

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

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June 17, 2019

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: June 19, 2019 Budget and Finance Committee Meeting

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Item 3 File 19-0625	Departments: Public Utilities Commission, Port, Airport
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <p>The proposed ordinance would (1) appropriate \$12,218,229 in the Public Utilities Commission (SFPUC), (2) de-appropriate and re-appropriate \$2,127,062 in the Airport Commission, and (3) de-appropriate and re-appropriate \$304,443 in the Port Commission in FY 2019-20.</p> <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed ordinance appropriates \$12,218,229 to the SFPUC FY 2019-20 budget in expenditure recoveries from City departments, CleanPowerSF revenues, and fund balance to pay for \$12,218,229 in cost-of-living adjustments (COLA) and work orders for the enterprises and CleanPowerSF. • \$22,647 of the proposed SFPUC appropriation is not subject to Board of Supervisors approval because \$22,647 would be transferred out of the CleanPowerSF annual operating budget for FY 2019-20, and CleanPowerSF is self-appropriating. • The proposed ordinance de-appropriates \$2,127,062 in unappropriated revenue and general reserve and re-appropriates \$2,127,062 for work orders in the Airport's FY 2019-20 budget. • \$282,917 of the proposed Airport re-appropriation, which corresponds to a Department of Technology work order that received a cut during the last budget cycle, is subject to approval by a two-thirds vote of the Board of Supervisors pursuant to Charter Section 9.113(c). • The proposed ordinance de-appropriates \$304,443 in unappropriated revenue in the Port's FY 2019-20 budget and re-appropriates \$304,443 for work orders and the Countywide Cost Allocation Plan adjustment. • \$139,396 of the proposed Port re-appropriation, which is associated with increases in technology projects, telecommunications services, and fuel stock, is subject to approval by a two-thirds vote of the Board of Supervisors pursuant to Charter Section 9.113(c). <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed ordinance to state that \$282,917 of the Airport re-appropriation requires a two-thirds vote of all members of the Board of Supervisors for approval. • Approve the proposed ordinance, as amended. 	

MANDATE STATEMENT

Charter Section 9.105 provides that amendments to the Annual Appropriation Ordinance be subject to Board of Supervisors approval by ordinance, after the Controller certifies the availability of funds.

Charter Section 9.113(c) states that, in the event the Mayor or a member of the Board of Supervisors recommends a supplemental appropriation ordinance after the adoption of the budget and prior to the end to the budget year that contains any item rejected by the Mayor or the Board of Supervisors in the original budget appropriation, the supplemental appropriation can only be approved by a two-thirds vote of the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (1) appropriate \$12,218,229 in the Public Utilities Commission (SFPUC), (2) de-appropriate and re-appropriate \$2,127,062 in the Airport Commission, and (3) de-appropriate and re-appropriate \$304,443 in the Port Commission in FY 2019-20.

Pursuant to Charter Section 9.113(c), \$12,195,582 of the SFPUC appropriation, \$453,770 of the Airport re-appropriation, and \$139,396 of the Port re-appropriation requires a two-thirds vote of all members of the Board of Supervisors for approval.

FISCAL IMPACT**Public Utilities Commission**

The proposed ordinance appropriates \$12,218,229 in expenditure recoveries from City departments, CleanPowerSF revenues, and fund balance in the SFPUC FY 2019-20 budget to pay for \$12,218,229 in cost-of-living adjustments (COLA) and services of other City departments (or work orders) for the enterprises and CleanPowerSF, as shown in Table 1 below.

Table 1: SFPUC FY 2019-20 Proposed Appropriation by Enterprise

	FY 2019-20 Original Budget	FY 2019-20 Proposed Budget	Change
Sources			
Expenditure Recovery from Airport	\$51,216,021	\$51,218,021	\$2,000
Expenditure Recovery from Admin Services	5,956,554	5,962,749	6,195
Expenditure Recovery from City Planning	10,000	40,000	30,000
Expenditure Recovery from Purchaser	230,985	52,790	(178,195)
Transfer from CleanPowerSF	24,609,926	24,857,279	247,353
Transfer Adjustment	(24,609,926)	(24,857,279)	(247,353)
Fund Balance	16,009,409	28,367,638	12,358,229
Total Sources			\$12,218,229
Uses			
Wastewater Enterprise			
Salaries	50,057,539	51,726,620	1,669,081
Mandatory Fringe Benefits	23,373,633	24,089,542	715,909
Overhead and Allocations	26,395,468	27,512,713	1,117,245
Services of Other Departments	34,590,511	35,215,591	625,080
Unappropriated Revenue	629,994	-	(629,994)
<i>Wastewater Enterprise Subtotal</i>			<i>\$3,497,321</i>
CleanPowerSF			
Salaries	5,257,817	5,344,176	86,359
Mandatory Fringe Benefits	1,210,881	1,260,368	49,487
Overhead and Allocations	2,036,630	2,116,837	80,207
Programmatic Projects	270,000	-	(270,000)
Neighborhood Steward Project	-	270,000	270,000
Services of Other Departments	3,080,473	3,111,773	31,300
Operating Trust Fund	188,299,383	188,052,030	(247,353)
<i>CleanPowerSF Subtotal</i>			<i>\$0</i>
Hetch Hetchy Water & Power Enterprise			
Salaries	32,188,149	33,249,395	1,061,246
Mandatory Fringe Benefits	14,546,264	15,055,758	509,494
Overhead and Allocations	15,803,041	16,572,551	769,510
Services of Other Departments	7,966,985	8,250,271	283,286
<i>HHWP Subtotal</i>			<i>\$2,623,536</i>
Water Enterprise			
Salaries	67,623,181	69,957,201	2,334,020
Mandatory Fringe Benefits	31,604,919	32,851,894	1,246,975
Overhead and Allocations	38,368,143	40,142,254	1,774,111
Services of Other Departments	23,002,937	23,713,203	710,266
<i>Water Enterprise Subtotal</i>			<i>\$6,065,372</i>
<i>(continued on next page)</i>			

	FY 2019-20 Original Budget	FY 2019-20 Proposed Budget	Change
PUC Operating Fund			
Salaries	44,384,935	45,853,152	1,468,217
Mandatory Fringe Benefits	22,257,955	22,875,931	617,976
Overhead and Allocations	(113,366,519)	(117,182,216)	(3,815,697)
Services of Other Departments	27,223,828	28,992,954	1,769,126
Unappropriated Revenue	7,622	-	(7,622)
<i>PUC Operating Fund Subtotal</i>			<i>\$32,000</i>
Total Uses			\$12,218,229

According to Mr. Carlos Jacobo, Budget Director at SFPUC, the increase in salaries and fringe benefits is due to a 3.3 percent cost-of-living increase for employees, as shown in Table 2 below. SFPUC's two-year fixed budget for FY 2018-20 did not include a cost-of-living increase for FY 2019-20 because the amount of the adjustment was unknown when the budget was prepared in 2018.

Table 2: SFPUC FY 2019-20 Proposed Appropriation by Type of Use

	FY 2019-20 Original Budget	FY 2019-20 Proposed Budget	Change	% Change
Uses				
Salaries	\$199,511,621	\$206,130,544	\$6,618,923	3.3%
Mandatory Fringe Benefits	92,993,652	96,133,493	3,139,841	3.4%
Services of Other Departments	95,864,734	99,283,792	3,419,058	3.6%
CleanPowerSF Neighborhood Steward Project	0	270,000	270,000	--
Overhead and Allocations	(30,763,237)	(30,837,861)	(74,624)	(0.2%)
CleanPowerSF Operating Trust Fund	188,299,383	188,052,030	(247,353)	(0.1%)
CleanPowerSF Programmatic Projects	270,000	0	(270,000)	(100%)
Unappropriated Revenue	637,616	0	(637,616)	(100%)
Total Uses			\$12,218,229	

According to Mr. Jacobo, the approximately \$3.4 million increase in FY 2019-20 work orders is largely due to (1) a \$1.1 million increase to the adopted budget for Department of Technology infrastructure, including Committee on Information Technology (COIT)-approved projects and replacing end-of-life equipment; (2) an approximately \$972,000 increase for Controller Information Systems Operations for COIT-approved projects; (3) an approximately \$195,000 increase for the Controller's Office related to the conversion of time-limited project positions to permanent positions for ongoing support of the new financial system; (4) an approximately \$550,000 increase for the Power Enterprise's City Attorney services to fund two new Attorneys and one new Paralegal position to work on PG&E matters; and (5) an approximately \$284,000 increase for Department of Human Resources employee relations.

Mr. Jacobo advises that \$22,647 of the proposed appropriation is not subject to Board of Supervisors approval because \$22,647 would be transferred out of the CleanPowerSF annual operating budget for FY 2019-20, and CleanPowerSF is self-appropriating.

Airport Commission

The proposed ordinance de-appropriates \$2,127,062 in unappropriated revenue and general reserve and re-appropriates \$2,127,062 for work orders in the Airport's FY 2019-20 budget, as shown in Table 3 below.

Table 3: Airport FY 2019-20 Proposed De-Appropriation and Re-Appropriation

	FY 2019-20 Change
Sources	
<u>De-Appropriation</u>	
Unappropriated Revenue	\$(2,125,062)
General Reserve	(2,000)
Total Sources	\$(2,127,062)
Uses	
<u>Re-Appropriation</u>	
Services of Other Departments	
Controller – Financial System Reconciliation and Technical Support	\$1,357,260
Treasurer/Tax Collector – Financial Services	375,564
Department of Technology – Website Maintenance, Email and Enterprise Services	282,917
Office of Labor Standards Enforcement – Compliance Monitoring and Enforcement	100,000
Central Shops – Auto Maintenance	9,321
SFPUC – Citywide Project Pull Internship	2,000
Total Uses	\$2,127,062

According to Ms. Kaitlyn Connors, Budget Director at the Airport, the proposed re-appropriations in FY 2019-20 were requested by the departments listed above in Table 3 to cover anticipated increases in service. According to Ms. Risa Sandler in the Budget and Analysis Division of the Controller's Office, \$282,917 of the proposed re-appropriation is subject to approval by a two-thirds vote of the Board of Supervisors pursuant to Charter Section 9.113(c). The proposed re-appropriation amount of \$282,917 corresponds to the Department of Technology work order that received a cut during the last budget cycle.

Port Commission

The proposed ordinance de-appropriates \$304,443 in unappropriated revenue in the Port's FY 2019-20 budget and re-appropriates \$304,443 for work orders and the Countywide Cost Allocation Plan adjustment, as shown in Table 4 below.

Table 4: Port FY 2019-20 Proposed De-Appropriation and Re-Appropriation

	FY 2019-20 Original Budget	FY 2019-20 Proposed Budget	Change
Sources			
<u>De-Appropriation</u>			
Unappropriated Revenue	\$21,049,823	\$20,745,380	\$(304,443)
Total Sources			\$(304,443)
Uses			
<u>Re-Appropriation</u>			
Countywide Cost Allocation Plan Adjustment	\$0	\$70,287	\$70,287
Services of Other Departments			
City Hall Fellows Program	0	94,760	94,760
Department of Technology (DT) Projects	189,954	248,160	58,206
DT Telecommunications Services	241,932	279,927	37,995
Central Shops - Fuel	120,277	163,472	43,195
Total Uses			\$304,443

According to Ms. Meghan Wallace, Finance Director at the Port, the work order adjustments include:

1. An increase to the Department of Human Resources for the City Hall Fellows program. The Port requested and will receive a fellow to support the Finance team's work to implement an Economic Impact Policy and update the Capital Improvement Program.
2. An allocation of costs for COIT-approved projects to be implemented by the Department of Technology.
3. An increase for telecommunications services provided the Department of Technology based on prior year use trends and current rates.
4. An increase for fuel provided by Central Shops based on prior year use trends and current rates.

As noted above, only \$139,396 of the \$304,443 re-appropriation is subject to Board of Supervisors approval pursuant to Charter Section 9.113(c). The \$139,396 amount is associated with the increases in technology projects, telecommunications services, and fuel stock.

RECOMMENDATIONS

1. Amend the proposed ordinance to state that \$282,917 of the Airport re-appropriation requires a two-thirds vote of all members of the Board of Supervisors for approval.
2. Approve the proposed ordinance, as amended.

Items 7 and 8 Files 19-0624 and 19-0626	Departments: Office of Public Finance Public Works
EXECUTIVE SUMMARY	
Legislative Objectives	
<p>File 19-0624 is an ordinance authorizing the issuance of Certificates of Participation in one or more series, on a taxable or tax-exempt basis, in an amount not to exceed \$160,000,000 to refinance the COPs issued in 2009.</p>	
<p>File 19-0626 is an ordinance appropriating \$160,000,000 in the Refunding COPs proceeds and \$16,500,000 in prior reserve funds, totaling \$176,500,000 to refinance the Series 2009A and 2009B COPs, and other uses.</p>	
Key Points	
<ul style="list-style-type: none"> • The Board of Supervisors approved the issuance of up to \$227 million in COPs in 2008 and 2009 to construct the new Laguna Honda Hospital, as well as the acquisition, construction and installation of certain street improvements. The Office of Public Finance recommends refunding the COPs (Series 2009A and 2009B) to achieve interest and debt service savings. • According to the Office of Public Finance June 3, 2019 memorandum to the Board of Supervisors, the City expects to issue approximately \$148,000,000 in Refunding COPs and re-appropriate reserve funds (see File 19-0626), to refund \$112,395,000 of outstanding 2009A COPs and \$28,905,000 of outstanding 2009B COPs. • Of the \$176,500,000 appropriation, \$2,750,000 is allocated to street resurfacing projects. Public Works identified \$70,308,872 in street resurfacing projects in FY 2019-20, funded by a variety of sources, including the \$2,750,000 in proceeds from the Refunding COPs. 	
Fiscal Impact	
<ul style="list-style-type: none"> • According to the Office of Public Finance, the estimated net present value of savings from refunding the 2009A and 2009B COPs are \$13,200,000, equal to 9.4 percent of the outstanding par amount of the 2009A and 2009B COPs to be refunded. The estimated net present value of savings exceeds the 3 percent savings set by City policy. 	
Recommendation	
<ul style="list-style-type: none"> • Approve the proposed legislation. 	

MANDATE STATEMENT

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

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding indebtedness does not exceed 3.25% of discretionary revenue as determined by the Controller and Director of Public Finance. Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

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

BACKGROUND

The Board of Supervisors approved the issuance of up to \$227 million in COPs in 2008 and 2009 to construct the new Laguna Honda Hospital, as well as the acquisition, construction and installation of certain street improvements. The Office of Public Finance recommends refunding the COPs (Series 2009A and 2009B) to achieve interest and debt service savings.

DETAILS OF PROPOSED LEGISLATION

File 19-0624 is an ordinance authorizing the issuance of Certificates of Participation in one or more series, on a taxable or tax-exempt basis, in an amount not to exceed \$160,000,000 to refinance the COPs issued in 2009.

File 19-0626 is an ordinance appropriating \$160,000,000 in the Refunding COPs proceeds and \$16,500,000 in prior reserve funds, totaling \$176,500,000 to refinance the Series 2009A and 2009B COPs, and other uses.

Issuance of Refunding Certificates of Participation (File 19-0624)

Under the proposed ordinance, the Board of Supervisors is approving:

- Issuance of Refunding COPs in an amount up to \$160 million to refinance the Series 2009A and 2009B COPs;
- The Third Supplement to the Trust Agreement between the City and U.S. Bank National Association, as trustees;
- The Third Supplement to the Property Lease and the Third Supplement to the Project Lease between the City and U.S. Bank National Association for 375 Laguna Honda Boulevard;

- The form of two Escrow Agreements between the City and U.S. Bank National Association, as the escrow agent;
- Participation;
- The form of the Bond Purchase Contract;
- The form of an Official Statement in preliminary and final form; and
- The form of a Continuing Disclosure Certificate.

According to the proposed ordinance, the Board of Supervisors (a) gives City officials the authority to take the necessary actions to issue the Refunding COPs, (b) approves modifications to the documents; and ratifies previous actions. The parameters set by the proposed ordinance for the issuance of the COPs include (a) maximum interest rate of 12 percent, (b) maximum term of 20 years, and (c) maximum debt service (“base rental payment”) of \$15,381,705.

According to the Office of Public Finance June 3, 2019 memorandum to the Board of Supervisors, the City expects to issue approximately \$148,000,000 in Refunding COPs and re-appropriate reserve funds (see File 19-0626), to refund \$112,395,000 of outstanding 2009A COPs and \$28,905,000 of outstanding 2009B COPs.

Appropriation (File 19-0626)

The proposed ordinance appropriates \$160,000,000 in Refunding COPs, and re-appropriates \$16,500,000 in 2009A and 2009B COPs reserves as follows:

Sources

Refunding Certificates of Participation Proceeds	\$160,000,000
De-appropriation prior Debt Service Reserve	<u>16,500,000</u>
Total Sources	\$176,500,000

Uses

Refund of 2009A and 2009B Certificates of Participation	\$145,669,650
Debt Service Reserve	13,800,500
City Services Auditor	5,500
Costs of Issuance	1,000,000
Underwriters Discount	1,274,350
Reserve for Market Uncertainty	<u>12,000,000</u>
Total Refunding and Associated Costs	\$173,750,000
Street Projects	<u>2,750,000</u>
Total Uses	\$176,500,000

The Office of Public Finance anticipates issuing \$148,000,000 in Refunding COPs; the total authorized amount of \$160,000,000 includes \$12,000,000 as a reserve for market uncertainty (such as an increase in interest rates).

Of the \$176,500,000 appropriation, \$2,750,000 is allocated to street resurfacing projects. Public Works identified \$70,308,872 in street resurfacing projects in FY 2019-20, funded by a variety of sources, including the \$2,750,000 in proceeds from the Refunding COPs.

FISCAL IMPACT

According to the Office of Public Finance, the estimated net present value of savings from refunding the 2009A and 2009B COPs are \$13,200,000, equal to 9.4 percent of the outstanding par amount of the 2009A and 2009B COPSs to be refunded. The estimated net present value of savings exceeds the 3 percent savings set by City policy.

RECOMMENDATION

Approve the proposed legislation.

Item 15 File 19-0642	Departments: City Administrator
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • File 19-0469: The City Administrator is requesting the release of \$26,200,000 of the \$29,387,433 on Budget and Finance Committee reserve to partially fund furniture, fixtures, equipment, information technology, and moving costs for the relocation of City departments to 49 South Van Ness Avenue. Eleven City departments or sections of departments are scheduled to relocate to 49 South Van Ness, beginning in the summer of 2020. <p>Key Points</p> <ul style="list-style-type: none"> • The Board of Supervisors approved the issuance of up to \$321.8 million in Certificates of Participation (COPs) in 2017 (File 17-0468) and appropriated the COPs proceeds to fund the construction of the City office building at 49 South Van Ness Avenue (File 17-0464). The Board of Supervisors place \$29,397,433 on Budget and Finance Committee reserve pending a detailed budget for the furniture, fixtures, and equipment to be funded by the \$29,397,433. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The total budget for furniture, fixtures, equipment, information technology, and moving costs is \$39.1, funded by \$26.2 million in COPs funds on reserve, City department funds, and Capital Planning/COIT funds. Expenditures include \$23.9 million for workstations and other furniture, \$11.5 million for information technology, and \$3.7 million in moving costs. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the requested release of \$26,200,000. 	

MANDATE STATEMENT

City Administrative Code Section 3.3(e) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval. The practice of the Board of Supervisors is for the Budget and Finance Committee to approve release of funds placed on reserve by the Committee, without further Board of Supervisors approval.

BACKGROUND

The Board of Supervisors approved the issuance of up to \$321.8 million in Certificates of Participation (COPs) in 2017 (File 17-0468) and appropriated the COPs proceeds to fund the construction of the City office building at 49 South Van Ness Avenue (File 17-0464). The Board of Supervisors place \$29,397,433 on Budget and Finance Committee reserve pending a detailed budget for the furniture, fixtures, and equipment to be funded by the \$29,397,433.

DETAILS OF PROPOSED LEGISLATION

File 19-0469: The City Administrator is requesting the release of \$26,200,000 of the \$29,387,433 on Budget and Finance Committee reserve to partially fund furniture, fixtures, equipment, information technology, and moving costs for the relocation of City departments to 49 South Van Ness Avenue. Eleven City departments or sections of departments are scheduled to relocate to 49 South Van Ness, beginning in the summer of 2020.¹

FISCAL IMPACT

The total budget for furniture, fixtures, equipment, information technology, and moving costs is \$39,103,555, funded by the COPs funds on reserve, City department funds, and Capital Planning/COIT funds, as shown below.

¹ The departments/ department sections include: Public Works, Building Inspection, Planning, DPH Environmental Health, Recreation and Parks, Fire, Public Utilities, Board of Appeals, Entertainment Commission, Office of Cannabis, and Permit Center.

Sources

Certificates of Participation (File 19-0469)	\$26,200,000
Department Funds	10,703,555
Capital Planning/ COIT	2,200,000
Total Sources	\$39,103,555

Uses

Systems furniture (primarily workstations)	\$8,376,973
Interior public spaces, including seating and specialty storage	13,992,152
Additional miscellaneous ancillary furniture	1,500,000
Furniture, Fixtures, Equipment	\$23,869,125
Fiber, network, WIFI and labor	\$8,203,467
Centralized cashiering	1,000,000
Desktop PC + monitors (Permit Center and departments)	1,595,533
Queue Management System	228,050
TEEM conference room system	135,000
Audio Visual Equipment for 1st Floor and Conference Rooms	350,000
Technology	\$11,512,050
Move Management	\$952,380
Mover Cost	900,000
Specialty equipment (computers, multi-function devices, plotters, etc.)	270,000
Site costs for night-time deliveries	360,000
Decommissioning / disposal existing furniture	1,080,000
Contingency for expedited move	160,000
Moving Costs	\$3,722,380
Total Uses	\$39,103,555

Source: City Administrator

RECOMMENDATION

Approve the requested release of \$26,200,000.