CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: March 19, 2025 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would adopt findings that the Marina Improvement and Remediation Project is fiscally feasible and responsible under Administrative Code, Chapter 29. This approval would allow the environmental review to begin.

Key Points

- In March of 2021, the Board of Supervisors approved a settlement with Pacific Gas & Electric Company (PG&E) to resolve a lawsuit brought by the City in 2001 over contamination at the Marina East Harbor, where PG&E previously operated a manufactured gas plant. Under the settlement agreement, PG&E and the City agreed to collaborate on mitigation and reconstruction efforts. In addition, PG&E will pay up to $190 million to fund mitigation and reconstruction efforts, with the Recreation and Park Department repaying up to $29.4 million from Marina revenues over 30 years without accruing interest.
- After a risk assessment, PG&E proposes dredging the upper basin of the East Harbor and placing an engineered cap over much of this area. This process is designed to physically and chemically isolate contaminants under the engineered cap.
- The development plan for the Marina includes upgrades to the East Harbor, the West Harbor, and public-serving areas.

Fiscal Impact

- The estimated overall project cost is $188 million, including an estimated $100 million in remediation costs and an estimated $88 million in improvements. Initial costs will be paid for by PG&E and REC's revenues from the Marina will be used to repay up to $29.4 million in project costs.

Policy Consideration

- Although cost estimates include contingencies for both the remediation efforts and the Marina upgrades, unforeseen costs that exceed these contingencies could result in a reduced scope of work or, if the Department and Board of Supervisors agree, additional City funding for the project.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Chapter 29 requires the Board of Supervisors to conduct a fiscal feasibility analysis of any project (1) that has a total cost exceeding $25,000,000, and (2) where the City is expected to incur costs related to project development in excess of $1,000,000. Chapter 29 requires consideration of five factors: (1) direct and indirect financial benefits to the City including the extent of applicable cost savings or new revenues, including tax revenues, generated by the proposed project; (2) cost of construction; (3) available funding for the project; (4) the long-term operating and maintenance cost of the project; and (5) debt load to be carried by the City or Department. A determination by the Board of Supervisors that a project is fiscally feasible only finds that the proposed project merits further evaluation and environmental review; a determination of fiscal feasibility does not include determination the project should be approved.

BACKGROUND

Project Origin and Summary

In March of 2021, the Board of Supervisors approved a settlement with Pacific Gas & Electric Company (PG&E) to resolve a lawsuit brought by the City in 2001 over contamination at the Marina East Harbor, where PG&E previously operated former manufactured gas plants(File 21-0067). Under the settlement agreement PG&E and the City agreed to collaborate on mitigation and reconstruction efforts, with PG&E paying up to $190 million to fund these efforts and the Recreation and Park Department (the Department) repaying up to $29.4 million from Marina revenues over 30 years without accruing interest.

Remediation

The 2001 complaint filed by the City against PG&E related to sediments in the East Harbor from a former manufactured gas plant operation. After a risk assessment overseen by the San Francisco Bay Regional Water Quality Control Board (the lead agency overseeing the remediation) analyzing health and environmental risks from this sediment, and the incorporation of the City's planned Marina improvements, PG&E proposes dredging the upper (i.e., Northern) basin of the East Harbor and placing an engineered cap over much of this area. This process, known as sediment capping, is designed to physically and chemically isolate contaminants under the engineered cap. Based on the benefits and costs identified in the risk assessment, the project does not include dredging the lower (i.e. Southern) basin of the East Harbor, where an accumulated layer of natural sediment functions as a cap.

Marina Improvements

In the East Harbor, the development plan includes improving an existing breakwater, making a 420-foot dock publicly accessible, with fishing access and an Angel Island overlook; constructing an additional breakwater to enclose and protect the marina; creation of community and visitor docks; and dock renovation in the northern East Harbor resulting in a net gain of 27 slips from the number of currently available slips.

In the West Harbor, the development plan includes a new breakwater; a possible creation of a relocated fuel station; and reinstallation of slips for a net gain of 24 slips from the number of currently available slips. The proposed project design conforms to the ordinance approved by the Board of Supervisors in February 2024 that restricts expansion of the West Harbor Marina beyond the western edge of the Wave Organ (File 23-1191). As a result of that legislation, the Marina is losing berths and the associated revenue in the lower East Harbor, which, as noted above, is being converted to other recreation uses.

The development plan also includes upgrades to public-serving areas, including:

- Repurposing of a five-acre shallow water basin in lower East Harbor for kayaking, canoeing and other non-motorized water recreation
- Improvements to the Bay Trail;
- A viewing terrace; and
- A revitalized lawn for public use
- One or more volleyball courts
- Improved public restrooms

Project Status

The project is in the design phase. If the proposed resolution is approved, environmental review of the project design will proceed. Following environmental review, the Department anticipates that procurement for Marina improvements will begin in early 2027, with construction starting in June 2027 and lasting through December of 2029. Exhibit 1 below shows projected milestones.

Exhibit 1: Anticipated Project Timeline

Milestone	Date
PG&E Procures Remediation Contractors	2026
DPW advertises Marina Improvement Construction Project	Early 2027
DPW awards Marina Improvement Construction Project	Mid 2027
Remediation Construction	June 2027 - December 2028
West Harbor Improvements	June 2027 - December 2027
East Harbor Improvements	June 2028- December 2028
Marina Triangle and Shoreline Improvements	January 2029 - December 2029

Source: Recreation and Parks Department

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would adopt findings that the Marina Improvement and Remediation Project is fiscally feasible and responsible under Administrative Code Chapter 29. This approval would allow the environmental review to begin.

FISCAL FEASIBILITY

Chapter 29 of the San Francisco Administrative Code requires a fiscal feasibility analysis that includes consideration of (1) direct and indirect financial benefits to the City, including cost savings or new revenues, including tax revenues, generated by the proposed project; (2) cost of construction; (3) available funding for the project; (4) the long-term operating and maintenance cost of the project; and (5) debt load to be carried by the City or Department.

Financial Benefits to the City

The Department has not conducted a specific analysis of financial benefits from this project. It notes that park improvements are generally associated with:

a) Increased property values for nearby businesses and residences
b) Increased economic activity for local businesses
c) Decreases in health care spending from increased recreation

Cost of Construction and Available Funding

The estimated overall project cost is $188 million. This includes an estimated $100 million in remediation costs, including 17% in risk-based contingency, based on an estimate prepared by PG&E staff and three consulting firms: a remediation design engineer consultant, a construction quality assurance consultant, and a remedial construction contractor with PG&E dredging and capping experience. It also includes an estimated $88 million in improvements, including a 10% construction contingency, based on an estimate provided to the Department by outside consultants, with modifications from Department staff.

Through the settlement agreement, PG&E will pay up to $190 million in project costs, of which the Department will repay up to $29.4 million over 30 years, starting three years after project completion.[1]

[1] Under the settlement agreement, the City repays PG&E over thirty years without interest. The City repays PG&E nine percent of the first $160 million in project costs and fifty percent of the remaining $30 million in project costs.

Exhibit 2: Cost of Construction

Marina Costs	
West Harbor	
Docks	$6,000,000
Main Breakwater	$5,619,000
Subtotal	*$11,619,000*
East Harbor	
Docks	$24,000,000
Breakwater	$9,500,000
Fuel Dock Demolition	$166,000
Subtotal	*$33,666,000*
Park and Shoreline	
Park	$5,000,000
Water's edge	$10,000,000
Restroom	$750,000
Subtotal	*$15,750,000*
Improvements Subtotal	*$61,035,000*
Construction Contingency (10%)	$6,103,500
Soft Costs (Including Permitting/CEQA)	$21,000,000
Marina Total	**$88,138,500**
Remediation Costs	
Remediation Base	$73,264,000
Contingency and Escalation	$26,727,000
Remediation Total	**$99,991,000**
Joint Project Total	**$188,129,500**

Source: RPD

Long-Term Operating and Maintenance Costs

Under the settlement agreement, long-term operating and maintenance costs related to the remediation are the responsibility of PG&E, and long-term operating and maintenance costs resulting from the Marina improvements are the responsibility of the Recreation and Parks Department.

Following project completion, the Department projects decreased maintenance costs, due in part to a) a reduction in the frequency of required dredging due to the construction of breakwaters, and b) reduced maintenance costs due to the dock upgrades. These decreases are partially offset by new maintenance needs associated with the project, such as maintaining the volleyball courts. Overall, the Department's projections show that non-personnel operating costs are budgeted at $1.55 million in FY 2024-25 and are projected to be $1.48 million starting in FY 2031-32, the second year after construction. As a result, the project's slip renovation and expansion plus the assumed increase in fees for the East Harbor will cause the Marina to generate $0.5 million to $1.0 million in annual net income following completion of the proposed project, which can be used for future capital improvements for the Marina.

Debt Load to be Carried by the City or Department

Under the terms of the settlement agreement with PG&E, the Recreation and Parks Department will be responsible for repaying $29.4 million over the course of 30 years without interest, through Marina revenue, starting three years after project completion. The City repays PG&E nine percent of the first $160 million in project costs and fifty percent of the remaining $30 million in project costs. This translates to a maximum debt service of up to $980,000 annually.

In December of 2024, the Board of Supervisors approved berthing rate increases for most services in the Marina, a change designed to eliminate the need for a General Fund subsidy for Marina operations (File 24-0189). Following renovation of the East Harbor, Recreation and Parks Department staff plan to request Board of Supervisors approval of fee increases to match the fees for the West Harbor. Due to differences in amenities, rates for East Harbor berths are currently lower than West Harbor rates. In FY 2024-25, a 30' slip in the East Harbor costs $16.20 per linear foot per month and the same berth in the West Harbor costs $21.66.

As noted above, should the increase in East Harbor rates be approved, REC staff project that the Marina revenue collected by the Department will be sufficient to cover the costs of PG&E debt service as well as all Marina operating costs, resulting in approximately $0.5 million in annual net revenues in FY 2033-34 to provide for capital maintenance. If the East Harbor rates are not increased to match West Harbor rates, REC projections show that the Marina would break even and still not require a General Fund subsidy, however long-term capital needs would be more difficult to fund.[2]

POLICY CONSIDERATION

Although cost estimates include contingencies for both the remediation efforts and the Marina upgrades, unforeseen costs that exceed these contingencies could result in a reduced scope of work or, if the Department and Board of Supervisors agree, additional RPD expenditures. Through the settlement agreement, PG&E is responsible for paying up to $190 million in project costs. Should unforeseen costs increase projected costs beyond $190 million, the agreement calls for the Department and PG&E to work together to reduce the project scope in order to stay within a $190 million total budget. For example, should remediation or Marina upgrade costs exceed the current budget and contingency, the Department would work with PG&E to reduce the scope of the Project, in order to stay within the $190 million project budget. The settlement agreement also allows the Department and PG&E to modify the agreement to increase the

[2] REC's projections assume 90 percent occupancy in both West and East Harbor, consistent with current occupancy in the West Harbor. If actual occupancy in the East Harbor is less after project completion, the Marina would not be financially self-sufficient without East Harbor fees matching West Harbor fees.

project budget beyond $190 million, as long as both parties agree to such a modification. The parties would also need to mutually agree on cost-sharing in such a scenario.

RECOMMENDATION

Approve the proposed resolution.

Item 3 **File 25-0196**	**Department:** Controller's Office of Public Finance

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes SFUSD to issue, and for the City to sell on behalf of the District, SFUSD General Obligation Bonds, 2024 Series A, in an aggregate principal amount not to exceed $160 million. The proposed resolution also approves a form bond purchase agreement for the new money bonds and form paying agent agreements for the new money bonds as well as refunding bonds that SFUSD is planning to issue.

Key Points

- In November 2024, San Francisco voters approved another Proposition A, authorizing $790 million in SFUSD general obligation bonds. The proposed resolution approves the issuance of $160 million in new money bonds from that authorization. SFUSD is also planning to issue $160 million in refunding bonds to refinance outstanding debt.
- The City will not be liable for the School District debt. The role of the City will be to issue the general obligation bonds, set property taxes rates sufficient to cover the debt service, collect those taxes, and pay debt service from such taxes on the bonds.

Fiscal Impact

- The expected debt service on the proposed 2024 Series A bonds is $226.4 million over 20 years, or approximately $11.3 million per year.
- The District's refunding bonds are expected to reduce debt service on previously issued bonds by about $10.3 million through June 2035, based on current assumptions, reducing the total debt service on the refunded bonds from $185.0 million to $174.7 million.
- According to the District, the property tax rate for SFUSD is projected to remain at or around $40 per $100,000 of assessed value--or at about the levels they have been for more than ten years—due property tax growth and the payment of existing bonds. There is no impact on the City's General Fund from this transaction.

Policy Consideration

- Under state law, the Board of Supervisors must approve the School District's bond sales because of the District's financial condition, which may also contribute to higher financing costs.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

California Education Code Section 15140(a) provides that bonds of a school district shall be offered for sale by the board of supervisors as soon as possible following the receipt of a duly adopted resolution by the governing board of such school district.

BACKGROUND

Proposition 39, approved by California voters in 2000, allows voters to approve general obligation bonds for schools with a 55 percent majority rather than the two-third majority required for other general obligation bonds. In 2016, San Francisco voters approved Proposition A authorizing $744.25 million in general obligation bonds for San Francisco Unified School District (SFUSD). As of December 31, 2024, the 2016 Bond Program had encumbered $704.9 million and had expended approximately $601.8 million, according to the SFUSD Bond Program report for FY 2024-25 Quarter 2. In November 2024, San Francisco voters approved another Proposition A authorizing $790 million in SFUSD general obligation bonds with 75 percent of voters in favor.

According to the text of the ballot measure, the total bond of $790 million funds projects in the categories listed below. The measure did not include specific funding levels for the categories or specific projects:

- Construction, Reconstruction and Improvement—School Modernization and Core Functionality Projects, such as earthquake-safety seismic upgrades, accessibility improvements, technology upgrades, new schools, and temporary facilities.
- Schoolyard / Outdoor Learning Improvements, such as stormwater management and/or drainage, play equipment, and outdoor gathering and eating spaces.
- Security Upgrades, such as public address systems, door hardware and entry systems, and site fencing.
- Student Nutrition and Food Service Delivery, such as construction of kitchens, food serving line upgrades, and cafeteria and dining space modernization.
- Technology Upgrades, such as upgrades of wide area networks, telecommunication system upgrades, and cybersecurity and central data infrastructure.

Per the text of the measure, the District is required to create an independent citizens' oversight committee to ensure bond proceeds are expended only for the school facilities projects listed in the Bond Project List. The Board of Education is required to conduct annual financial and performance audits to ensure funds are expended only on projects listed in the Bond Project List above.

The $790 million in general obligation bonds are currently allocated to the following programs:

Table 1: Bond Funded Programs

Project Category	Amount ($ in Millions)
Modernization	$410
Core Functionality	95
Student Nutrition Services	225
Technology Upgrades	35
Schoolyard Outdoor Learning	10
Security	15
Total	**$790**

Source: 2024 SFUSD Bond Report

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes SFUSD to issue, and for the City to sell on behalf of the District, SFUSD General Obligation Bonds, 2024 Series A, in an aggregate principal amount not to exceed $160 million. The proposed resolution also approves a form bond purchase agreement for the new money bonds and form paying agent agreements for the new money bonds as well as refunding bonds that SFUSD is planning to issue. The resolution also authorizes Director of Public Finance, City Treasurer, and other City officers to take actions related to selling and paying for the bonds.

District Responsibilities

According to the proposed resolution, the District will provide notice to the Controller's Office of Public Finance of its intent to issue bonds at least 45 days prior to the planned issuance of the bond and a copy of the final debt service schedule within 15 days after the issuance of the bonds, as well as all minutes approved by the independent citizens' oversight committee.

City Responsibilities

The City is responsible for issuing the proposed bonds on behalf of the School District, setting the annual property tax rate to cover debt service on the bonds, levying and collecting property taxes, and paying principal and interest on the bonds from the collected property taxes. Although the City is the paying agent for the proposed new money and refunding bonds, the bonds are not considered a debt of the City and the City is not responsible for the use of bond proceeds. The proposed resolution states that the Board of Supervisors or other City officers have not reviewed information pertaining to SFUSD in the Official Statement for the proposed bonds, except a section to be contained therein describing the City's investment policy, current portfolio holdings, and valuation procedures, as they may relate to funds of the District held by the City Treasurer-Tax Collector.

Bond Issuance

The School District plans to issue $160 million in Series A bonds under Proposition A (2024).

The District also plans to issue up to $160 million of refunding bonds to reduce the debt service of the District's prior general obligation bonds from Proposition A, Election of 2006, Series F (2015) and Proposition A, Election of 2011, Series C (2015). The refunding bond sale does not require Board of Supervisors approval, however, as noted above, the City will be the paying agent of the refunding bonds.

Finally, the proposed resolution allows for the bonds to be sold through a negotiated process. The School District is pursuing a negotiated rather than competitive sale because of the complexity of the proposed new money and refunding bonds.[1]

Bond Program Spending

SFUSD's bond program consists of general obligation bond proceeds and other funds. According to a School District February 2025 presentation to the Board of Education, the ongoing projects listed below will be funded with the new money bonds. District staff reported that they are planning to issue $160 million, slightly above the anticipated cash flow needed for the next 18 months of $157 million shown in Exhibit 2.

[1] The District expects the sale of bonds by negotiated sale to reduce taxpayer costs because it will enable SFUSD to negotiate fees directly with underwriters and allow underwriters the flexibility to structure the transaction to better meet investor needs.

Exhibit 2: Bond Program Series A $160 Million Spending

Program	Budget
Public Announcement Systems Upgrade Package 5 Installation of District Standard building communications systems at 18 elementary school sites	$6,423,028
Lincoln High School Reroofing Project Reroofing of all buildings except main academic building	6,077,610
Buena Vista Horace Mann K-8 Modernization Modernization of all buildings and a two-story classroom addition in place of existing cafeteria	35,584,210
Lincoln High School Athletic Fields Renovation of field and track to include artificial turf, resurfaced track, new goalposts, and scoreboard	4,800,000
Thurgood Marshall High School Gym & Auditorium Modernization of gymnasium and auditorium buildings, and connecting breezeways	7,791,563
West Portal Elementary School Package 2 Modernization of existing classroom building and upgrades to lower Yard 4	6,057,423
Burton High School – Special Education/STEM, Gym & Kitchen Modernization of gymnasium, kitchen/cafeteria, and lower floor of main academic building	8,788,841
School Nutrition Services Hub & Shops Rebuild and modernization of District's main warehouse and maintenance shops, to include existing functions and a new central food hub facility with sufficient space for a future SFUSD central kitchen	14,285,712
Denman Middle School Package 2 Modernize the main building	5,744,682
Public Announcement Systems Upgrade Package 6 (Early Education Sites) Installation of District Standard building communications systems at all early education school sites	4,621,212
2024 Design Projects Design work on forthcoming projects; sites to be selected	22,940,937
School Nutrition Services Upgrades of school kitchen facilities aligned with Student Nutrition Services' requirements for food preparation, including associated electrical improvements	7,894,734
Department of Technology Network and cabling upgrades at several school sites	11,052,630
Program Planning and Design Management Consultants Program management consultants to ensure efficient project delivery	4,500,000
Other Program Administration District staffing	10,500,000
Total	**$157,062,582**

Source: SFUSD Staff Presentation to Board of Education on February 11, 2025

As noted above, the District's bond authorization from voters is not specific to certain program areas, projects, or school sites, so the funding allocations noted above may change.

FISCAL IMPACT

New Money Bonds

According to SFUSD's Municipal Advisor, expected annual debt service on the proposed $160 million in new money 2024 Series A bonds are approximately $11.3 million and total debt service is $226.4 million over 20 years, based on an estimated market interest rate of up to 3.5 percent.

The proposed resolution limits the new money bond true interest cost to 4.75 percent per year, the underwriter's discount to 0.4 percent of the aggregate principal amount of bonds sold, and the term of the bonds to no more than twenty years.

Refunding Bonds

The District's refunding bonds are expected to reduce debt service on previously issued bonds by about $10.3 million through June 2035, based on current assumptions, reducing the total debt service on the refunded bonds from $185.0 million to $174.7 million.

Appendix I shows the debt service for the proposed new money 2024 Series A SFUSD bonds and the refunding bonds.

Funding Source

As noted above, the City is responsible for collecting property taxes necessary to pay the bond debt service payments on behalf of the District. According to the District, the property tax rate for SFUSD is projected to remain at or around $40 per $100,000 of assessed value--or at about the levels they have been for more than ten years—due property tax growth and the payment of existing bonds. There is no impact on the City's General Fund from this transaction.

The proposed SFUSD bonds do not count against the City Charter's general obligation bond debt limit of 3 percent of assessed valuation. In addition, the property tax rates dedicated to SFUSD bond debt service are not part of the City's capital plan constraint on property taxes dedicated to the City's general obligation bond debt service.

POLICY CONSIDERATION

School District Budget Condition and Bond Issuance

Education Code Section 15140(b) authorizes a county board of supervisors to allow school districts to issue and sell general obligation bonds directly if the school district has not received a qualified or negative certification in its most recent interim budget report.[2] However, the

[2] Education Code Section 42130 requires that the superintendent of each school district submit two interim budget reports to the school district's governing body each year. The State Department of Education certifies SFUSD's interim reports as follows: (1) a positive certification when the District will be able to meet its financial obligations for the current and two subsequent fiscal years; (2) a qualified certification when the District may not be able to meet its financial obligations for the current or two subsequent fiscal years; or, (3) a negative certification when the

School District's most recent interim budget report, presented to the Board of Education on March 11, 2025, was submitted with a negative certification, which means that the District will not be able to meet its financial obligations for the remainder of the current year to subsequent fiscal year without implementation of its fiscal stabilization plan. According to a March 11, 2025 staff presentation to the SFUSD Board of Directors, absent changes to current spending, SFUSD General Fund spending exceeds revenues by $96.9 million in FY 2024-25, $113.1 million in FY 2025-26, and $125.6 million in FY 2026-27, with a complete exhaustion of all budget reserves in FY 2026-27. At that meeting, SFUSD also presented projections that incorporate a Budget Stabilization Plan, which reduces the annual deficits to $43.2 million in FY 2025-26 and $57.1 million in FY 2026-27, but notes that additional steps will be necessary to achieve fiscal sustainability over the long term.

SFUSD cannot sell bonds on its own because of the negative certification of its second interim budget report and therefore requires the Board of Supervisors to approve the sale of the proposed new money bond sale.[3] The proposed debt issuance relies on Education Code Section 15140(a), which provides for the Board of Supervisors to issue bonds on behalf of the School District. Such a sale requires the City to authorize the District's debt issuance as it would be one of the City's own debt issuances.

As noted above, the City will not be liable for SFUSD debt. The role of the City will be to issue the general obligation bonds, set property tax rates sufficient to cover the debt service, collect those taxes, and pay debt service from such taxes on the bonds.

Credit Rating

The District's bonds have been subject to various negative rating actions. Specifically, in May 2024, Moody's downgraded the District's general obligation bond rating from Aa3 to A1 and revised their outlook from negative to stable. In June 2024, S&P Global Ratings downgraded the District's general obligation bonds from AA to AA- and placed the rating under negative outlook, reflecting weaknesses in the district's financial management and internal controls, as well as its large structural imbalance. In contrast, in 2024, Fitch Ratings continues to rate the District's general obligation bonds at AAA (the highest possible rating) based on a dedicated tax analysis and an opinion of bond counsel. According to the Government Finance Officers Association, the credit rating downgrades can result in higher interest costs.[4] For the proposed bonds, the District's municipal advisor suggests that this could amount to an increase of five to 10 basis points (from 3.5 percent to 3.6 percent, for example). This would amount to approximately $300,000 in additional debt service per year.

District will not be able to meet its financial obligations for the remainder of the current year or for the subsequent fiscal year.

[3] According to SFUSD staff, SFUSD would sell bonds through the City regardless of its financial condition.

[4] GFOA, "Should We Rethink Reserves?"

Board of Supervisors Oversight

Because the proposed general obligation bond issuance appears to be consistent with Proposition A, the Budget and Legislative Analyst recommends approval of the proposed resolution. If the Board of Supervisors wishes to better understand the bond program, it could: (1) hold a hearing on the forthcoming performance and financial audits of the 2024 bond program or (2) request information from SFUSD officials.

RECOMMENDATION

Approve the proposed resolution.

Appendix I: SFUSD Bond Debt Service

Refunding SFUSD Bonds				2024 Series A New Money SFUSD Bonds
Year Ending	**Current Debt Service**	**Series F & C Debt Service**	**Refunding Debt Service Savings**	**New Debt Service**
6/15/25	16,819,325	16,815,154	(4,171)	
6/15/26	16,816,825	15,781,200	(1,035,625)	11,322,222
6/15/27	16,822,325	15,788,750	(1,033,575)	11,321,300
6/15/28	16,819,075	15,783,950	(1,035,125)	11,315,150
6/15/29	16,821,075	15,786,800	(1,034,275)	11,322,000
6/15/30	16,820,375	15,786,650	(1,033,725)	11,321,150
6/15/31	16,822,825	15,788,175	(1,034,650)	11,322,600
6/15/32	16,818,025	15,785,888	(1,032,138)	11,316,000
6/15/33	16,825,150	15,789,463	(1,035,688)	11,321,350
6/15/34	16,823,950	15,788,250	(1,035,700)	11,317,950
6/15/35	16,818,750	15,786,925	(1,031,825)	11,315,800
6/15/36	0	0	0	11,314,550
6/15/37	0	0	0	11,313,850
6/15/38	0	0	0	11,313,350
6/15/39	0	0	0	11,322,700
6/15/40	0	0	0	11,321,200
6/15/41	0	0	0	11,318,850
6/15/42	0	0	0	11,315,300
6/15/43	0	0	0	11,320,200
6/15/44	0	0	0	11,322,850
6/15/45	0	0	0	11,322,900
Total	**185,027,700**	**174,681,204**	**(10,346,496)**	**226,381,272**

Source: SFUSD Municipal Advisor

Items 4 & 5 Files 25-0163 & 25-0164	Department: Controller's Office (Controller)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would establish: (1) the City's FY 2024-25 appropriations limit at $11,752,763,337, as calculated by the Controller (File 25-0163); and (2) the FY 2024-25 appropriations limits for Special Tax Districts and Infrastructure and Revitalization Financing Districts (IRFDs) (File 25-0164).

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 is adjusted for: (1) the change in population, and (2) the change in the cost of living. For the Citywide appropriations limit, the cost-of living adjustment is defined as either: (a) the change in per capita personal income, or (b) the change in the local assessment roll due to the addition of non-residential new construction. In FY 2023-24, the growth in personal income was 3.62 percent and the roll growth from nonresidential new construction was 16.95 percent. The Controller's Office may choose the higher adjustment, and therefore is using the non-residential construction growth to calculate the appropriations limit. The appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) payroll taxes for Social Security and Medicare, and (c) qualified capital outlays.
- Due to advice from outside bond counsel, the Controller's Office is now proposing appropriations limits for Special Tax Districts, Community Facilities Districts, and Infrastructure Revitalization Financing Districts. For these districts, the City must use the growth in per capita personal income for the cost-of-living factor.

Fiscal Impact

- The City's FY 2024-25 appropriations limit is $11,752,763,337. The FY 2024-25 net tax proceeds of $5,376,055,074 are $6,376,708,263 less than the FY 2024-25 appropriations limit of $11,752,763,337. The resolution in File 25-0164 also sets 12 appropriations limits for special districts, ranging from $2,404,311 to $4,618,362,909.

Policy Consideration

- For the Citywide appropriations limit, the Controller used the percentage change in the local assessment roll for the cost-of-living adjustment. Had the Controller used the change in per capita personal income, the appropriations limit would be $10,412,779,726.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

California Constitution Article XIIIB states that each local government must set 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

Proposition 4, known as the Gann Initiative and approved by California voters in 1979, added Article XIIIB to the California Constitution. Article XIIIB (later amended by State Proposition 111, as approved by the voters in 1990) places annual limits on the appropriation of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the limit for 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 payroll taxes, (c) qualified capital outlays, and (d) other federal mandates.

According to Anna Van Degna, Controller's Office Public Finance Director, outside bond counsel has recommended that the City should also set appropriations limits for Special Tax Districts and Community Facilities Districts, as authorized by the Mello-Roos Community Facilities Act of 1982, and Infrastructure and Revitalization Financing Districts (IRFDs), as authorized by the California Government Code.[1] Based on this recommendation, the resolution in File 25-0164 establishes the appropriations limits for these districts in FY 2024-25.

Population Growth Factor

California Government Code Section 7901(b) uses the prior calendar year's population growth for the fiscal year for which the appropriations limit is determined. According to the California Department of Finance, between January 1, 2023 and January 1, 2024, the population growth in San Francisco was 0.11 percent.[2]

Cost of Living Factor

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:

1. The percentage change in California per capita personal income from the preceding year, estimated to be 3.62 percent in FY 2023-24, or

[1] Chapter 2.6 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53369 ("IRFD Law"). The statutes governing Infrastructure Financing Districts (IFDs) and Enhanced Infrastructure Financing Districts (EIFDs) do not provide for an appropriations limit.

[2] Chapter 1222 of the California State Statutes of 1980 allows the City to use the greater of its percentage change in population from the preceding year of the percentage change in the nine-county Bay Area. The percentage change of the Bay Area population of -0.16 percent was less than the City's population change of 0.11 percent.

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 16.95 percent in 2023.

For Special Tax Districts, Community Facilities Districts, and IRFDs, the cost-of-living adjustment is defined as the percentage change in California per capita personal income from the preceding year, estimated to be 3.62 percent in FY 2023-24.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution in **File 25-0163** would establish the City's FY 2024-25 appropriations limit at $11,752,763,337, as calculated by the Controller.

The proposed resolution in **File 25-0164** would establish the FY 2024-25 appropriations limits for special districts as follows:

1. Community Facilities District No. 2014-1 (Transbay Transit Center), set at $479,807,119,
2. Community Facilities District No. 2016-1 (Treasure Island):
    a. Improvement Area No. 1, set at $128,630,605,
    b. Improvement Area No. 2, set at $94,863,671,
    c. Improvement Area No. 3, set at $254,016,124,
3. Special Tax District No. 2009-1 (San Francisco Sustainable Financing)[3]:
    a. Improvement Area No. 1, set at $2,404,311,
    b. Improvement Area No. 2, set at $2,944,645,
4. Special Tax District No. 2019-1 (Pier 70 Condominiums), set at $2,118,954,831,
5. Special Tax District No. 2019-2 (Pier 70 Leased Properties), set at $2,298,696,523,
6. Special Tax District No. 2020-1 (Mission Rock Facilities and Services), set at $4,618,362,909,
7. Special Tax District No. 2022-1 (Power Station), Improvement Area No. 1, set at $991,233,920,
8. IRFD No. 1 (Treasure Island), set at $274,411,956, and
9. IRFD No. 2 (Hoedown Yard, Pier 70), set at $119,519,607.

The appropriations limits for FY 2024-25 are based on the amounts of the FY 2023-24 appropriations limits and adjusted to reflect increases in: (1) the population, and (2) cost of living (calculated using the increase in the local assessment roll due to the addition of non-residential new construction for the Citywide appropriations limit, and using the percentage change in California per capita personal income for the special district appropriations limits).

[3] Special Tax District No. 2009-1 (San Francisco Sustainable Financing) was formed in 2010 to finance energy efficiency and renewable energy capital improvements to residential, commercial, industrial, or other property.

According to Director Van Degna, Goodwin Consulting Group used the original expenditure limit amounts from the formation documents of the various special districts and determined the current expenditure limits based on the allowable increases each year since the various districts were formed.

FISCAL IMPACT

Cost of Living Factor

Cost of living is determined by using either the change in California per capita personal income or the increase in the local assessment roll due to the addition of non-residential new construction. According to the Controller's Office, the City may choose whichever percentage is higher for the Citywide appropriations limit. For the special district appropriations limits, the City must use the percentage change in California per capita personal income.

As mentioned above, in FY 2023-24, the growth in personal income was 3.62 percent and the roll growth due to non-residential new construction was 16.95 percent. Consequently, the Controller's Office is using the non-residential construction growth for the cost-of-living factor to calculate the Citywide appropriations limit.

Appropriations Subject to Limit

As mentioned above, the appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) payroll taxes for Social Security and Medicare, and (c) qualified capital outlays. Consequently, the Controller excluded $738,148,848 from the City's total FY 2024-25 tax proceeds of $6,114,203,922, as shown in Exhibit 1 below, resulting in net tax proceeds subject to the appropriations limit of $5,376,055,074.

Exhibit 1: Tax Proceeds Subject to the Proposed Appropriations Limit

FY 2024-25 Total Tax Proceeds	**$6,114,203,922**
Exclusions	
Debt Service	($476,991,029)
Federal Mandate for Social Security/Medicare	(117,665,827)
Qualified Capital Outlays	(143,491,992)
Subtotal Exclusions	*($738,148,848)*
FY 2024-25 Net Tax Proceeds Subject to Appropriations Limit	**$5,376,055,074**

Source: Controller's Office

Article XIIIB lets voters approve an increase to the appropriations limit for up to four years. For FY 2024-25, there are no voter approved increases to the appropriations limit. Beginning in FY 2025-26, the appropriations limit will increase by the revenue generated through the Business Tax Overhaul (Proposition M, approved in November 2024), which included a provision to increase the appropriations limit.

As shown in Exhibit 2 below, the City's appropriations limit, as calculated by the Controller, is $11,752,763,337. The FY 2024-25 net tax proceeds of $5,376,055,074 are $6,376,708,263 less than the FY 2024-25 appropriations limit of $11,752,763,337.

Exhibit 2: Proposed FY 2024-25 Citywide Appropriations Limit

Base FY 2023-24 Appropriations Limit	**$10,038,349,297**
Adjustment Factors	
Increase in Population	0.11%
Roll Growth due to Non-Residential Construction	16.95%
Subtotal	*$11,752,763,337*
Voter Approved Limit Changes	-
FY 2024-25 Appropriations Limit	**$11,752,763,337**

Source: Controller's Office

Special Districts Appropriations Limits

The appropriations limits for special districts are increased in FY 2024-25 by 0.11 percent, to account for the increase in population, and by 3.62 percent, to account for the increase in California per capita personal income, for a total increase of 3.73 percent over the FY 2023-24 limits. The proposed appropriations limits for each district are shown in Exhibit 3 below.

Exhibit 3: Proposed FY 2024-25 Special District Appropriations Limits

District	**FY 2023-24 Appropriations Limit**	**FY 2024-25 Appropriations Limit (3.73% Increase)**
Community Facilities District No. 2014-1 (Transbay Transit Center)	$462,536,104	$479,807,119
Community Facilities District No. 2016-1 (Treasure Island)		
Improvement Area No. 1	124,000,450	128,630,605
Improvement Area No. 2	91,448,982	94,863,671
Improvement Area No. 3	244,872,625	254,016,124
Special Tax District No. 2009-1 (San Francisco Sustainable Financing, for energy efficiency capital improvements)		
Improvement Area No. 1	2,317,766	2,404,311
Improvement Area No. 2	2,838,650	2,944,645
Special Tax District No. 2019-1 (Pier 70 Condominiums)	2,042,681,472	2,118,954,831
Special Tax District No. 2019-2 (Pier 70 Leased Properties)	2,215,953,228	2,298,696,523
Special Tax District No. 2020-1 (Mission Rock Facilities and Services)	4,452,121,494	4,618,362,909
Special Tax District No. 2022-1 (Power Station), Improvement Area No. 1	955,553,717	991,233,920
IRFD No. 1 (Treasure Island)	264,534,293	274,411,956
IRFD No. 2 (Hoedown Yard, Pier 70)	115,217,410	119,519,607

Source: Controller's Office, Goodwin Consulting Group

Detailed calculations of all special district appropriations limits, going back to the years that each district was formed, are shown in an attachment to the resolution in File 25-0614.

POLICY CONSIDERATION

As previously mentioned, the Controller has discretion to calculate the cost-of-living adjustment factor for the Citywide appropriations limit using one of two definitions:

1. The percentage change in California per capita personal income from the preceding year, estimated to be 3.62 percent in FY 2023-24, or
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 16.95 percent in 2023.

Exhibit 4 below shows the FY 2024-25 appropriations limit using both definitions.

Exhibit 4: FY 2024-25 Citywide Appropriations Limit by Definition

	Definition 1: Per Capita Personal Income	**Definition 2: Local Assessment Roll from Non-Residential New Construction**
Base FY 2023-24 Appropriations Limit	$10,038,349,297	$10,038,349,297
Adjustment Factors		
Increase in Population	0.11%	0.11%
Increase in Per-Capita Personal Income	3.62%	-
Increase in Local Assessment Roll	-	16.95%
Subtotal	*$10,412,779,726*	*$11,752,763,337*
Voter Approved Limit Changes	-	-
FY 2024-25 Appropriations Limit	**$10,412,779,726**	**$11,752,763,337**

For the FY 2024-25 Citywide appropriations limit, the Controller elected to use the percentage change in the local assessment roll from the preceding year due to the addition of local non-residential new construction to calculate the cost-of-living adjustment, consequently calculating the appropriations limit at $11,752,763,337, as shown in Exhibit 2 above. Had the Controller elected to use the percentage change in per-capita income from the preceding year, the appropriations limit, as shown in Exhibit 4 above, would have been calculated at $10,412,779,726, which is $1,339,983,611 less than the proposed appropriations limit of $11,752,763,337.

RECOMMENDATION

Approve the proposed resolutions.