CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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March 1, 2024

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: March 6, 2024 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- File 24-0086 is an ordinance appropriating $644,675,000 of the refunding bond series to be sold in 2024.
- File 24-0114 is a resolution approving the issuance and sale of refunding bonds in an amount not to exceed $644,675,000, designated as Series 2024-R1, to refund certain outstanding general obligation bonds.

Key Points

- In March 2020, the Board of Supervisors approved a resolution which authorized the Director of Public Finance to determine the amount, date, and other provisions for the future sale of refunding bonds, up to $1,482,995,000, which would be sold in series. Sales of all series of refunding bonds are subject to Board of Supervisors approval. The Board has approved refunding bonds in March 2020, March 2021, and April 2022. The Office of Public Finance (OPF) has identified $694.4 million in outstanding general obligation bonds, of which $674.4 million can be paid before the bonds reach their maturity date.
- OPF plans to issue refunding bonds, designated as Series 2024-R1, in an amount not to exceed $644,675,000. The proposed refunding bonds will mature between 2035 and 2038.

Fiscal Impact

- Based on good faith estimates provided in November 2023, the City could sell an estimated par amount of $584,450,000 in refunding bonds at a premium and receive approximately $643,374,949 in bond proceeds, net of fees and charges, with true interest cost of 3.21 percent. This would achieve net present value debt service savings of approximately $4.6 million, or 0.7 percent, assuming that all callable maturities are refunded. This estimated refunding does not meet the City's Debt Policy's target of at least three percent debt service savings, and therefore, OPF would not move forward with refunding all of the callable maturities under these conditions. However, OPF is requesting the proposed authorization to refund those callable maturities that would generate debt service savings above the three percent savings threshold, and to move quickly in case conditions allow the three percent debt service savings target to be realized for all the callable maturities.
- The combined cost of issuance and underwriters discount of proposed bonds is estimated at $3.6 million, which is less than one percent of the principal amount and below the maximum allowed under the 2020 refunding authorization.

Recommendation

- Approve the proposed ordinance and resolution.

MANDATE STATEMENT

City Charter Section 9.109 authorizes the Board of Supervisors to approve the refunding or general obligation bonds which are expected to result in net debt service savings.

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

BACKGROUND

The City's Debt Policy

California Senate Bill (SB) 1029 provides for the issuer of state or local government debt, no later than 30 days prior to the issuance of debt, to certify that the issuer has adopted local debt policies and that the issuance is consistent with the debt policies. The Board of Supervisors previously approved the City's Debt Policy as recommended by the Controller's Office of Public Finance (OPF) in February 2020 (File 20-0089).

Refunding Bond Authorization

In March 2020, the Board of Supervisors approved a resolution which authorized the Director of Public Finance to determine the amount, date, and other provisions for the future sale of refunding bonds, up to $1,482,995,000 (File 20-0088), which would be sold in series. Sales of all series of refunding bonds are subject to Board of Supervisors approval. The Board of Supervisors have approved the following issuances of refunding bonds:

- In March 2020, the Board of Supervisors approved "Series 2020-R1," the first series of refunding bonds in an amount not to exceed $255 million (File 20-0088).
- In March 2021, the Board of Supervisors approved a resolution for the sale of refunding bonds, designated as Series 2021-R1 and Series 2021-R2, in an amount not to exceed $220 million, to refund all or a portion of prior bonds (File 21-0183), as well as an ordinance to appropriate $220 million of the refunding bond series to be sold in 2021 (File 21-0028).
- In April 2022, the Board of Supervisors approved a resolution for the sale of refunding bonds, designated as Series 2022-R1, in an amount not to exceed $385 million, to refund outstanding general obligation bonds (File 22-0082), as well as an ordinance to appropriate $385 million of the refunding bonds to be sold in 2022 (File 22-0081).

DETAILS OF PROPOSED LEGISLATION

OPF is requesting the Board of Supervisors to approve the following resolution and ordinance:

File 24-0114: The proposed resolution approves the issuance and sale of refunding bonds in an amount not to exceed $644,675,000, designated as Series 2024-R1, to refund certain outstanding general obligation bonds. The resolution also approves the form and authorizes the distribution of the Preliminary Official Statement and authorize the execution, delivery, and distribution of the Official Statement relating to the sale of the Series 2024-R1 Bonds, ratify certain actions previously taken, and grant general authority to City officials to take necessary actions in connection with the authorization, issuance, sale, and delivery of the Series 2024-R1 Bonds.

If the proposed resolution is approved, OPF would retain $137,635,000 of refunding bond issuance authority pursuant to the 2020 authorization, though refunding bond sales would still be subject to the Board of Supervisors' approval.

File 24-0086: The proposed ordinance appropriates $644,675,000 of the refunding bond series to be sold in 2024 and places such amounts on the Controller's reserve in FY 2023-24.

FISCAL IMPACT

OPF has identified $694.4 million in outstanding general obligation bonds, of which $674.4 million can be paid before the bonds reach their maturity date, as shown in Exhibit 1 below. A call option in a bond agreement allows the issuer to pay down all or a portion of a bond before its maturity date.

Exhibit 1: Series 2024 R-1 General Obligation Bond Refunding Candidates

Prior Bonds	Original Par Amount	Outstanding Par Amount	Callable Par Amount	Final Maturity
Series 2015B (Transportation & Road Improvement Bonds, 2014)	$67,005,000	$33,740,000	$33,740,000	2035
Refunding Series 2015-R1	293,910,000	164,190,000	164,190,000	2035
Series 2016A (Clean & Safe Neighborhood Parks, 2008)	8,695,000	5,735,000	5,735,000	2035
Series 2016B (Clean & Safe Neighborhood Parks, 2012)	43,220,000	18,620,000	18,620,000	2035
Series 2016C (Earthquake Safety & Emergency Response, 2010)	25,215,000	17,190,000	17,190,000	2035
Series 2016D (Earthquake Safety & Emergency Response, 2014)	109,595,000	58,000,000	58,000,000	2035
Series 2016E (Road Repaving & Street Safety, 2011)	44,145,000	30,095,000	30,095,000	2035
Series 2017A (Public Health & Safety, 2016)	173,120,000	96,445,000	90,670,000	2036
Series 2018A (Clean & Safe Neighborhood Parks, 2012)	76,710,000	37,480,000	35,400,000	2037
Series 2018B (Transportation & Road Improvement Bonds, 2014)	174,445,000	85,235,000	80,505,000	2037
Series 2018C (Earthquake Safety & Emergency Response, 2014)	189,735,000	116,640,000	110,735,000	2038
Series 2018E (Public Health & Safety, 2016)	49,955,000	31,030,000	29,475,000	2038
Total GO Refunding Candidates Callable 2023-2024	**$1,255,570,000**	**$694,400,000**	**$674,355,000**	

Source: Office of Public Finance

According to Vishal Trivedi, OPF Financial Analyst, the requested refunding bond amount of approximately $644.7 million is less than the callable par amount of $674.4 million because of a scheduled debt service payment on June 15, 2024, that the City has already factored into the property tax levy and will be paid with funds on hand.

File 24-0086 is an ordinance that would appropriate up to $644,675,000 in bond proceeds, as shown in Exhibit 2 below.

Exhibit 2: Estimated Sources and Uses of 2024 Refunding Bonds

Sources	Amount
Refunding Bond Proceeds	
Par Amount	$644,675,000
Total Sources	**$644,675,000**

Uses	Amount
Refunding Escrow	$641,059,102
Cost of Issuance	2,004,211
Underwriter's Discount	1,611,687
Total Uses	**$644,675,000**

Source: Proposed Ordinance

In November 2023, the City's municipal advisor, Del Rio Advisors, LLC, provided good faith estimates for the issuance and sale of refunding bonds. At that time, De Rio Advisors estimated that the City could sell an estimated par amount of $584,450,000 in refunding bonds and receive approximately $643,374,949 in bond proceeds, net of fees. According to Financial Analyst Trivedi, this estimate assumes that the bonds would sell at a premium above face value, and therefore the City would not have to sell as many new bonds to generate sufficient proceeds to pay off the old bonds. However, OPF cannot predict with certainty if bonds will sell at a premium or what the premium will be. Therefore, the par amount of $644,675,000 in the proposed resolution and ordinance represents the maximum par needed to generate sufficient proceeds to refund the callable bonds, with no premium assumed.

Debt Service Savings

Del Rio Advisors estimated that the true interest cost of refunding bonds would be approximately 3.21 percent. This would achieve net present value debt service savings of approximately $4.6 million, or 0.7 percent, assuming that all callable maturities are refunded. The City's Debt Policy states, "absent any significant non-economic factors, it is the policy of the City that a refunding should produce minimum debt service savings of at least 3% of the par value of the refunded bonds on a net present value basis, using the refunding issue's True Interest Cost ('TIC') as the discount rate." Since the good faith estimates do not project three percent debt service savings, Financial Analyst Trivedi reports that OPF would not move forward with refunding all of the callable maturities under these conditions. However, OPF is requesting the proposed authorization to refund those callable maturities that would generate debt service savings above the three percent savings threshold and to be able to move quickly in the event conditions reach a point where the three percent debt service savings target can be realized for all of the callable maturities.

Although interest rates have increased since the period when bonds were issued (2015 through 2018), Financial Analyst Trivedi reports that debt service savings can be realized through refunding because the coupon rate (fixed interest payment) of outstanding bonds could be higher than that of new bonds. Many outstanding bonds were sold at a premium. The premiums reduced effective coupon rates for outstanding bonds for a portion of their term, but now the City is paying debt service at the nominal coupon rate, so the City can likely achieve savings if new bonds have a lower true interest cost than the coupons of the outstanding bond maturities. Additionally, refunding bonds are issued for a shorter term, in line with existing maturity dates, which typically reduces interest costs.

Debt Issuance Costs

The resolution approving the issuance of up to $1.483 billion in refunding bonds (File 20-0088) requires the costs of such issuances to not exceed two percent and, for a negotiated sale, the underwriter's discount to not exceed one percent of the principal amount of the refunding bonds. As shown in Exhibit 2, the combined cost of issuance and underwriters discount of proposed bonds is estimated at $3.6 million, which is less than one percent of the principal amount and below the maximum allowed.

OPF is proposing a negotiated sale to maximize flexibility on the timing and structure of the sale to increase savings while maintaining tax rates. OPF issued a Request for Proposals (RFP) in February 2024 to firms in the City's underwriter pool to select an underwriter for the refunding bonds and anticipates receiving responses in March 2024.

Debt Limit

Section 9.106 of the City Charter limits general obligation bond debt to three percent of the assessed value of property in the City. As of January 1, 2024, the City has approximately $2.59 billion in aggregate principal amount of general obligation bonds outstanding, equal to approximately 0.75 percent of the net assessed value in FY 2023-24. If all of the City's voter-authorized and unissued general obligation bonds were issued (an additional approximate $1.26 billion), the total general obligation bond debt would be 1.12 percent of the net assessed value of property in the City. According to OPF, if the Board of Supervisors approves the proposed 2024 Refunding Bonds, the debt ratio would not change significantly, as the bonds would be used to refund the currently outstanding principal and, therefore, remain in compliance with the City's debt limit.

RECOMMENDATION

Approve the proposed ordinance and resolution.

Item 6 **File 24-0107** *(Continued from 2/28/24 meeting)*	**Department:** Office of Contract Administration

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize a contract agreement between the Office of Contract Administration (OCA) and Allied Waste Services, LLC to provide refuse collection and disposal services for City facilities. The proposed agreement has an initial term of seven years, beginning on April 1, 2024, through March 30, 2031, for a total not to exceed amount of $79.4 million with an option to extend the term for three years through March 30, 2024, for a total contract not to exceed amount of $119 million.

Key Points

- The proposed agreement was awarded following a competitive procurement process in which Allied Waste and Recology submitted proposals. Allied Waste was the highest-scoring proposer and the City estimates savings of approximately $13.3 million over the course of the initial seven-year term of the Allied Waste contract compared to the Recology proposal.
- Per the City's 2015 Landfill Agreement with Recology SF, trash will continue to be directed to the Hay Road Landfill in Vacaville through July 2024. The Landfill agreement has an option to extend the term, which would require Board of Supervisors' approval. Recycling will be transported to Newby Island in Milpitas and compost will be directed to the East Bay Municipal Utility District plant in Oakland.
- The SF Planning Department's analysis of the proposed agreement with Allied Waste Services determined the marginal environmental impact of the refuse collection contract with Allied Waste is within the scope of the existing environmental impact reports and no further environmental analysis is needed.
- OCA will monitor contract compliance while SF Environment will monitor refuse management performance and adherence to Zero Waste Program objectives.

Fiscal Impact

- 98 percent of expenditures under the proposed agreement consist of Refuse Collection Services, followed by additional charges pertaining to compactor leases, overage charges, and contamination fees. The total not-to-exceed expenditure estimates for the 7 and 10-year terms of $79.4 million and $119 million, respectively, include a 15 percent contingency.
- The contract expenditures will be paid by City departments within San Francisco and therefore be sourced from the General Fund and enterprise funds.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

Contract History

City refuse services are currently operated by Recology San Francisco. The current agreement was first executed in December 2020 for a term of seven months and a total amount not to exceed $5,600,000. Originally, the Board of Supervisors had recommended approval of a resolution that would have authorized a $62.5 million agreement with Recology SF for a term of six years (File 20-1213), but the item was referred back to Committee after a Recology executive was federally charged for bribing the Director of Public Works to set residential refuse collection rates for Recology's financial benefit. A second and third amendment to the December 2020 agreement was executed in June 2021 and June 2022, respectively, with the most recent term expiring on June 30, 2024.[1] There are no options to extend the current agreement with Recology.

Solicitation

OCA issued a competitive Request for Proposals (RFP) in June 2022 to solicit proposals for providing refuse services to San Francisco City departments and facilities for a term of seven years, beginning in July 2024. The RFP was revised between June and September 2022 and final submissions were submitted due in September 30, 2022. The RFP revisions primarily pertained to procurement timelines; however, version two of the RFP softened a minimum qualification requirement by reducing the number of years proposers needed to have in collecting 17,000 tons of source-separated refuse from eight years to three years within an eight-year period. According to OCA, this change was made to ensure the requirements were not so restrictive as to reduce competition.

Projects were evaluated according to criteria established in the RFP, including cost (40 points) written qualifications and project plans (50 points), and an oral interview (10 points), for a total possible 100 points. Exhibit 1 below shows the scoring breakdown of each proposal.

[1] Files 21-1083 and 22-0422.

Exhibit 1: Results of Scoring Panel

Score	Allied Waste	Recology SF
Written Proposal	40.175	43.873
Interview	7.658	8.493
Price Proposal	40.000	34.824
Total	**87.833**	**87.189**

Source: OCA

Based on the RFP and results from the scoring panel, OCA awarded the refuse services contract to Allied Waste Services, the highest-scoring proposer. Of note, Allied Waste received 40 out of 40 possible points in the pricing portion of their proposal. The City estimates savings of approximately $13.3 million throughout the initial seven-year duration of the Allied Waste proposal compared to the Recology proposal.

DETAILS OF PROPOSED LEGISLATION-

The proposed resolution would approve and authorize the Office of Contract Administration to enter into an agreement with Allied Waste Services of North America, LLC. The initial term of the contract is seven years, beginning on April 1, 2024, through March 30, 2031, and has a not to exceed total of $79.4 million. The proposed agreement includes an option to extend the contract for an additional three years through March 30, 2024, with a total not-to-exceed amount of $119 million.

Proposed Services

The proposed agreement requires that refuse collection services must begin no later than July 1, 2024. Allied Waste must provide clean and serviceable bins and other related materials as necessary to complete the scope of services at City facilities. Additional materials, such as compactors, may be bought or leased by departments at an additional charge. Per the scope of services outlined in the proposed contract, Allied Waste Services must adhere to the Zero Waste Program requirements, which include identifying opportunities to decrease trash and increase recycling and composting, identifying opportunities to reduce the level of refuse services, aim to recycle or compost the maximum amount of material collected, and deliver up to 50 cubic yards of compost a month pursuant to City targets under SB 1383.[2] Allied Waste must also provide ongoing and effective customer support to City departments, which includes technical assistance, audits and inspections, and education and outreach.

Processing and Transport

Under the proposed agreement, Allied Waste Services would be responsible for the collection, transportation, and processing of all waste from City departments and associated facilities. The

[2] SB 1383 requires California cities and counties to annually procure a designated quantity of organic waste products to use for landscaping or civil engineering applications. San Francisco is required to procure 70,001 metric tons of organic waste per year.

proposed agreement does not impact Recology's collection of refuse from residential and commercial sites in San Francisco.

- Trash: Allied Waste Services will deliver approximately 42.5 tons of trash per day to the Recology Transfer Station on Tunnel Avenue in San Francisco after being collected along established routes. Recology will then transport the refuse to the Recology Hay Road Landfill located in Vacaville. If this is not possible, Allied Waste Services will deliver collected refuse to the Ox Mountain Sanitary Landfill in Half Moon Bay, where it would be consolidated and transported by Allied Waste Services to the Hay Road Landfill.

  The Department of Environment's Landfill Agreement with Recology designates the Recology landfill on Hays Road in Vacaville to be the City's exclusive landfill site. The 2015 landfill agreement has an initial term that ends on the earlier of nine years or when the City has deposited 3.4 million tones of waste to the landfill. The agreement has one option to extend by six-years and/or an additional 1.6 million tons of waste. The Department of Environment is planning to exercise the option to extend the landfill agreement before the initial term ends in approximately July 2024. The option to extend the landfill agreement will require Board of Supervisors' approval under Charter Section 9.118 because the extension will push agreement's term beyond ten years.

- Recycling: Allied Waste Services will collect an estimated 34.7 tons of recyclable materials per day to be delivered to the Ox Mountain Sanitary Landfill for offloading and consolidation. Allied Waste Services will then transport consolidated recyclables to the Newby Island Resource Recovery Park in Milpitas for recycling.

- Compost: Allied Waste Services will collect approximately 14.9 tons of compostable materials per day to deliver them to the Contra Costa Transfer and Recovery Station for off-loading and processing. Allied Waste Services will then collect and deliver compostable material to the East Bay Municipal Utility District (EBMUD) Wastewater Treatment Plant in Oakland.

In accordance with California law and City regulations,[3] the San Francisco Planning Department evaluated the components of the contract with Allied Waste Services to determine the environmental impact of the agreement—both relative to the original arrangement with Recology and considering the plans to modify the facilities at the Ox Mountain Sanitary Landfill. As it stands, three environmental documents evaluate the City's refuse program: (1) The 2015 final negative declaration for the Agreement for Disposal of San Francisco Municipal Solid Waste at Recology Hay Road Landfill; (2) the 2012 final Environmental Impact Report for the Newby Island Sanitary Landfill and the Recyclery Rezoning Project; and (3) the 2011 final Environmental Impact Report for the Main Wastewater Treatment Plan Land Use Master Plan. SF Planning's analysis concluded that the project modifications with Allied Waste Services fall within the scope of extant environmental review.

[3] CEQA guidelines sections 15164 and 15162 allow for the use of an addendum on modified projects to forego additional environmental review processes, provided certain requirements are met.

DPH Permitting

On January 10, 2024, the Department of Public Health (SF) issued a conditional permit to Allied Waste Services to operate fourteen Refuse Collection Trucks to service approximately 383 San Francisco City Department facilities in accordance with the City's Health Code.[4] In order to operate the truck fleet and receive an official Permit to Operate, Allied Waste must submit the following documents to DPH: (1) an updated Refuse Collection Truck Inventory Sheet indicating truck numbers, business route numbers, and the day and time of collection; (2) written documentation verifying approval of "San Francisco Project Planning Application for Environmental Review;" and (3) written documentation verifying approval of the OCA contract. Furthermore, Allied Waste must schedule, obtain, and pass inspection of their 14-truck fleet from DPH to verify compliance with state and local regulations.

Director of DPH Environmental Health Patrick Fosdahl informed BLA that Allied Waste has not yet fulfilled any of the requirements outlined in the conditional permit. OCA, however, confirmed that the process of meeting these conditions would not begin until the proposed agreement receives approval from the Board of Supervisors and Mayor. Mr. Fosdahl did not indicate whether there is a deadline for the conditions to be met by Allied Waste. Furthermore, DPH is unable to explain the difference in the number of trucks requested in the DPH application and the 17-truck fleet described in the Planning Analysis.

Performance Monitoring

Per OCA Director Sailaja Kurella, OCA will assume responsibility for monitoring contract performance, which includes review of customer service issues, compliance with reporting and auditing requirements, and ability to meet contracted service levels. Furthermore, SF Environment will oversee Allied Waste Service's performance standards under the Zero Waste Program. Up to two staff at ENV will manage the Zero Waste component of the contract and monitor compliance of both Allied Waste and City Departments by evaluating the Customer Support program (technical assistance, inspections and audits, and outreach and education) and reviewing reports related to usage, recovery and disposal, and refuse audits.

The proposed agreement also adds a customer service component, including a 24-hour helpline.

FISCAL IMPACT

The proposed resolution would approve a contract between OCA and Allied Waste Services, LLC for a total not to exceed $79,416,725 for a term of seven years. The agreement includes an option to extend the contract for three additional years with a total amount not to exceed $118,853,596. The proposed not-to-exceed amounts include a 15 percent contingency to account for new collection locations, increased collection frequency, and future rate increases. OCA currently estimates annual rate increases to increase alongside the Consumer Price Index at 3.02 percent

[4] San Francisco Health Code Article 12, Section 714 requires all persons, firms, partnerships, or corporations maintaining, conducting, or operating refuse collection trucks within City limits must obtain a permit of operation from the Department of Public Health.

each year. Exhibit 2 below summarizes the not-to-exceed expenditure projections for the initial and extended terms.

Exhibit 2: Not-to-Exceed Annual Expenditure Estimates

	Year One	Initial 7 Year Term	Ten Year Term
Refuse Collection	$8,884,739	$68,120,206	$101,947,434
Compactor Lease	94,263	722,726	1,081,619
Contamination	--	--	--
Overage	28,053	215,090	321,900
Subtotal	$9,007,056	$69,058,023	$103,350,953
Contingency (15%)		$10,358,703	$15,502,643
Total		**$79,416,725**	**$118,853,596**

Source: OCA
Notes: Contamination fees are expected to be paid with contingency allocations.

As shown above, the greatest anticipated expense to City departments will be the refuse collection charges, estimated to be $8.9 million in the first year of the contract or 98 percent of overall expenditures, The estimated annual compactor lease expenditures total $94,263 in the first year under the agreement and includes annual rental charges for 11 compactors. Overage charges, which are comprised of fees related to overfilled bins, are estimated to incur $28,053 in year one. OCA has not estimated contamination fee charges.

Rates

Refuse collection costs are based on rates included in Appendix B of the proposed agreement, which vary depending on the size and frequency of refuse collections. Rates may be escalated annually by a regional inflation index. The contract includes a discount off the base collection rates (the “recovery discount”), based on the percent by volume of total materials that are recovered (e.g., recyclable and compostable materials) at each collection location. The recovery discount is defined in the RFP but not included in the draft agreement. At the recommendation of the Budget & Legislative Analyst, OCA is adding the recovery discount language to the final agreement.

Sources of Funding

The contract spending will be covered by the operating budgets of individual City departments, and therefore a mix of General Fund and enterprise funds.

RECOMMENDATION

Approve the resolution.