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: May 10, 2018 Budget and Finance Sub-Committee Meeting

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Item 1 **File 18-0132**	**Departments:** Adult Probation, Sheriff, Public Health, Juvenile Probation, City Administrator

EXECUTIVE SUMMARY

Legislative Objectives

The proposed ordinance would amend the Administrative Code to abolish: (1) fees associated with emergency medical services, probation costs, restitution, booking, the Sherriff's Work Alternative Program, the automated county warrant system, and the Sherriff's Home Detention Program, and (2) local penalties associated with alcohol testing and court-ordered penalties for misdemeanor and felony offenses.

Key Points

- San Francisco charges people for costs related to emergency medical services and the administration of criminal justice, including incarceration fees, probation fees, penalty assessment fees and electronic monitoring fees. The fees are levied on some of San Francisco's lowest income residents.
- The amount of the fees varies by type of fee and length of time for which the fee is charged. For example, one-time probation fees are up to $1,800 and ongoing probation fees are $600 per year. Fees to participate in the Clean Slate Program, which assists individuals in expunging their criminal records, can range from $3,000 to $5,000.

Fiscal Impact

- The reduction in fee revenues to the City from implementation of the proposed ordinance is approximately $1,017,911 (based on fees collected in FY 2016-17), of which approximately 70 percent or $709,951 were probation fees.
- Other revenue impacts include the reduction of approximately $200,000 in electronic monitoring fees, which are collected by the electronic monitoring contractor and pay for part of the contract costs; and approximately $50,000 in penalty assessments on fines, penalties, and forfeitures related to criminal offenses, which is deposited into an emergency medical services fund to reimburse physicians and hospitals for the cost of uncompensated care.

Recommendation

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

MANDATE STATEMENT

According to Charter Section 2.105, all legislative acts shall be by ordinance and require the affirmative vote of at least a majority of the members of the Board of Supervisors.

BACKGROUND

San Francisco charges people for costs related to emergency medical services and the administration of criminal justice, including incarceration fees, probation fees, penalty assessment fees and electronic monitoring fees. The fees are levied on some of San Francisco's lowest-income residents. For example, more than 90 percent of people in San Francisco jails are defined as low-income.[1]

The amount of these fees for individuals varies. For example, adults ordered to probation by the courts are charged up to $1,800 in one-time fees when they start their probation, and then an additional $50 per month to be on probation, which typically lasts for three years (approximately $600 per year or $1,800 for three years). According to the Public Defender's Office, participants in the Clean Slate Program, which assists individuals in expunging their criminal records, are charged approximately 25 fees for administrative functions, and typically owe $3,000 to $5,000.

The San Francisco Superior Court is responsible for collecting the criminal justice administration fees and a percentage of the collected fees are remitted to the County.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Administrative Code to abolish:

(1) fees associated with emergency medical services, probation costs, restitution, booking, the Sherriff's Work Alternative Program, the automated county warrant system, and the Sherriff's Home Detention Program, and

(2) local penalties associated with alcohol testing and court-ordered penalties for misdemeanor and felony offenses.

The fees affected by the proposed ordinance and the corresponding department are shown in Table 1 below.

[1] Statistic found from SF Chronicle report by Evan Sernoffsky, entitles "SF Ordinance Targets Fees Faced by Poor." February 5, 2018

Table 1: Fees eliminated by the proposed ordinance and corresponding department

Department	Fee
Adult Probation	Probation Fee Presentence Report/Investigation Fee Adult Probation Booking Fee Adult Probation Restitution Collection Fee Adult Probation Restitution Fine Administrative Fee Annual Determination of Average Per Day Costs of Incarceration
City Administrator's Office	Penalty Assessment for Testing for Alcohol Content
Juvenile Probation	Restitution Collection Fee
Public Health	Penalty Assessment for Emergency Medical Services
Sheriff	San Francisco Automated County Warrant System Sheriff's Work Alternative Program Fees Electronic Monitoring

The proposed ordinance only eliminates the fees which are the jurisdiction of the County to alter. The proposed ordinance urges the San Francisco Superior Court to modify or eliminate fees within their jurisdiction.

FISCAL IMPACT

According to the Controller's office, the total General Fund amount collected from the affected fees for FY 2016-17 was $1,017,911, as shown in Table 2 below.

Table 2: General Fund Fee Actuals for FY 2016-17

Fee	FY 2016-17 Amount
Probation Fee	$709,951
Presentence Report/Investigation Fee	34,711
Adult Probation Booking Fee	48,565
Adult Probation Restitution Collection Fee	-
Adult Probation Restitution Fine Administrative Fee	-
Annual Determination of Average Per Day Costs of Incarceration	-
Penalty Assessment for Testing for Alcohol Content	20,313
Restitution Collection Fee	112,616
Penalty Assessment for Emergency Medical Services	-
San Francisco Automated County Warrant System	-
Sheriff's Work Alternative Program Fees	91,755
Electronic Monitoring	-
Total	**$1,017,911**

Source: Controller's Office

Other fiscal impacts could include replacing lost fee revenues for electronic monitoring and penalty assessment for testing alcohol content. Currently, the Sherriff's Department contracts with a private contractor for electronic monitoring. Fees paid directly to the electronic monitoring contractor by the individuals required by the Court to wear electronic monitors partially offset the contract amount. If these electronic monitoring fees are abolished, the Sheriff's Department would need to budget for the full amount of the contract, estimated to be $200,000. According to Mr. Crispin Hollings, Deputy Director at the Sheriff's Department, since early February 2018, the Department has not been charging the electronic monitoring fees to individuals in anticipation of this resolution.

San Francisco also collects a penalty assessment on fines, penalties, and forfeitures, which is deposited into an emergency medical services fund to reimburse physicians and hospitals for the cost of uncompensated care. According to Mr. Drew Murrell, Finance Manager at the Department of Public Health, the proposed ordinance will only remove the criminal offense portion of the penalty assessment.[2] The Department of Public Health projects the revenue impact to be $50,000 per year.

RECOMMENDATION

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

[2] According to Mr. Murrell, the majority of the fee comes from vehicle code violations.

Item 2 File 18-0464	Department: Recreation and Park Department

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution (1) approves construction of a new clubhouse for the Golden Gate Park Tennis Center, (2) authorizes the Recreation and Park Department to accept a grant in-place of approximately $24,000,000 from the San Francisco Parks Alliance to renovate the Center, and (3) approves a 50-year grant agreement with the San Francisco Parks Alliance.

Key Points

- The San Francisco Parks Alliance is the fiscal sponsor for the Tennis Coalition of San Francisco, which is fundraising for the renovation of the Recreation and Park Department's Golden Gate Park Tennis Center. The Tennis Center includes a clubhouse built in 1960 and 21 tennis courts, built between 1901 and 1937. The Golden Gate Park Tennis Center project would install 17 new courts to replace the existing 21 courts, build a new clubhouse, and make other improvements. The current project estimate is $26,300,000, of which the Parks Alliance would provide $23,300,000 in construction services and funding, and the City would provide $3,000,000. The $3,000,000 comes from the Community Opportunity Fund Partnership Project Fund funded by the 2012 Clean and Safe Neighborhood Parks General Obligation Bond.
- Under the proposed 50-year between the Park Alliance and the City, the Parks Alliance "intends to provide" funding and services of approximately $24,000,000 to fund the Golden Gate Park Tennis Center project. The City's responsibilities are to provide naming and donor recognition opportunities; the grant agreement lists the following donor names to be included in the Golden Gate Park Tennis Center project: Lisa and Douglas Goldman Tennis Court; Taube Family Clubhouse; and Koret Tennis and Learning Center.

Fiscal Impact

- To date the Parks Alliance has raised $17,956,450 in funds to give to the Recreation and Park Department, on behalf of the Tennis Coalition. The $17,956,450 is $6,043,550 less than the $24,000,000 provided in the proposed grant agreement and $5,343,550 less than the grant budget of $23,300,000. The Tennis Coalition is still fundraising, and according to Department staff, the Recreation and Park Department will not begin construction until the full $23,300,000 is available.

Recommendations

- Amend the proposed resolution to require a written report from the Recreation and Park Department General Manager prior to December 31, 2018, detailing the amount of funds raised under the agreement between the Department and San Francisco Parks Alliance, and the impact on implementation of the Golden Gate Park Tennis Center project
- Because the grant agreement provides for Recreation and Park Department facilities to have donor names, the Budget and Legislative Analyst considers approval of the proposed resolution, as amended, to be a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

Charter Section 4.113 (1) states that no building or structure, except for nurseries, equipment storage facilities and comfort stations, shall be erected, enlarged or expanded in Golden Gate Park unless such action has been approved by a vote of two-thirds of the Board of Supervisors.

BACKGROUND

Community Opportunity Fund Partnership Projects Fund: The Community Opportunity Fund was established to finance capital improvement projects at neighborhood parks. The Community Opportunity Fund provides an opportunity for neighborhoods, community groups, and park partners to nominate capital projects from the Clean and Safe Neighborhood Parks Bond through an approved Recreation & Park Department process[1]. The Community Opportunity Fund has three main policy goals: (1) foster community stewardship, (2) enhance park identity and experience, and (3) leverage additional resources from the community.

Following the success of this program in the 2008 Clean and Safe Neighborhood Parks Bond, the Recreation and Park Department proposed an expansion of the Community Opportunity Fund for the 2012 Clean and Safe Neighborhood Parks General Obligation Bond, increasing the fund from $5,000,000 to $12,000,000. The now $12,000,000 allocation is divided into two $6,000,000 programs. The first is the traditional Community Opportunity Fund carried over from the 2008 Bond in which residents request up to $500,000 in funding for improvements to a specific park. The second fund, the Community Opportunity Fund Partnership Project Fund, is intended to support larger projects with major philanthropic support and resources leveraged from other sources.

The proposed Golden Gate Park Tennis Center renovation is funded by the Partnership Project Fund. The proposed renovation is the second allocation of funds from the Community Opportunity Fund Partnership Projects Fund financed by the Parks Bond. Of the $6,000,000 fund, the first allocation of $3,000,000 was awarded to the Geneva Car Barn and of the remaining $3,000,000 is allocated to the Golden Gate Tennis Center renovation. Per the 2012 Bond report, the Community Opportunity Fund Partnership Projects fund will support larger scale projects that have:

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[1] The Clean and Safe Neighborhood Parks General Obligation Bond was originally approved on February 5, 2008 through Proposition A, to fund a capital plan targeting critical needs in San Francisco's Recreation and Parks Department facilities as well as waterfront Port Commission (Port) facilities. This bond included the following programs, totaling $185,000,000: Neighborhood Parks, Port Waterfront Parks, Park restrooms, Park Playfields, Park Trails, Park Forestry projects, a citizen's oversight audit of the program, and $5,000,000 for a Community Opportunity Fund to finance completion of community-nominated Recreation and Park projects. A second such general obligation bond was issued in 2010 and the third and most recent Parks Bond, issued in 2012, expanded the Community Opportunity Fund to $12,000,000.

- Completed environmental review, as governed by the California Environmental Quality Act,
- Provided evidence of broad based community support,
- Obtained commitments of significant match in philanthropic funding against requested bond funds, and
- Demonstrated consistency with existing department and city policy and capital planning documents.

According to the February 7, 2018 staff report to the Recreation and Park Commission, the Golden Gate Park Tennis Center project meets all criteria for funding from the Community Opportunity Fund Partnership Project Fund.

The Golden Gate Park Tennis Center: The Golden Gate Park Tennis Center is an existing public recreational facility located within Golden Gate Park and operated by the San Francisco Recreation and Park Department. The Center includes a clubhouse and 21 tennis courts. The tennis courts were constructed between 1901 and 1937 and are a contributor to the Golden Gate Park National Register Historic District. The proposal to renovate the Center is the product of a decade of collaboration between the Recreation and Park Department, the public, and a number of nonprofit groups.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (1) approves construction of a new clubhouse for the Golden Gate Park Tennis Center, (2) authorizes the Recreation and Park Department to accept a grant in-place of approximately $24,000,000 from the San Francisco Parks Alliance to renovate the Center, and (3) approves a 50-year grant agreement with the San Francisco Parks Alliance.

Tennis Center Construction Scope: The scope of work is for project design and construction services for the Golden Gate Park Tennis Center renovation. Included in the budget of approximately $26,300,000 are the installation of 17 regulation-size tennis courts (a decrease of four courts from the current 21 courts) with improved drainage and circulation, one pickleball court, an enhanced entryway, landscaping and patios, and new sports lighting for night-play. All courts will be ADA (Americans with Disabilities Act) accessible. A new 7800 sq. ft. clubhouse will replace the existing 2900 sq. ft. clubhouse (built in 1960) within the existing building's footprint.

The new clubhouse will contain dedicated space for the Recreation and Park Department's Tennis and Learning Center youth development program, office administration space, kitchen space, storage and maintenance space, lockers and restrooms. The Recreation and Park Department estimates that the addition of night lighting will provide 20,000 hours of additional playtime each year and enable the tennis center to expand its existing programming.

During the planning phase, from September 2015 to August 2017, the Planning Department issued a Certificate of Determination exempting the renovation from the requirements of the California Environmental Quality Act. The project is currently in the schematic design and design development phase. The bid phase is estimated to begin in November of 2018 and construction in February of 2019, with estimated project completion in August of 2020. The Recreation and Park Department received authority from the Commission to release a Request for Proposals (RFP) for a facility operator to manage the new center, but has not yet issued the RFP.

Grant Agreement: The proposed grant agreement states that the San Francisco Parks Alliance (Parks Alliance) "intends to provide" funding and services to the Recreation and Park Department of approximately $24,000,000 to fund the Golden Gate Park Tennis Center project, which has an estimated project cost of $27,000,000. The Recreation and Park Department has allocated $3,000,000 from the Community Opportunity Fund Partnership Project Fund to complete project financing.

The grant term is for 50 years. San Francisco Parks Alliance responsibilities include hiring and paying for contractor services to complete the Golden Gate Park Tennis Center project, in accordance with the Preliminary Design Plan approved by the Recreation and Park Commission.

Naming and Donor Recognition Opportunities

The City's responsibilities are to provide naming and donor recognition opportunities, and signage with donors' names, which must conform to Commission policy and Department sign standards. The grant agreement lists the following donor names to be included in the Golden Gate Park Tennis Center project: Lisa and Douglas Goldman Tennis Court; Taube Family Clubhouse; and Koret Tennis and Learning Center. Because the grant agreement provides for Recreation and Park Department facilities to have donor names, the Budget and Legislative Analyst considers approval of the proposed grant agreement to be a policy matter for the Board of Supervisors.

FISCAL IMPACT

The total budget for the project, shown in Table 1 below, is approximately $26,300,000, with $23,300,000 in sources from the Parks Alliance. The resolution authorizes the Recreation and Park Department to accept $24,000,000, which includes an additional $700,000, in private grant revenues in the event that costs escalate over the course of construction. Of the estimated $26,300,000, the $3,000,000 in Community Opportunity Fund sources will be spent on the salaries of Recreation and Park Department staff performing project management ($545,000); permitting and other fees charged by other city departments ($655,000); construction ($1,648,277) and a contingency factor ($151,723). The Community Opportunity Fund funds were allocated to cover city-related soft costs first, in the form of staff and fees; the remainder will be applied to a discrete construction expense. The expense will be determined at a later date once the construction documents have been completed. Estimates are based on the Department's standard project assumptions.

Table 1. Golden Gate Park Tennis Center Renovation Budget

Golden Gate Park Tennis Center	SF Parks Alliance Grant	Community Opportunity Fund	Total
SOURCES OF FUNDS			
2012 Parks Bond	$0	$3,000,000	$3,000,000
Private Grants	$23,300,000	$0	$23,300,000
TOTAL SOURCES	**$23,300,000**	**$3,000,000**	**$26,300,000**
USES OF FUNDS			
Construction	$15,312,716	$1,648,277	$16,960,993
Permit, Agency Fees and Entitlements	$34,000	$505,000	$539,000
Design	$2,741,000	$0	$2,741,000
Services and Other Fees	$1,494,650	$150,000	$1,644,650
Furniture, Fixtures and Equipment	$396,100	$0	$396,100
Administration and Management	$536,000	$545,000	$1,081,000
Campaign Expenses[2]	$290,500	$0	$290,500
Contingency	$2,495,034	$151,723	$2,646,757
TOTAL USES	**$23,300,000**	**$3,000,000**	**$26,300,000**

To date, philanthropic support has come from three major donors, $6.635 million from the Lisa and Douglas Goldman Fund, $6.6 million from Taube Philanthropies and $2.1 million from the Koret Foundation. It is a condition of the Lisa and Douglas Goldman Fund's grant that the San Francisco Recreation and Park Department allocate a $3 million match to this project.

Potential Shortfall in Fundraising.

The Parks Alliance is acting as fiscal sponsor for the Tennis Coalition of San Francisco (Tennis Coalition). To date the Parks Alliance has raised $17,956,450 in funds to give to the Recreation and Park Department, on behalf of the Tennis Coalition. The $17,956,450 is $6,043,550 less than the $24,000,000 provided in the proposed grant agreement and $5,343,550 less than the grant budget of $23,300,000. The Tennis Coalition is still fundraising, and according to Department staff, the Recreation and Park Department will not begin construction until the full $23,300,000 is available. The proposed grant agreement specifies that the Recreation and Park Department is not obligated to fund any shortfall in the funds to be raised under the agreement. Also, the agreement provides for the City to terminate the grant agreement if the Parks Alliance or the Tennis Coalition are not able to comply with any terms of the agreement.

Because the full amount of $23,300,000 to fund the Golden Gate Park Tennis Center project is not yet available, the proposed resolution should be amended to require a written report from the Recreation and Park Department General Manager prior to December 31, 2018, detailing the amount of funds raised under the agreement between the Department and San Francisco

[2] Costs incurred by the Parks Alliances in the course of raising funds for the renovation.

Parks Alliance, and the impact on implementation of the Golden Gate Park Tennis Center project.

Ongoing Operating Costs

The grant funds do not cover operating costs and will be fully expended by close of construction. The Golden Gate Park Tennis Center is currently operated by the Recreation and Park Department; the Department has proposed entering into a management agreement with a private operator to operate the renovated center. According to Ms. Sarah Madland, Recreation and Park Department Director of Policy and Public Affairs, operating costs for the renovated Golden Gate Park Tennis Center are not expected to be more than the Department's costs to operate the existing center; therefore, acceptance of the grant and approval of construction does not create any new ongoing costs for the Recreation and Park Department.

RECOMMENDATIONS

1. Amend the proposed resolution to require a written report from the Recreation and Park Department General Manager prior to December 31, 2018, detailing the amount of funds raised under the agreement between the Department and San Francisco Parks Alliance, and the impact on implementation of the Golden Gate Park Tennis Center project.
2. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors, because the proposed grant agreement provides for Recreation and Park Department facilities to have donor names

Item 5 File 18-0235	Department: Controller's Office (Controller)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would establish the City's FY 2017-18 appropriations limit at $3,489,975,077, as calculated by the Controller.

Key Points

- The California Constitution places annual limits on the appropriations of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and adjusted for (1) the change in population, and (2) the change in the cost of living. There are two definitions that local governments may use to calculate the cost of living adjustment.
- In FY 2003-04, the City, in conjunction with an audit, stopped excluding health and dental benefits from the appropriations limit for current and future appropriations calculations. At that time, the base year appropriation limit was not recalculated to reflect the treatment of health and dental benefits. The Controller has now recalculated the base year appropriation limit (FY 1986-87) to include health and dental benefits. The Controller found that the adjustment was equal to $67,588,340.

Fiscal Impact

- The appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) federal mandates for Social Security and Medicare, (c) qualified capital outlays, and (d) other federal mandates. Consequently, the Controller excluded $578,498,670 from the City's total FY 2017-18 tax proceeds of $4,059,193,444, resulting in net tax proceeds subject to the appropriations limit of $3,480,694,774.
- The City's FY 2017-18 appropriation limit, as calculated by the Controller, is $3,489,975,077. The FY 2017-18 net tax proceeds of $3,480,694,774 are $9,280,304 less than the FY 2017-18 appropriation limit of $3,489,975,077.

Policy Consideration

- For the FY 2017-18 appropriations limit, the Controller elected to use the percentage change in per-capita personal income from the preceding year to calculate the cost of living adjustment. Had the Controller elected to use the percentage change in the local assessment roll from the preceding year, the appropriations limit would have been calculated at $3,397,558,423.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

California Constitution Article XIIIB states that each local government must set an annual appropriations limit as calculated using the preceding year's appropriations limit adjusted for (1) the change in population, and (2) the change in the cost of living.

BACKGROUND

On November 6, 1979, California voters approved Proposition 4, known as the Gann Initiative, which added Article XIIIB to the California Constitution. Article XIIIB (later amended by State Proposition 111, as approved by the voters in June of 1990) places annual limits on the appropriations of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and adjusted for (1) the change in population, and (2) the change in the cost of living.

Per Article XIIIB Section 9 and California Government Code Section 7901, the appropriations limit does not apply to any tax proceeds appropriated for (a) debt service, (b) federal mandates for Social Security and Medicare, (c) qualified capital outlays, and (d) other federal mandates.

California Government Code Section 7901(b) defines the change in population as the population growth for the calendar year preceding the beginning of the fiscal year for which the appropriations limit is to be determined. According to the California Department of Finance, in calendar year 2016, San Francisco's population growth was 1.08 percent.

California Constitution Article XIIIB Section 8(e)2 allows the local government to use one of the two following definitions to calculate the cost of living adjustment:

Definition 1: The percentage change in California per-capita personal income from the preceding year, estimated to be 3.69 percent in FY 2016-17, or

Definition 2: The percentage change for the local jurisdiction in the assessment roll from the preceding year due to non-residential new construction, estimated to be 0.89 percent in FY 2016-17.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish the City's FY 2017-18 appropriations limit at $3,489,975,077, as calculated by the Controller. The appropriations limit for FY 2017-18 is based on the amount of the FY 2016-17 appropriations limit and adjusted to reflect increases in (1) the population and (2) cost of living (calculated using the increase in per-capita personal income).

FISCAL IMPACT

Readjustment of Appropriations Limit for FY 2016-17

In FY 2003-04, the City, in conjunction with an audit, stopped excluding health and dental benefits from the appropriations limit for current and future appropriations calculations. However, at that time, the base year appropriation limit was not recalculated to reflect the treatment of health and dental benefits. The Controller has now recalculated the base year appropriation limit (FY 1986-87[1]) to include health and dental benefits. According to the Controller's office, a recalculation has precedent in a 1992 court case that found that the City had to include retirement in appropriation limit calculations. The new FY 2016-17 appropriations limit used for calculations is $3,265,329,234, which is $79,861,019 more than the legally binding limit of $3,185,468,215 approved by the Board of Supervisors in April 2017.

Fiscal Impact

As mentioned above, the appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) federal mandates for Social Security and Medicare, (c) qualified capital outlays, and (d) other federal mandates. Consequently, the Controller excluded $578,498,670 from the City's total FY 2017-18 tax proceeds of $4,059,193,444, as shown in Table 1 below, resulting in net tax proceeds subject to the appropriations limit of $3,480,694,774.

Table 1: Estimated Tax Proceeds Subject to the Proposed Appropriations Limit

FY 2017-18 Estimated Total Tax Proceeds*	**$4,059,193,444**
Exclusions	
(a) Debt Service	(303,185,312)
(b) Federal Mandate for Social Security/Medicare	(84,954,939)
(c) Qualified Capital Outlays	(152,995,820)
(d) Other Federal Mandates	(37,362,599)
Subtotal Exclusions	(578,498,670)
FY 2017-18 Net Tax Proceeds Subject to Appropriations Limit	**$3,480,694,774**

*Includes property taxes, business taxes, other local taxes, rents & concessions, interest, and state grants.

Section 4 of Article XIIIB provides that the appropriations limit imposed may be changed by the voters for up to four years. In November 2016, the voters approved two measures, the Soda and Sugary Sweetened Beverages Tax (Proposition V) and the Real Estate Transfer Tax (Proposition W) that increased the appropriations limit by the aggregate sum collected from these taxes. The controller found that the adjustment was equal to $67,588,340. The temporary increase in the appropriations limit will be in effect through FY 2019-20, after which the limit will return to what it would have been absent the temporary increase.

[1] In June 1990, the voters amended Article XIIIB beginning for fiscal years on or after July 1, 1990, to state that the appropriations limit of each entity of government shall be the appropriations limit for the FY 1986–87.

As shown on Table 2 below, the City's FY 2017-18 appropriation limit, as calculated by the Controller, is $3,489,975,077. The FY 2017-18 net tax proceeds of $3,480,694,774 are $9,280,304 less than the FY 2017-18 appropriation limit of $3,489,975,077.

Table 2: Proposed FY 2017-18 Appropriations Limit

FY 2016-17 Appropriations Limit [a]	**$3,265,329,234**
Adjustment Factors [b]	
Increase in Population	1.08%
Increase in Per-Capita Personal Income	3.69%
Subtotal	$3,422,386,737
Voter approved limit changes	67,588,340
FY 2017-18 Appropriations Limit [a]	**$3,489,975,077**

Source: Controller's Office

[a] This is the readjusted appropriations limit based on a recalculation of the base year FY 1986-87 to include health and dental benefits.

[b] The annual appropriations limit is a formula set by the California Constitution. The Controller calculated the FY 2017-18 appropriations limit based on the increase in the City's population and the increase in per-capita personal income as follows: $3,265,329,234 x 1.0108 x 1.0369 equals $3,422,386,737. This added to the voter approved limit changes of $67,588,340 equals $3,489,975,077.

POLICY CONSIDERATION

As noted above, the Controller has discretion to calculate the cost of living adjustment factor using one of two following definitions:

Definition 1: The percentage change in California per-capita personal income from the preceding year, estimated to be 3.96 percent in FY 2016-17, or

Definition 2: The percentage change for the local jurisdiction in the assessment roll from the preceding year due to local non-residential new construction, estimated to be 0.89 percent in FY 2016-17.

Table 3 below shows the FY 2017-18 appropriations limit using both definitions.

Table 3: The FY 2016-17 Appropriations Limit by Definition

	Definition 1 Per-Capita Personal Income	Definition 2 Local Assessment Roll from Non-Residential New Construction
FY 2016-17 Appropriations Limit	**$3,265,329,234**	**$3,265,329,234**
Adjustment Factors		
Increase in Population	1.08%	1.08%
Increase in Per-Capita Personal Income	3.69%	-
Increase in Local Assessment Roll	-	0.89%
Subtotal	$3,422,386,737	$3,329,970,083
Voter Approved	67,588,340	67,588,340
FY 2016-17 Appropriations Limit	**$3,489,975,077**	**$3,397,558,423**

For the FY 2017-18 appropriations limit, the Controller elected to use the percentage change in per-capita personal income from the preceding year to calculate the cost of living adjustment, consequently calculating the appropriations limit at $3,489,975,077, as shown in Table 3 above. Had the Controller elected to use the percentage change in the local assessment roll from the preceding year, the appropriations limit, as shown in Table 3 above, would have been calculated at $3,397,558,423, which is (a) $92,416,654 less than the proposed appropriations limit of $3,489,975,077 and (b) $83,136,351 more than the Controller's estimate of net tax proceeds subject to the appropriations limit of $3,480,694,774, as shown in Table 1 above.

RECOMMENDATION

Approve the proposed resolution.

Items 6 and 7 **Files 18-0362 and 18-0363**	**Department:** Office of Public Finance (OPF)

EXECUTIVE SUMMARY

Legislative Objectives

- File 18-0362: The proposed ordinance authorizes the issuance and sale of refunding lease revenue bonds by the San Francisco Finance Corporation (Corporation) payable from the Open Space Fund in an amount not-to-exceed $41,320,000.
- File 18-0363: The proposed ordinance authorizes the issuance and sale of refunding lease revenue bonds by the San Francisco Finance Corporation (Corporation) to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program in an amount not-to-exceed $26,530,000.

Key Points

- City voters approved Proposition C in March 2000 to extend the Park, Recreation and Open Space Fund (Open Space Fund) and property tax set aside for 30 years. Proposition C also authorized the issuance of revenue bonds secured by the Open Space Fund.
- City voters approved Proposition D in November 2007 to renew the Library Preservation Fund and the property tax set aside for 15 years. The monies in the Library Fund are used by the Public Library to provide library services and materials and to operate library facilities. Proposition D also authorized the issuance of revenue bonds for the acquisition, construction, reconstruction, rehabilitation and/or improvement of Library property, primarily to provide revenue to the Branch Library Improvement Program (BLIP) projects.

Fiscal Impact

- Open Space Fund (File 18-0362): The Office of Public Finance anticipates issuing $40,510,000 in Refunding Bonds that together with other sources would refund $15,805,000 of outstanding 2006 Bonds and $$28,135,000 of outstanding 2007 Bonds. Based on current market conditions, the Refunding Bonds are estimated to result in aggregate savings to the City of about $3,442,716. The Office of Public Finance estimates the net present value of the debt service savings to be approximately $1,876,142 or 4.6 percent of the outstanding par amount of the 2006 Bonds and 2007 Bonds to be refunded, which meets the City's debt policy objective of at least 3 percent savings.
- Branch Library Improvement Program (File 18-0363): The Office of Public Finance anticipates issuing $26,005,000 in Refunding Bonds that together with other sources would refund $25,975,000 of outstanding 2009A Bonds. Based on current market conditions, the refunding transaction is estimated to result in aggregate savings to the City of about $6,035,892 on a gross basis. The Office of Public Finance estimates the net present value of the debt service savings to be approximately $4,286,401 or 16.5 percent of the outstanding par amount of the 2009A Bonds to be refunded, which meets the City's debt policy objective of at least 3 percent savings.

Recommendation

- Approve the proposed ordinances.

MANDATE STATEMENT

In order to refinance outstanding Series 2006 and Series 2007 Lease Revenue Bonds (Open Space Fund), the Board can authorize the issuance and sale of refunding lease revenue bonds (the "Bonds") by the City and County of San Francisco Finance Corporation (Corporation)[1] pursuant to Section 16.107 of the Charter and in accordance with Section 9.108(2) of the Charter.

In order to refinance outstanding Series 2009A Lease Revenue Bonds (Branch Library Improvement Program), the Board can authorize the issuance and sale of refunding lease revenue bonds (the "Bonds") by the Corporation pursuant to Section 16.109 of the Charter and in accordance with Section 9.108(2) of the Charter.

These refunding bonds are expected to result in net debt service savings to the Corporation and to the City on a present value basis of at least 3 percent of the par value of the Refunded Bonds on a net present value basis, using the True Interest Cost (or "TIC," as defined in the Debt Policy of the City (the "Debt Policy") of the Bonds as the discount rate).

BACKGROUND

Open Space Fund (File 18-0362)

On March 7, 2000 voters in the City approved Proposition C which extended the Park, Recreation and Open Space Fund (Open Space Fund) and property tax set aside for 30 years. Proposition C also authorized the issuance of revenue bonds and the incurrence of other obligations secured by the Open Space Fund. In 2006, the Finance Corporation entered into lease arrangements obligating the City to make base rental payments (and certain other payments) payable from the Open Space Fund to the Corporation, and the Corporation issued the first series of revenue bonds (2006 Bonds) under this authority and a trust agreement in an aggregate principal amount of $27,005,000, pursuant to Resolution No. 565-06 and Ordinance No. 249-04. The base rental payments to the Corporation, appropriated and paid by the City out of the Open Space Fund, provide the Corporation with sufficient funds to pay debt service on the 2006 Bonds. In 2007, the Corporation issued the second series of revenue bonds (2007 Bonds) under this authority and the amended trust agreement in an aggregate principal amount of $42,435,000, pursuant to Ordinance No. 199-07. The amendments to the leases increased the amount of the City's base rental payments to provide the Corporation with sufficient funds to pay debt service on the 2007 Bonds (and the 2006 Bonds).

The 2006 Bonds and 2007 Bonds were previously issued to finance the design, construction, renovation and installation of various Park projects, including:

[1] The Corporation is a non-profit public benefit corporation duly organized and validly existing under the Nonprofit Public Benefit Corporation Law (Section 5110 et seq. of the California Corporations Code). The Corporation was formed in 1991 by the Chief Administrative Officer of the City and County of San Francisco pursuant to a resolution of the Board of Supervisors. The purpose of the Corporation is to provide a means to finance through lease financings the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

- Buena Vista Park
- Lincoln Playground
- Chinese Recreation Center
- Midtown Terrace Playground
- Hamilton Playground Recreation Center and Pool
- Moscone Recreation Center
- Potrero Hill Playground
- Junipero Serra Playground and Clubhouse
- St Mary's Recreation Center Playground
- Kelloch-Velasco Park
- Fields Initiative- Phase II
- Lake Merced
- Larsen Park Sava Pool
- Franklin Square Playground Renovation
- Lincoln Park Assessment and Master Plan

The 2006 Bonds and 2007 Bonds are currently refundable, and market conditions provide for savings with the issuance and sale of City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds (Open Space Fund), Series 2018A (Refunding Bonds). The ordinance imposes, among others, the following terms and conditions:

- Refunding Bonds must achieve 3 percent net present value savings;
- true interest cost of the Refunding Bonds must not exceed 12 percent;
- term of any lease agreement shall not be extended beyond its current term.

Branch Library Improvement Program (File 18-0363)

On November 6, 2007 voters in the City approved Proposition D "Renewing Library Preservation Fund" which amended the City Charter and renewed the property tax set-aside and the Library Preservation Fund (Library Fund) for 15 years. First enacted in 1994, the Library Fund receives an annual set aside from the property tax levy of $0.025 per $100 of assessed valuation of property in the City and a Baseline amount. The monies in the Library Fund are used by the Public Library to provide library services and materials and to operate library facilities. Proposition D also authorized the issuance of revenue bonds or other forms of indebtedness, or the incurrence of lease financing or other obligations, for the acquisition, construction, reconstruction, rehabilitation and/or improvement of real property and/or facilities that will be operated by the Public Library, primarily to provide additional revenue sources to the Branch Library Improvement Program (BLIP) projects. Any debt issued pursuant to Proposition D is repaid from available funds pledged or appropriated by the Board of Supervisors which amounts may include monies in the Library Fund.

In 2009, the City and the Corporation entered into lease arrangements obligating the City to make base rental payments (and certain other payments) to the Corporation, and the Corporation issued a series of revenue bonds (2009A Bonds) under this authority and a trust agreement in an aggregate principal amount of $34,265,000, pursuant to Ordinance No. 286-08 and Resolution No. 538-08. The base rental payments to the Corporation, appropriated and paid by the City, provide the Corporation with sufficient funds to pay debt service on the 2009A Bonds.

The 2009A Bonds were issued to finance the design, construction, renovation and installation of various BLIP projects, including:

- Anza Branch Library
- Bayview/Anna E. Waden Branch Library
- Golden Gate Valley Branch Library
- Merced Branch Library
- North Beach Branch Library
- Ortega Branch Library

The 2009A Bonds are currently refundable, and market conditions provide for savings with the issuance and sale of City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds (BLIP Refunding Bonds). The ordinance imposes, among others, the following terms and conditions:

- the Refunding Bonds must achieve 3 percent net present value savings;
- the true interest cost of the Refunding Bonds must not exceed 12 percent;
- the term of any lease agreement shall not be extended beyond its current term.

DETAILS OF PROPOSED LEGISLATION

File 18-0362: The proposed ordinance authorizes the issuance and sale of refunding lease revenue bonds by the City and County of San Francisco Finance Corporation (Corporation) payable from the Open Space Fund in an amount not-to-exceed $41,320,000.

File 18-0363: The proposed ordinance authorizes the issuance and sale of refunding lease revenue bonds by the City and County of San Francisco Finance Corporation (Corporation) to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program in an amount not-to-exceed $26,530,000.

Open Space Fund (File 18-0362)

Under the proposed ordinance, the City will structure the Refunding Bonds using a lease-lease back structure[2] between the City and the Corporation pursuant to the existing Site Lease, Master Lease and Trust Agreement, as amended. Pursuant to an Assignment Agreement, the Corporation will assign its right to the third-party trustee (Trustee) under the amended Trust Agreement, for the benefit of the owners of the Refunding Bonds, substantially all of the Corporation's rights under the amended Master Lease, including the right to receive and collect the base rental payments from the City under such Master Lease (and such rights as may be necessary to enforce payment of the base rental payments).

Site Lease and Master Lease: Pursuant to the Site Lease, the City leases a City-owned property to the Corporation. Pursuant to the Master Lease, the City leases back the leased property from the Corporation. The City makes annual base rental payments to the third-party Trustee, as the Corporation's assignee under the Assignment Agreement in amounts required to repay the Refunding Bonds. When the Refunding Bonds are finally paid, the Site Lease and the Master Lease terminate (assuming no other lease revenue bonds have been issued for park purposes under these Lease Agreements and the Trust Agreement). The Open Space Fund is the source of funding for the repayment of the Refunding Bonds.

Trust Agreement: Pursuant to the Trust Agreement and the Assignment Agreement between the Corporation and a Trustee acting on behalf of and for the benefit of Refunding Bond holders, the Trustee administers and disburses bond payments and enforces the covenants and remedies in the event of a default. The Trust Agreement provides for the terms of the Refunding Bonds, prepayment provisions, events of default remedies in the event of default, and other related administrative provisions. The Trustee holds proceeds derived from the sale of the Refunding Bonds and disburses the proceeds, as directed by authorized City representatives, including for the refunding of the 2006 Bonds and the 2007 Bonds. The ordinance delegates selection of the Trustee to the Director of Public Finance.

The Trust Agreement requires that the base rental payments be deposited semi-annually in the base rental fund maintained by the Trustee. The Trustee will apply such amounts as is necessary to make debt service (i.e., semi-annual interest and annual principal or sinking fund) payments with respect to the Refunding Bonds.

[2] The lease-lease back structure is based upon the power of the City to lease assets. It is viewed as a year over year obligation, to be budgeted each year and payable from the general revenues of the City. It is not considered a "debt" for state constitutional law purposes, and so therefore does not require a vote of the electorate. Under a lease-financing structure, the public entity leases certain land (which may be improved) to the nonprofit corporation pursuant to a "site lease" or "property lease," for a nominal rent, and the nonprofit corporation issuer "leases back" that property to the city pursuant to a sublease (often called a "master lease" or a "project lease") and agrees under that sublease to issue lease revenue bonds, the net proceeds of which are to be used for capital improvements or the purchase of other land or equipment for the use and benefit of the city. The lease revenue bonds are payable solely from rental payments appropriated and paid by the city to the nonprofit corporation in an amount equal to the debt service on the lease revenue bonds, which rental amounts must also represent the "fair rental value" of the property subject to the site lease and sublease.

The Leased Property: According to the Office of Public Finance, one or more of the following City-owned properties under the jurisdiction of the San Francisco Recreation and Parks Department may serve as the leased assets for the transaction: the Betty Ann Ong Chinese Recreation Center (1199 Mason Street), the Sunset Recreation Center (2201 Lawton Street), Palega Recreational Center (500 Felton Street), Minnie and Love Ward Recreational Center (650 Capital Avenue), and potentially other Recreation and Parks Department properties.

Assignment Agreement: An agreement that assigns specified rights (including the Corporation's right to receive lease revenues) as well as title and interest to the Leased Assets until the Refunding Bonds are repaid in full.

Under the Lease, the City has covenanted to include all Base Rental Payments, in an amount sufficient to pay debt service on the Bonds, in its annual budget by making the necessary appropriations from the net open space fund property tax revenues.

<u>Branch Library Improvement Program (File 18-0363)</u>

Under the proposed ordinance, the City will structure the Refunding Bonds using a lease-lease back structure between the City and the Corporation pursuant to the existing Facilities Lease, Master Lease, and Trust Agreement, each as amended. Pursuant to an Assignment Agreement, the Corporation will assign its right to the third-party trustee (Trustee) under the amended Trust Agreement, for the benefit of the owners of the Refunding Bonds, substantially all of the Corporation's rights under the amended Master Lease, including the right to receive and collect the base rental payments from the City under such Master Lease (and such rights as may be necessary to enforce payment of the base rental payments).

Facilities Lease and Master Lease: Pursuant to the Facilities Lease, the City leases a City-owned property (or portion thereof comprising certain facilities, such as specific floors of the City's Main Library building) to the Corporation. Pursuant to the Master Lease, the City leases back the leased property from the Corporation. The City makes annual base rental payments to the Trustee, as the Corporation's assignee under the Assignment Agreement, in amounts required to repay the Refunding Bonds. When the Refunding Bonds are finally paid, the Facilities Lease and the Master Agreement terminate (assuming no other lease revenue bonds have been issued for Library improvement purposes under these Lease Agreements and the Trust Agreement). In addition to the Library Preservation Fund, the City's general fund is the source of funding for the repayment of the Refunding Bonds.

Trust Agreement: Pursuant to the Trust Agreement and the Assignment Agreement between the Corporation and the Trustee acting on behalf of and for the benefit of Refunding Bond holders, the Trustee administers and disburses bond payments and enforces the covenants and remedies in the event of a default. The Trust Agreement provides for the terms of the Refunding Bonds, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The Trustee holds proceeds derived from the sale of the Refunding Bonds and will disburse the proceeds to pay off the 2009A Bonds and to pay costs of issuance, as directed by authorized City representatives. The ordinance delegates selection of the Trustee to the Director of Public Finance.

The Trust Agreement requires that the base rental payments be deposited semi-annually in the revenue fund established in the Trust Agreement and maintained by the Trustee. The Trustee will apply such amounts as is necessary to make debt service (i.e., semi-annual interest and annual principal or sinking fund) payments with respect to the Refunding Bonds.

The Leased Property: According to the Office of Public Finance, portions of the San Francisco Main Library building located at Civic Center Plaza, which is owned by the City, may serve as the leased asset for the transaction, which consistent with the leased asset for the 2009A Bonds.

Assignment Agreement: An agreement that assigns specified rights (including the Corporation's right to receive lease revenues) as well as title and interest to the Leased Assets until the Refunding Bonds are repaid in full.

The City has covenanted in the Lease that, so long as the City has the use and occupancy of the Facilities, it will make Base Rental payments to the Corporation from any legally available funds of the City in amounts sufficient to pay debt service on the Refunding Bonds. An authorization to set aside the taxes in the Library Preservation Fund provides the primary source of repayment on the refunding bonds through July 1, 2024. The final maturity of the refunding bonds is anticipated to be June 15, 2028. The City intends to seek re-authorization of the Library Preservation Fund set-aside tax to continue beyond July 1, 2024.

FISCAL IMPACT

Open Space Fund (File 18-0362)

The proposed ordinance authorizes the sale and issuance of Refunding Bonds in a par amount not to exceed $41,320,000. Based on current market conditions, the Office of Public Finance anticipates issuing $40,510,000 in Refunding Bonds that together with other sources of monies would refund $15,805,000of outstanding 2006 Bonds and $28,135,000 of outstanding 2007 Bonds. According to the Office of Public Finance, the additional authorized amount above the expected issuance amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Refunding Bonds, any increased deposits for the debt service reserve fund, and other increased delivery date expenses.

Based upon a conservative estimate of 3.5 percent for an all-in true interest cost as defined in the proposed ordinance, the Office of Public Finance estimates that maximum fiscal year debt service on the Refunding Bonds is approximately $4,731,390. The anticipated total par value of $40,150,000 is estimated to result in approximately $7,495,394 in interest payments over the life of the Refunding Bonds. The total principal and interest payments over the approximate 11-year life of the Refunding Bonds is estimated to be approximately $48,005,394. The term of the Refunding Bonds will mirror the existing term of the 2007 Bonds, with a final maturity on July 1, 2029.

Based on current market conditions, the Refunding Bonds transaction is estimated to result in aggregate savings to the City of about $3,442,716 on a gross basis. On a net present value (NPV) basis, the Office of Public Finance estimates the debt service savings to be approximately

$1,876,142[3] or 4.6 percent of the outstanding par amount of the 2006 Bonds and 2007 Bonds to be refunded. This NPV percent savings of refunded par meets the City's debt policy objective of 3 percent or higher.

Table 1 outlines anticipated sources and uses for the Refunding Bonds (Open Space Fund), based on an estimate provided by Backstrom McCarley Berry & Co., LLC a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB).

Table 1. Estimated Sources and Uses of Refunding Bonds (Open Space Fund)

Sources	
Estimated Par Amount	$40,510,000
Other Sources - Prior Debt Service Reserve Fund (2006 Bonds)	2,007,482
Other Sources - Prior Debt Service Reserve Fund (2007 Bonds)	3,058,810
Total Sources	**$45,576,292**
Uses	
Refunding Fund Deposit (2006 Bonds)	$ 14,521,466
Refunding Fund Deposit (2007 Bonds)	26,310,966
Debt Service Reserve Fund	4,051,000
Cost of Issuance	550,000
Underwriter's Discount	142,860
Total Uses	**$45,576,292**

Source: Office of Public Finance

In addition, approximately $4,051,000 may be allotted to fund a Debt Service Reserve Fund, to be funded if recommended by the Director of the Office of Public Finance. Approximately $692,860 ($550,000 for cost of issuance and $142,860 for underwriter's discount) will be allotted to cover costs associated with the issuance of the Refunding Bonds. This includes amounts for underwriter compensation, legal fees, financial advisory fees, rating agency fees, printing costs, and other issuance costs.

Branch Library Improvement Program (File 18-0363)

The proposed ordinance authorizes the sale and issuance of Refunding Bonds in a par amount not to exceed $26,530,000. Based on current market estimates, the Office of Public Finance anticipates issuing $26,005,000 in Refunding Bonds that together with other sources of monies would refund $25,975,000 of outstanding 2009A Bonds. The additional authorized amount above the expected issuance amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Refunding Bonds, any increased deposits for the debt service reserve fund, and possible other increased delivery date expenses.

[3] Original Series 2006 – NPV Savings of $736,654.83; 5.082 percent of NPV savings of refunded bonds; Original Series 2007 – NPV Savings of $1,139,486.71; 4.338 percent of NPV savings of refunded bonds

Based upon a conservative estimate of 3.332 percent for an all-in true interest cost as defined in the proposed ordinance, the Office of Public Finance estimates that maximum fiscal year debt service on the Refunding Bonds will be approximately $2,095,388. The anticipated total par value of $26,005,000 is estimated to result in approximately $7,474,253 in interest payments over the life of the Refunding Bonds. The total principal and interest payment over the approximate 10-year life of the Refunding Bonds is approximately $33,479,253. According to the Office of Public Finance, it is anticipated that the term of the Refunding Bonds may be shortened by up to six years compared to the existing term of the 2009A Bonds (from the original Series 2009A maturity date of 6/15/2034 to 6/15/2028.

Based on current market conditions, the refunding transaction is estimated to result in aggregate savings to the City of about $6,035,892 on a gross basis. On a net present value (NPV) basis, the Office of Public Finance estimates the debt service savings to be approximately $4,286,401 or 16.5 percent of the outstanding par amount of the 2009A Bonds to be refunded. This NPV percent savings of refunded par meets the City's debt policy objective of 3 percent or higher.

Table 2 below outlines anticipated sources and uses for the Refunding Bonds, based on an estimate provided by Backstrom McCarley Berry & Co., LLC.

Table 2. Estimated Sources and Uses of Refunding Bonds (Branch Library Improvement Program)

Sources	
Estimated Par Amount	$26,005,000
Other Sources - Prior Debt Service Reserve Fund (2009A Bonds)	2,471,798
Total Sources	**$28,476,798**
Uses	
Refunding Fund Deposit (2009A Bonds)	$26,035,947
Debt Service Reserve Fund	2,095,388
Cost of Issuance	250,000
Underwriter's Discount	95,463
Total Uses	**$28,476,798**

Source: Office of Public Finance

In addition, approximately $2,095,388 may be allotted to fund a Debt Service Reserve Fund, to be funded if recommended by the Director of the Office of Public Finance. Approximately $345,463 ($250,000 for cost of issuance and $95,463 for underwriter's discount) will be allotted to cover costs associated with the issuance of the Refunding Bonds. This includes amounts for underwriter compensation, legal fees, financial advisory fees, rating agency fees, printing costs, and other issuance costs.

In April 2016, the Library Commission appropriated $7,556,391 of the Library Preservation Fund sources to pay down a portion of its existing debt tied to the 2009A Bonds, pursuant to San Francisco Library Commission Resolution No. 2016-01. According to the Office of Public Finance, the impact of these additional sources allows the San Francisco Public Library to pay off its debt sooner, resulting in greater overall savings to the City.

RECOMMENDATION

Approve the proposed ordinances.

Item 8 **File 18-0283**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Hong Kong Airlines Limited to become a signatory to a 2011 Lease and Use Agreement to conduct flight operations at the Airport for approximately three years and three months, commencing following Board of Supervisors approval and expiring on June 30, 2021.

Key Points

- In 2011, the Airport negotiated a new Lease and Use Agreement (2011 Lease) with its domestic and international airlines. The 2011 Lease allows airlines to provide flight operations and rent terminal space at the Airport with a common set of provisions, including rent and landing fees, permitted uses, and use of common facilities. The 2011 Lease will expire June 30, 2021.
- Hong Kong Airlines commenced operations at the San Francisco Airport on March 25, 2018. Hong Kong Airlines wishes to sign onto the 2011 lease for 900 square feet of exclusive use space and share 627,414 of joint use space in the International Terminal.

Fiscal Impact

- Under the proposed lease, Hong Kong Airlines will lease 900 square feet of Category II space at $222.43 per square foot. According to the proposed resolution, estimated rent to be paid by Hong Kong Airlines to the Airport over the three year and three month lease is $740,232. Actual exclusive use space rent paid by Hong Kong Airlines to the Airport will be based on the rates set by the Airport Commission each fiscal year in the Summary of Charges.
- In addition to the exclusive use space rent, under the 2011 Lease, Hong Kong Airlines will also lease Joint Use Space in the International Terminal. Joint Use Space rent is determined annually by a formula, with 20 percent of the total rent assessed equally to all airlines, and 80 percent assessed proportionally based on the number of inbound and outbound passengers traveling on each airline each year. The Airport expects Hong Kong Airlines to pay $349,642 for the final three months in FY 2017-18. The charges will be recalculated in June 2018.
- Airlines also pay Landing Fees to the Airport, which are set annually as part of the Airport Rates and Charges. The current Landing Fee for FY 2017-18 is $5.24 per 1,000 pounds for airlines that have signed the 2011 Lease.

Recommendation

- Approve the proposed resolution

MANDATE STATEMENT

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

BACKGROUND

In 2011, the Airport entered into a Lease and Use Agreement (“2011 Lease”) with 53 of the 60 airlines[1] at the Airport for a term of 10 years, set to expire on June 30, 2021. The 2011 Lease allows airlines to provide flight operations and rent terminal space at the Airport and provides a common set of lease provisions for these airlines. Such provisions include rent and landing fees paid by the airlines to the Airport, permitted uses of the premises, use of common facilities, and numerous other provisions. The Airport offers the 2011 lease to airlines that wish to obtain signatory status at the airport.

In September 2017, Hong Kong Airlines met with Airport staff to discuss beginning operations at the San Francisco International Airport. On January 16, 2018, the Airport Commission approved adding Hong Kong Airlines to the 2011 Lease and Use Agreement, and Hong Kong Airlines commenced operations at the San Francisco Airport on March 25, 2018.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Hong Kong Airlines Limited to become a signatory to a 2011 Lease and Use Agreement. Hong Kong Airlines would lease 900 square feet of exclusive use space and share 627,414 of joint use space in the International Terminal, and pay estimated rent to the Airport of $740,234 for exclusive use, plus joint use space rent and landing fees. The lease term would be for approximately three years and three months, commencing following Board of Supervisors approval and expiring on June 30, 2021.

The 900 square foot space was previously unoccupied.

The key provisions of the proposed lease are shown in Table 1 below.

[1] Among the seven airlines not signatory to the Lease and Use Agreement, six airlines do not operate at the San Francisco International Airport. A resolution approving adding the seventh, Air India, as a signatory (File 17-1081) is pending before the Board of Supervisors.

Table 1: Key Provisions of Proposed Lease

	Lease Terms
Lease Period	From the date of Board of Supervisors through June 30, 2021
Exclusive Use Space	900 square feet
Options to extend the lease	None
Exclusive Use Space Rent	Based on Airport Summary of Charges for Category II space [a]
Joint Use Space Rent	Based on formula established in the Airport Summary of Charges (see Fiscal Impact Section below)
Landing fees and other fees	Based on fees set by the Airport Summary of Charges for signatory airlines
Annual fee adjustments	Approved annually by the Airport Commission in the Summary of Charges
Capital Improvements	Airport may finance in accordance with FAA regulations
Utilities	Paid by airline
Termination	June 30, 2021

[a] Category II space is for VIP clubs and lounges, baggage claim lobbies, baggage service offices, curbside check-in, and other enclosed space on the departure level and above.

The Airport's 2011 Lease and Use Agreement with 53 airlines is set to expire June 30, 2021. According to Ms. Diana Chow, Property Manager at the Airport, the Airport has begun internal discussions for a new lease and use agreement.

FISCAL IMPACT

The Airport Commission approves the Airport's Summary of Charges each year, which apply to the airlines that signed the 2011 Lease and Use Agreement as well as other Airport tenants. The rent per square foot for exclusive use space is based on the category of space. Under the proposed lease, Hong Kong Airlines will lease 900 square feet of Category II space at $222.43 per square foot. According to the proposed resolution, estimated rent to be paid by Hong Kong Airlines to the Airport over the three year and three month lease is $740,232. Actual exclusive use space rent paid by Hong Kong Airlines to the Airport will be based on the rates set by the Airport Commission each fiscal year in the Summary of Charges.

Table 2: Estimated Exclusive Use Space Rent

Rent for Exclusive Use Space	FY 2017-18 (Apr – Jun)	FY 2018-19	FY 2019-20	FY 2020-21	3 Year and 3 Month Total
Per Square Foot	$222.43	$235.83	$253.76	$277.28	
For 900 Square Feet	$50,047	$212,250	$228,385	$249,550	$740,232
Estimated Percent Change	-	6.0%	7.6%	9.3%	

In addition to the exclusive use space rent, under the 2011 Lease, Hong Kong Airlines will also lease Joint Use Space in the International Terminal. Joint Use Space rent is determined annually by a formula, with 20 percent of the total rent assessed equally to all airlines, and 80 percent assessed proportionally based on the number of inbound and outbound passengers traveling on each airline each year. The Joint Use Space Formula is used to determine rent for all airlines in service at the Airport, regardless of whether or not the airline has signed onto the 2011 Lease. The Airport expects Hong Kong Airlines to pay $349,642 for the final three months in FY 2017-18. The charges will be recalculated in June 2018. According to Ms. Diana Chow, Property Manager at the Airport, the Airport cannot predict the future Joint Use fees to the Airport.

Airlines also pay Landing Fees to the Airport, which are set annually as part of the Airport Rates and Charges. The current Landing Fee for FY 2017-18 is $5.24 per 1,000 pounds for airlines that have signed the 2011 Lease. According to Ms. Chow, the Airport cannot predict the future landing fees to the Airport.

All funds are used for ongoing operations at the Airport.

RECOMMENDATION

Approve the proposed resolution.

Item 9 File 18-0284	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively approve Amendment No. 1 to the lease between the United States Customs and Border Protection and the Airport to extend the term of the lease for an additional ten years from February 1, 2018 through January 31, 2028. According to the Airport, the proposed lease is retroactive because the process to finalize the tenant improvement scope, budget and funding took longer than expected and delayed Airport Commission approval by two months.

Key Points

- The United States Customs and Border Protection Cargo Unit inspects cargo coming into the United States through the San Francisco International Airport. In 2002, the Board of Supervisors approved the non-competitive lease between the Airport and the United States Custom and Border Protection for 16,170 square feet of space at the West Field Cargo Building 648 for the Cargo Unit to conduct customs cargo operations. The initial lease had a term of fifteen years, from February 1, 2003 until January 31, 2018.
- Rent under the lease consisted of base rent, operating and maintenance charges, parking fees, and debt service fees for the costs of tenant improvements. The United States Custom and Border Protection paid nominal rent to the Airport of $1.00 per year. The airlines handling international cargo paid the base rent, operating and maintenance charges, parking fees, and debt service fees

Fiscal Impact

- Total rent, fees, and charges paid by the airlines handling international cargo to the Airport in the first year under Amendment No. 1 is $833,036, which is $198,800 less than current rent, fees and charges under the existing lease of $1,031,836. According to the Airport, the decrease is due to the reduction in debt service for tenant improvements; tenant improvement costs of $2.7 million under the original lease have been fully amortized. Tenant improvement costs under the proposed Amendment No. 1 are $600,000, which will be amortized over the 10-year term.
- The airlines handling international cargo will pay estimated rent, charges, and fees to the Airport of $8,715,400.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, is subject to Board of Supervisors approval.

BACKGROUND

The United States Customs and Border Protection Cargo Unit inspects cargo coming into the United States through the San Francisco International Airport. Prior to 2002, the United States Customs and Border Protection Cargo Unit was located outside of the San Francisco International Airport property. The airlines handling international cargo approached the Airport staff to find a site on Airport property to improve cargo operations. The Airport identified a suitable location and entered into a lease with the United States Customs and Border Protection to allow for occupancy by the Cargo Unit.

In 2002, the Board of Supervisors approved the non-competitive lease between the Airport and the United States Custom and Border Protection for 16,170 square feet of space at the West Field Cargo Building 648 for the Cargo Unit to conduct customs cargo operations. Rent under the lease consisted of base rent, operating and maintenance charges, parking fees, and debt service fees for the costs of tenant improvements. The United States Custom and Border Protection paid nominal rent to the Airport of $1.00 per year. The airlines handling international cargo paid the base rent, operating and maintenance charges, parking fees, and debt service fees.

The initial lease had a term of fifteen years, from February 1, 2003 until January 31, 2018.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve Amendment No. 1 to the lease between the United States Customs and Border Protection and the Airport to extend the term of the lease for an additional ten years from February 1, 2018 through January 31, 2028. According to Mrs. Diane Artz, Airport Senior Property Manager, the proposed lease is retroactive because the process to finalize the tenant improvement scope, budget and funding took longer than expected and delayed Airport Commission approval by two months.

Under the Amendment No. 1, the first year rent is $833,036. As noted above, under the lease, the annual rent is composed of four categories: base rent, parking fees, operating and maintenance fees, and debt service on tenant improvements. The United States Customs and Border Protection pays the Airport nominal rent of $1.00 per year. The airlines handling international cargo pay the base rent, fee balance of annual rent.

The key provisions of the proposed lease are shown in Table 1 below.

Table 1: Key Provisions of Proposed Lease Amendment

	Lease Amendment Terms
Lease Term	February 1, 2018 to January 31, 2028 (10 years)
Square Feet	16,170 square feet of office, storage, and associated space
Options to Extend the Lease	None
Rent, Charges, and Fees paid by Airlines	
Base Rent	
Amount	$430,254 (approximately $21.61 per square foot, based on Summary of Charges approved by Airport Commission)
Annual Increase	Consumer Price Index (CPI)
Operating and Maintenance Fee	
Amount	$144,000
Annual Increase	Based on costs
Parking Fee	
Amount	$162,248
Annual Increase	Based on Summary of Charges approved by Airport Commission
Debt Service Charge for Tenant Improvements	
Amount	$96,534
Annual Increase	Based on project and financing costs
Total Rent (Annual Airline Fee)	**$833,036 ($51.51/sf/year)**

FISCAL IMPACT

Total rent, fees, and charges paid by the airlines handling international cargo to the Airport in the first year under Amendment No. 1 is $833,036, which is $198,800 less than current rent, fees and charges under the existing lease of $1,031,836. According to Ms. Artz, the decrease is due to the reduction in debt service for tenant improvements. Tenant improvement costs of $2.7 million under the original lease have been fully amortized. Tenant improvement costs under the proposed Amendment No. 1 are $600,000, which will be amortized over the 10-year term.

The airlines handling international cargo will pay estimated rent, charges, and fees to the Airport of $8,715,400.

RECOMMENDATION

Approve the proposed resolution

Item 10 **File 18-0419**	**Department:** Real Estate Division (RED) San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the Second Amendment to a lease agreement between San Francisco International Airport (Airport) as tenant and Michael C. Mitchell as landlord, for 6,000 square feet of office space on 10,500 square feet of land at 837 Malcolm Road in Burlingame. The lease term would be extended for five years from May 2018 through April 2023, with two one-year options to extend to 2025; First year rent is $126,000, with three percent annual increases.

Key Points

- Airport Reprographics provides full service design, layout, art, production, large print formatting, laminating, and mounting for graphics displayed throughout the Airport, as well as wayfinding signage, architectural prints, and Airport maps and directories. It also produces work orders for the Port of San Francisco and other City Departments.
- In January 2009, the Airport entered into a lease for Reprographics at 837 Malcolm Road, for an initial term of five years, expiring February 2014, a three-year option to extend, and initial annual base rent of $84,960. In October 2010, the Airport executed the First Amendment to the lease, extending the initial term by 14 months through April 2015, and reducing the annual rent to $80,352. The Airport exercised the three-year option to extend, and the current lease expired April 30, 2018.
- The proposed resolution authorizes the Second Amendment to the lease, extending the term by five years, with two one-year options to extend. The initial annual base rent of $126,000 is determined to be Fair Market Rent based on analysis of similar properties in the area. To accommodate new equipment that Airport Reprographics plans to purchase, the Airport would need to perform tenant improvements on the premises, at a cost not to exceed $669,702.
- Airport Reprographics plans to move into a new building to be constructed on the Airport grounds in a future construction phase, currently planned for 2023. The lease is timed to expire upon completion of the new building, but allows for flexibility in case of construction delays. The Airport has the option to terminate the lease in 2021 but may also extend the lease beyond 2023 if necessary.

Fiscal Impact

- Over the initial five year term of the lease extension, the Airport would pay $668,951 in rent. If the options to extend are exercised, the Airport would pay total rent of $965,470.
- The cost of tenant improvements to the Airport is not to exceed $669,702. With rent and tenant improvements combined, the total cost to the Airport would not exceed $1,338,653 over five years, or $1,635,172 over seven years.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Charter Section 9.118(b) requires Board of Supervisors approval for contracts and other agreements (including lease agreements) entered into by the City, having a term of more than 10 years or expenditures of $10 million or more; and for amendments to such contracts of $500,000 or more.

BACKGROUND

Airport Reprographics provides full service design, layout, art, production, large print formatting, laminating, and mounting for graphics displayed throughout San Francisco International Airport (Airport), as well as marketing materials, wayfinding signage, architectural prints, and printing of Airport maps and directories. Airport Reprographics also produces annual work orders from the Port of San Francisco and various projects from other City Departments, such as the Mayor's Film Commission and San Francisco Municipal Transportation Agency.

In January 2009, the Airport Commission approved the initial lease between the Airport as tenant and Michael C. Mitchell as landlord for approximately 6,000 square feet of office space on approximately 10,500 square feet of land at 837 Malcolm Road in Burlingame, to be used for Airport Reprographics. The lease was for a term of five years, expiring February 2014, and annual base rent of $84,960. In October 2010, the Airport Commission approved the First Amendment to the lease, extending the initial term by 14 months, through April 2015, and reducing the annual rent to $80,352. In October 2014, the Airport exercised its three-year option to extend the lease through April 2018, with a rent increase to $87,212 annually. According to Mr. Charlie Dunn, Senior Real Property Officer, neither the original lease nor the First Amendment required Board of Supervisors approval because the total term did not exceed ten years.

The current lease expired on April 30, 2018. Airport Reprographics has expanded its services and desired to relocate to a larger facility. However, according to Mr. Dunn, no suitable facilities were found due to current market conditions. The Airport and Real Estate Division determined that it would be best for Airport Reprographics to stay at 837 Malcolm Road, but to perform tenant improvements to the property. The Real Estate Division negotiated with Mr. Mitchell to extend the lease for five years, with two one-year options to extend. The Airport Commission approved the lease extension on April 3, 2018.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Second Amendment to the lease with the Airport as tenant and Michael C. Mitchell as landlord at 837 Malcolm Road in Burlingame, extending the lease five years through April 2023, and two one-year options to extend through April 2025. The annual base rent would be $126,000, with three percent annual increases thereafter. The Airport would be able to terminate the lease after April 30, 2021, with written notice to the landlord one year in advance. The details of the proposed lease extension are shown in Table 1 below.

Table 1: Details of Proposed Lease Extension

Term	Five years, from approximately May 2018 through April 2023
Premises	Approximately 6,000 square feet of office on approximately 10,500 square feet of land
Base Annual Rent	$126,000
Rent Adjustment	3% annual increase, on lease anniversary
Options to Extend	Airport has two one-year options to extend through April 2025
Early Termination	Airport may terminate after April 2021 with one year notice
Tenant Improvements	Not to exceed $669,702

Additionally, the lease would allow the landlord to perform tenant improvements to the premises, reimbursed by the Airport at a cost not to exceed $669,702. According to Mr. Dunn, the tenant improvements are necessary because Airport Reprographics plans to purchase two large printing units, and the space is not currently suitable for the equipment.

The Airport would continue to pay utilities and janitorial services, as provided in the original lease.

According to Mr. Dunn, Airport Reprographics plans to move into a new building to be constructed on the Airport grounds in a future construction phase, currently planned for 2023. The lease is timed to expire upon completion of the new building, but allows for flexibility in case of construction delays.

FISCAL IMPACT

Over the five-year term of the lease extension, the Airport would pay $668,951 in rent. Should the options to extend be exercised, the Airport would pay an additional $296,519 in rent, bringing the total to $965,470. The annual rent is shown in Table 2 below.

Table 2: Annual Rent Paid by Airport

Year	Annual Rent
Year 1 (May 2018 – April 2019)	$126,000
Year 2 (May 2019 – April 2020)	129,780
Year 3 (May 2020 – April 2021)	133,673
Year 4 (May 2021 – April 2022)	137,684
Year 5 (May 2022 – April 2023)	141,814
Base Term Subtotal	*$668,951*
Option Year 1 (May 2024 – April 2025)	$146,069
Option Year 2 (May 2025 – April 2026)	150,451
Option Years Subtotal	*$296,519*
Grand Total, Including Options	**$965,470**

**Totals may not add due to rounding*

In addition to rent, the Airport would also pay for tenant improvements not to exceed $669,702. With the rent and tenant improvements combined, the total amount paid by the airport over the course of the lease would not exceed $1,338,653 over five years, or $1,635,172 over seven years (including options).

According to Mr. Dunn, the proposed rent was determined to be Fair Market Rent based on a review of rents of similar commercial properties in the area. The first year rent of $126,000 equals $21 per square foot for 6,000 square feet, which is less than the $45 per square foot requiring a formal appraisal, pursuant to Administrative Code Section 23.27.

RECOMMENDATION

Approve the proposed resolution.

Item 11 **File 18-0378**	**Department:** [Select Board, Commission, or Department]

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the first modification to the existing contract between the Airport and Hallmark to (a) exercise the first of three (3) two-year options to extend the contract from July 1, 2018, through June 30, 2020, in order to provide Information and Guest Services, and (b) increase the contract not-to-exceed amount by $15,803,224 from $11,550,000 to $27,353,224.

Key Points

- Prior to 2016, the Airport had three separate contracts for various customer-related services: (a) the Airport Information Desk, (b) customer service assistance and automated passport control self-service kiosks, and (c) lost and found. In March 2016, the Airport Commission approved combining these three customer-related services into one contract.
- The Board of Supervisors approved the contract between the Airport and Hallmark for Airport Information and Guest Assistance Services following a competitive process. The original contract was not-to-exceed $11,550,000 for 18 months from January 2017 to June 2018.

Fiscal Impact

- The contract's first modification increases the contract amount by $15,803,224 for the two-year period in FY 2018-19 and FY 2019-20. The annual contract amount would increase by 2 percent from $7,700,000 in FY 2017-18 to $7,842,953 in FY 2018-19; and by an additional 1 percent to $7,960,271 in FY 2019-20.
- The contract is paid from the Airport's operating fund. Sufficient funds to pay for the contract with Hallmark were included in the Airport's proposed FY 2018-19 and FY 2019-20 budget.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Charter Section 9.118(b) requires Board of Supervisors approval for contracts and other agreements entered into by the City, having a term of more than 10 years or expenditures of $10 million or more; and for amendments to such contracts of $500,000 or more.

BACKGROUND

Prior to 2016, the Airport had three separate contracts for various customer-related services: (a) the Airport Information Desk, (b) customer service assistance and automated passport control self-service kiosks, and (c) lost and found. In March 2016, the Airport Commission approved combining these three customer-related services into one contract, and authorized the Airport to commence a Request for Proposals (RFP) process to select a contractor. The Airport received two proposals in response to the RFP. The proposals were evaluated and scored by a three-person panel familiar with airport operations, Customs & Border Protection processes, and customer service principles. The Airport determined that Hallmark Aviation Services, L.P. (Hallmark) was the highest-ranking responsive and responsible proposer.

In December 2016, the Board of Supervisors approved the contract between the Airport and Hallmark to provide Airport Information and Guest Assistance Services, in an amount not-to-exceed $11,550,000 for an initial 18-month term to commence January 1, 2017 through June 30, 2018. The contract contained three (3) two-year options to extend the professional services agreement through June 30, 2024.

On April 3, 2018, the Airport Commission approved the first modification to the contract to exercise the first of the three (3) two-year extension options for a term from July 1, 2018 through June 30, 2020.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first modification to the existing contract between the Airport and Hallmark to (a) exercise the first of three (3) two-year options to extend the contract from July 1, 2018, through June 30, 2020, in order to provide Information and Guest Services, and (b) increase the contract not-to-exceed amount by $15,803,224 from $11,550,000 to $27,353,224.

Hallmark currently provides three distinct services:

> (a) Airport Information Desk Program, providing information to the public on airport services, transportation, visitor attractions, and other services at 11 information desks in Airport Terminals 1, 2, and 3 and the International Terminal;[1]
>
> (b) Guest Assistance in the International Terminal, consisting primarily of queue management and assistance with Automated Passport Control kiosks, and

[1] Hallmark is subcontracting with Polaris Research and Development, Inc. (Polaris), who is a Local Business Enterprise (LBE). Polaris provides some information services, such as guest ambassador positions.

(c) Airport's Lost and Found program.

Under the existing contract, the Airport staff conducts a quarterly review of Hallmark's performance based on 12 criteria, including staff on duty at all locations, reports of transit pass sales, customer service ratings, complaint investigations and foreign language requirements. According to Ms. Cathy Widener, Director of Government Affairs at the Airport, Hallmark's performance has been generally satisfactory.

FISCAL IMPACT

The proposed resolution would result in the Airport paying Hallmark $7,842,953 in FY 2018-19 and $7,960,271 in FY 2019-20, for a total contract increase of $15,803,224, as detailed in Table 1 below. The yearly cost of the contract would increase by two percent in FY 2018-19 and one percent in FY 2019-20, mostly due to increases in salaries and benefits. The management fee paid to Hallmark remains constant.

Table 1: Total Contract Costs from January 1, 2017 through June 30, 2020

	January 1, 2017 to June 30, 21017 (6 months)	FY 2017-18	FY 2018-19 (proposed)	FY 2019-20 (proposed)	Total
Management Fee	$742,824	$1,485,648	$1,485,648	$1,485,648	**$5,199,768**
Hallmark Salaries and Benefits	1,733,961	3,568,322	3,715,643	3,792,294	**12,810,220**
Polaris Salaries and Benefits	1,204,527	2,457,143	2,431,552	2,482,219	**8,575,441**
Other Operating Expenses	168,688	188,887	210,110	200,110	**767,795**
Total	**$3,850,000**	**$7,700,000**	**$7,842,953**	**$7,960,271**	**$27,353,224**
Percent Change	**-**	**-**	**2 %**	**1 %**	

The contract will be paid from the Airport's Operating Fund. The current proposed Hallmark budget amount for FY 2018-19 is $7,842,953, and FY 2019-20 is $7,960,271.

RECOMMENDATION

Approve the proposed resolution