(Port of San Francisco Projects)

Period Ending	2012 Series A (Non-AMT)	2012 Series B (AMT / Private Activity)	Total
06/30/2013	247,224.25	2,291,930.87	2,539,155.12
06/30/2014	280,150.50	2,619,094.50	2,899,245.00
06/30/2015	283,790.50	2,622,569.50	2,906,360.00
06/30/2016	282,035.50	2,616,447.00	2,898,482.50
06/30/2017	279,965.50	2,620,787.00	2,900,752.50
06/30/2018	282,652.50	2,620,757.00	2,903,409.50
06/30/2019	279,916.50	2,620,797.50	2,900,714.00
06/30/2020	281,876.50	2,620,248.50	2,902,125.00
06/30/2021	283,416.50	2,614,498.50	2,897,915.00
06/30/2022	279,552.50	2,613,813.50	2,893,366.00
06/30/2023	280,468.00	1,847,793.50	2,128,261.50
06/30/2024	281,002.00	1,847,414.00	2,128,416.00
06/30/2025	281,183.50	1,844,811.50	2,125,995.00
06/30/2026	280,999.50	1,844,843.50	2,125,843.00
06/30/2027	280,462.00	1,847,399.50	2,127,861.50
06/30/2028	279,599.00	1,847,307.50	2,126,906.50
06/30/2029	283,402.50	1,849,503.50	2,132,906.00
06/30/2030	281,660.00	1,848,831.50	2,130,491.50
06/30/2031	279,595.00	1,845,237.50	2,124,832.50
06/30/2032	282,217.00	1,848,763.00	2,130,980.00
06/30/2033	279,264.00	1,848,718.00	2,127,982.00
06/30/2034	280,713.00	1,848,439.00	2,129,152.00
06/30/2035	281,659.00	1,844,764.00	2,126,423.00
06/30/2036	282,102.00	1,847,693.00	2,129,795.00
06/30/2037	282,042.00	1,846,660.00	2,128,702.00
06/30/2038	281,479.00	1,846,665.00	2,128,144.00
06/30/2039	280,347.00	1,847,005.00	2,127,352.00
06/30/2040	278,709.00	1,847,793.00	2,126,502.00
06/30/2041	281,565.00	1,848,744.50	2,130,309.50
06/30/2042	283,662.00	1,849,575.00	2,133,237.00
	8,402,711.25	62,808,905.37	71,211,616.62