

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

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March 8, 2012

TO: Budget and Finance Sub-Committee
FROM: Budget and Legislative Analyst
SUBJECT: March 14, 2012 Budget and Finance Sub-Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objective

- Resolution approving the ninth amendment to the existing agreement between the Department of Emergency Management (DEM) and Stratus Technologies for hardware and software maintenance for the City's 911 Emergency Dispatch System. The proposed ninth amendment would (a) increase the agreement amount by \$1,003,372 from a not-to-exceed \$2,483,208 to a not-to-exceed \$3,486,580 and (b) increase the term of the agreement by 21 months from October 1, 2012 to June 30, 2014.

Key Points

- In 1997, through a competitive Request for Proposal (RFP) process, the Department of Technology awarded an agreement to Tiburon, Inc. (Tiburon), a private company, to design the City's Emergency 911 Dispatch System. Tiburon selected Stratus Technologies, Inc. (Stratus) computer hardware and software for the City's Emergency 911 Dispatch System. The Department of Technology entered into a sole-source agreement with Stratus, from July 1, 1998 through April 30, 2000, initially totaling \$300,000, for the maintenance of the Stratus computer hardware and software.
- The agreement between the City and Stratus has been amended eight times. The eighth amendment (a) reassigned responsibility for the agreement from the Department of Technology to DEM, which assumed responsibility for the City's 911 Emergency Dispatch System, and (b) increased the amount by \$450,839, from \$2,032,369 to \$2,483,208.
- The City's FY 2011-12 Information, Communications, and Technology (ICT) Plan provides for 911 Emergency Dispatch System's Computer-Aided Dispatch (CAD) upgrades at an estimated cost of \$3,416,812, by approximately January 2014. These upgrades will replace the Stratus hardware and software with "off-the-shelf" hardware and software that can be maintained without the need for a sole source maintenance contract.

Fiscal Impact

- The proposed ninth amendment would authorize DEM to pay Stratus an amount not-to-exceed \$3,486,580, including the actual \$2,739,565 in previously-incurred expenditures plus \$747,015 for expenditures anticipated to occur from January 2012 through approximately January 2014.

Recommendations

- Amend the proposed resolution to provide for retroactive expenditures of \$256,357.
- Approve the proposed resolution, as amended.

DETAILS OF PROPOSED LEGISLATION

Mandate Statement

In accordance with Charter Section 9.118, any contract (a) for more than \$10,000,000, (b) that extends for longer than ten years, or (c) with an amendment of more than \$500,000, is subject to Board of Supervisors approval.

Background

In 1997, the Department of Technology conducted a competitive Request for Proposal (RFP) process, to select Tiburon, Inc. (Tiburon), a private company, to design the City's Emergency 911 Dispatch System. Tiburon, after designing the Emergency 911 Dispatch System, selected Stratus Technologies, Inc. (Stratus) computer hardware and software to be used to operate the City's Emergency 911 Dispatch System. Currently, Tiburon maintains the Emergency 911 Dispatch System's Computer Aided Dispatch (CAD) software, while Stratus maintains the Emergency 911 Dispatch System hardware and software, including three servers, one of which is located at the Hall of Justice, and two of which are located at DEM facilities at 1011 Turk Street and 1 Christmas Tree Street in Twin Peaks.

The Department of Technology entered into a sole-source agreement with Stratus for the maintenance of the Emergency 911 Dispatch System computer hardware and software for a one year and ten month period, from July 1, 1998 through April 30, 2000, totaling \$300,000, without utilizing a competitive process, because Stratus had proprietary rights to maintain its own computer hardware and software.¹

Subsequent to the Department of Technology entering into this sole source maintenance agreement with Stratus, the agreement has been amended eight times, as follows:

- The first through the fourth amendments increased the agreement amounts and extended the agreement terms, as shown in Table 1 below, but were not subject to Board of Supervisors approval because the agreement term was less than ten years and the total agreement amount was less than \$10,000,000;
- The fifth and sixth amendments, which extended the agreement term beyond ten years, as shown in Table 1 below, should have been submitted to the Board of Supervisors for approval but, according to Ms. Amiee Alden, Department of Emergency Management (DEM) Policy and Planning Manager, these amendments were not submitted to the Board of Supervisors for approval, due to administrative oversight;
- The seventh amendment, as previously approved by the Board of Supervisors in January 2009 (File 08-1419), (a) retroactively extended the term of the agreement from July 1, 1998 through September 30, 2012, a term of 14 years and 3 months; and (b) increased the total not-to-exceed amount by \$318,648, from \$1,713,721 to \$2,032,369; and
- The eighth amendment (a) assigned responsibility for the agreement from the Department of Technology to DEM, which assumed responsibility for the City's 911 Emergency

¹ As stated in the City's Administrative Code Section 21.30(d), if the vendor has proprietary rights to hardware and software, then the hardware and software maintenance agreements with the vendor may be awarded on a sole source basis.

Dispatch System, and (b) increased the not-to-exceed amount by \$450,839 from \$2,032,369 to \$2,483,208.

Table 1 below shows the term and not-to-exceed amounts of the original agreement through the eighth amendments.

Table 1: Stratus Agreement and the Eight Previous Amendments

| | <i>Term</i> | <i>Increased Amount</i> | <i>Total Agreement Amount</i> |
|---|------------------------------------|-------------------------|-------------------------------|
| Initial Agreement | July 1, 1998 to April 30, 2000 | \$300,000 | \$300,000 |
| First Amendment | July 1, 1998 to June 30, 2001 | 107,500 | 407,500 |
| Second Amendment | July 1, 1998 to June 30, 2003 | 107,500 | 515,000 |
| Third Amendment | July 1, 1998 to June 30, 2004 | 220,000 | 735,000 |
| Fourth Amendment | July 1, 1998 to June 30, 2006 | 436,000 | 1,171,000 |
| Fifth Amendment | July 1, 1998 to September 30, 2008 | 461,000 | 1,632,000 |
| Sixth Amendment | July 1, 1998 to November 30, 2008 | 81,721 | 1,713,721 |
| Seventh Amendment | July 1, 1998 to September 30, 2012 | 318,648 | 2,032,369 |
| Eighth Amendment ¹ | July 1, 1998 to September 30, 2012 | 450,839 | 2,483,208 |
| Total Not-to-Exceed Amount of Existing Agreement | | | \$2,483,208 |

¹The Eighth Amendment included a Notice to Parties assigning DEM as the contact agency for the Stratus agreement.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the ninth amendment to the existing agreement between DEM and Stratus for maintenance of the Stratus hardware and software for the City's 911 Emergency Dispatch System. The proposed ninth amendment would (a) increase the not-to-exceed amount of the agreement by \$1,003,372, from \$2,483,208 to \$3,486,580, and (b) increase the term of the agreement by 21 months from October 1, 2012 through June 30, 2014.

The City's FY 2011-12 Information, Communications, and Technology (ICT) Plan currently provides for the 911 Emergency Dispatch System's Computer-Aided Dispatch (CAD) to be upgraded at an estimated cost of \$3,416,812, which will include (a) upgrading the current Tiburon CAD software, and (b) replacing the Stratus hardware and software with "off-the-shelf" hardware and software, which can be maintained without the need for a sole source outside maintenance contract. According to Ms. Alden, as part of this overall upgrade project, DEM will select a vendor and purchase future hardware and software upgrades through the Office of Contract Administration's (OCA) Computer Store by December 2012, at an estimated cost of \$670,000. Ms. Alden advises that DEM expects the 911 Emergency Dispatch System upgrades to be completed by approximately January 2014, at which time DEM will terminate the subject maintenance agreement with Stratus.

According to Ms. Alden, the FY 2011-12 DEM budget includes \$1,200,000 out of the total estimated CAD upgrade project costs of \$3,416,812. The remaining \$2,216,812, including \$670,000 for the future hardware and software, will be requested in DEM's FY 2012-13 budget.

Under the proposed ninth amendment, Stratus would continue to provide maintenance for Stratus hardware and software from January 2012 through January 2014, when the 911 Emergency Dispatch System CAD upgrades are expected to be completed. However, as noted above, the proposed ninth amendment would extend through June 30, 2014, or for an additional sixth months beyond the anticipated January 2014 completion date for the 911 Emergency Dispatch System's CAD upgrades. According to Ms. Alden, this additional six month period is included in the proposed ninth amendment in order to allow for any unexpected delays in completing the 911 Emergency Dispatch System's CAD upgrades. However, Ms. Alden advises that under the terms of the existing Stratus agreement, the City has a "Termination for Convenience" provision that would allow DEM to terminate the subject agreement with 30 days written notice without penalty.

FISCAL IMPACTS

OCA notified DEM on December 19, 2011 that expenditures for hardware and software maintenance services provided by Stratus under the subject agreement were actually \$2,739,565, or \$256,357 more than the current not-to-exceed authorized amount of \$2,483,208. Therefore, the proposed resolution should be amended to provide for retroactive expenditures of \$256,357.

The proposed ninth amendment would authorize DEM to pay Stratus an amount not-to-exceed \$3,486,580, an increase of \$1,003,372 from the current not-to-exceed amount of \$2,483,208. \$1,003,372 includes \$256,357 previously expended (noted above) plus \$747,015 for expenditures anticipated to occur from January 2012 through approximately January 2014. Under the proposed ninth amendment, Stratus would maintain all three servers through June 30, 2013, when the Hall of Justice server will be phased out. Stratus would then continue to maintain the two DEM servers at 1011 Turk Street and 1 Christmas Tree Road through approximately January 2014, as shown in Table 2 below.

Table 2: Proposed Ninth Amendment Budget for Maintenance of Stratus Hardware and Software

| <i>Term period</i> | <i>Monthly Maintenance Cost</i> | <i>Annual Maintenance Cost</i> |
|--|---------------------------------|--------------------------------|
| January 1, 2012 to June 30, 2012 | \$30,028.00 | \$180,168 |
| July 1, 2012 to June 30, 2013 | 30,929.00 | 371,148 |
| July 1, 2013 to June 30, 2014 ¹ | 16,308.25 | 195,699 |
| Subtotal | | \$747,015 |
| Retroactive approval for costs in excess of the previously authorized not-to-exceed amount | | 256,357 |
| | Total | \$1,003,372 |

¹ Total maintenance costs are less from July 1, 2013 to June 30, 2014 because Stratus would no longer maintain the Hall of Justice server.

RECOMMENDATIONS

1. Amend the proposed resolution to provide for retroactive expenditures of \$256,357.
2. Approve the proposed resolution, as amended.

Item 4
File 12-0082

Department:

EXECUTIVE SUMMARY

Legislative Objectives

- Ordinance amending the Administrative Code by adding Chapter 14C to provide for a 4 percent bid discount when bidding on City contracts for companies qualifying under State law as a benefit corporation.

Key Points

- Under the traditional corporate structure, companies must consider profit-making and the financial interests of shareholders above all else. The State Legislature adopted legislation, effective as of January 2012, authorizing a new form of incorporation, known as a “benefit corporation”, for companies committed to supporting a general public benefit. The State legislation creates a legal framework for socially-minded companies to consider non-financial interests when making business decisions.
- Since 1984, with the passage of the Minority/Women/Local Business Utilization Ordinance by the Board of Supervisors, the City and County of San Francisco has required bid preferences for disadvantaged businesses. In accordance with City Administrative Code Chapter 14B, businesses collectively categorized as local business enterprises (LBEs) receive 2 percent to 10 percent bid discounts when competing for City contracts.
- The proposed ordinance will extend bid discounts to benefit corporations. Benefit corporations that do not qualify as an LBE will receive a 4 percent bid discount. Benefit corporations that also qualify as an LBE will receive bid discounts up to a cumulative 14 percent.

Fiscal Impacts

- At this time, it is uncertain how many, and what types of, companies will seek benefit corporation status, and of those, which will seek contracts with the City and County of San Francisco. The Budget and Legislative Analyst cannot quantify the actual fiscal impact of this ordinance at this time. However, as a comparison, based on 2011 construction contract award information provided by the City’s Human Rights Commission (HRC), for construction contracts of less than \$10,000,000, in which an LBE was awarded the contract and a bid discount was applied, the total additional cost to the City as a result of granting the bid discount was \$984,445, or 6.6 percent of the total amount of the contracts of \$14,914,885.

Policy Considerations

- Other States’ benefit corporation laws include an obligation to report on the company’s overall social and environmental performance using a comprehensive, credible, independent and transparent third-party standard. The California law does not include such a mandate. The Board of Supervisors should consider implementing a process to verify that benefit corporations receiving bid discounts for City contracts are meeting their public benefit objectives.
- The proposed ordinance requires an evaluation of the bid discount program in year 2 of its implementation. Given the uncertainty regarding the number and types of companies that may utilize this bid discount, the Board of Supervisors should consider implementing monitoring of the impact of the proposed ordinance every six months after the ordinance is made effective.

- In addition, according to the proposed ordinance, the bid discount will be applied by City departments with contracting authority, with no centralization across City departments. The Budget and Legislative Analyst recommends that the City should consider ways to centralize this process so that data can be tracked and outcomes can be measured more efficiently.

Recommendations

- Amend the proposed ordinance to implement a process to verify that benefit corporations receiving bid discounts for City contracts are meeting their public benefit objectives.
- Amend the proposed ordinance to require that the bid discount program be monitored every six months.
- Amend the proposed ordinance to centralize the bid discount program in order to coordinate data collection and measure outcomes.
- Approval of the ordinance, as amended, is a policy decision for the Board of Supervisors.

MANDATE STATEMENT

According to Charter Section 2.105, the Board of Supervisors shall act only by written ordinance or resolution, except that it may act by motion on matters over which the Board of Supervisors has exclusive jurisdiction.

BACKGROUND

Benefit Corporation Status

A benefit corporation is a new form of incorporation that is legally recognized in seven States, including California. Under the traditional corporate structure, companies must consider profit-making and the financial interests of shareholders above all else. Benefit corporation status was developed as a response to the inability of existing legal frameworks to meet the needs of entrepreneurs and investors seeking to use business to solve social and environmental problems so that companies can balance the pursuit of corporate profits with environmental and social goals.

Because traditional corporate law has a narrow definition of fiduciary duty that makes it difficult for business leaders to focus on a mission that is broader than simply maximizing profit, businesses with a social mission need alternatives that allow them to be operate in ways that benefit more stakeholders. Maryland was the first State to allow benefit corporations in April 2010.

California Benefit Corporation Legislation – AB 361

Assembly Bill 361 was adopted by the California State Legislature on October 9, 2011, and became effective on January 1, 2012, making California the sixth of seven States in the United States to recognize benefit corporation status. The legislation states that a benefit corporation may be formed for the purpose of creating a general public benefit, defined as a material positive impact on society and the environment, taken as a whole.

The bill also allows benefit corporations to identify one or more specific public benefits as an additional purpose of the corporation, including but not limited to: providing low-income or underserved communities with beneficial products or services; promoting economic opportunity for individuals or communities beyond the creation of jobs in the ordinary course of business; preserving the environment; and improving human health.

AB 361 expands fiduciary duty to create clarity for boards of directors about their obligations and liability protection, as well as for consumers and investors about what to expect from the business. The bill is intended to encourage environmental and social responsibility, as well as greater standards of accountability and transparency for corporations.

Since AB 361 became effective in January of 2012, 18 California companies have filed for incorporation as a benefit corporation.

Existing Bid Discounts for Competitively Solicited Contracts in San Francisco

Since 1984, with the passage of the Minority/Women/Local Business Utilization Ordinance by the Board of Supervisors, the City and County of San Francisco has required bid preferences for disadvantaged businesses. These businesses included minority-owned business enterprises (MBEs), women-owned business enterprises (WBEs), and locally-owned business enterprises (LBEs). Today, in accordance with City Administrative Code Chapter 14B, those businesses are now collectively categorized as LBEs, and receive 2 percent to 10 percent bid discounts when competing for City contracts.

Locally-owned businesses in San Francisco must receive certification of their LBE status from the San Francisco Human Rights Commission (HRC), which administers the bid discount. There are three levels of discounts available to certified LBEs, as follows: (1) a two-percent preference to Small Business Administration firms (SBAs)¹; (2) a seven and one-half percent preference to joint ventures with local MBE or WBE participation; and (3) a 10-percent preference to “micro” and “small” LBEs. Classifications for “micro”, “small” and “SBA” are based upon economic thresholds, as show in Table 1 below.

¹ SBA firms are defined by the U.S. Small Business Administration.

**Table 1:
Maximum Economic Thresholds for LBE Certified Firms**

| | Micro Bid Discount: 10% | Small Bid Discount: 10% | SBA Bid Discount: 2% |
|---|------------------------------------|------------------------------------|---------------------------------|
| Class A and Class B General Contractors | 7,000,000 | 14,000,000 | 33,500,000 |
| Specialty Construction Contractors | 3,500,000 | 7,000,000 | 17,000,000 |
| Trucking and Hauling | 1,750,000 | 3,500,000 | 8,500,000 |
| Goods, Materials and Equipment Suppliers | 3,500,000 | 7,000,000 | 17,000,000 |
| General Service Providers | 3,500,000 | 7,000,000 | 17,000,000 |
| Architect/Engineering | 1,250,000 | 2,500,000 | 7,000,000 |
| Professional Services | 1,250,000 | 2,500,000 | 7,000,000 |

DETAILS OF LEGISLATION

This report is based on amendments that will be introduced to the Budget and Finance Committee of the Board of Supervisors on March 14, 2012.

The proposed ordinance seeks to provide a downward adjustment in price or upward adjustment in rating of bid proposals from benefit corporations for competitively solicited City contracts. The intent of the ordinance is to give preference to benefit corporations whose ability to submit the lowest bids for City contracts may be compromised by their commitment to supporting social and environmental justice.

The proposed discount would apply to all contracts whose estimated cost exceeds the threshold amounts established in the City Administrative Code²: \$100,000 for commodities and professional services and \$400,000 for general services, but less than \$10,000,000.

Bid discounts will be administered by contract awarding agencies, who will be required to verify current Benefit Corporation status with the California Secretary of State. Benefit corporations will also be required to submit copies of their share certificates required under Division 1, Chapter 4 of the California Corporations Code.

² The threshold amounts are established in City Administrative Code Chapters 6 and 21.

The proposed ordinance provides for a 4 percent bid discount. For bid proposals from Benefit Corporations that are not eligible for LBE or SBA-LBE bid discounts, as described in Administrative Code Chapter 14B, the contract awarding agency could only apply a 4 percent discount if the result of the ranked proposal would not result in displacing a 14B³ LBE from being the apparent lowest bidder.

For bids and proposals from benefit corporations that will receive an LBE or SBA-LBE discount, contract awarding agencies should apply a discount of 4 percent in addition to the Administrative Code Chapter 14B discount, such that bids and proposals shall be increased or reduced, as appropriate, by no more than a total of 14 percent at each stage of the proposal selection process. Table 2 below details the proposed bid discount amounts.

Table 2: Bid Discount Amounts

| | LBE Bid Discount Amount | Benefit Corporation Bid Discount Amount | Total Bid Discount Amount |
|-------------------|--------------------------------|--|----------------------------------|
| SBA | 2% | 4% | 6% |
| Joint Venture LBE | 7.5% | 4% | 11.5% |
| Micro/Small LBE | 10% | 4% | 14% |
| Non-LBE | 0% | 4% | 4% |

The proposed ordinance also calls for an evaluation of the impact of the Benefit Corporation Discount to LBEs and City contracting in year 2 of the effective date of this ordinance. The evaluation will analyze Benefit Corporation participation levels by reviewing the number of City contracts awarded by size, type and amount of discount. The evaluations will be prepared by the San Francisco Human Rights Commission, in collaboration with the City Controller's Office.

FISCAL IMPACT

Benefit corporation legislation has only been adopted in the State of California since January of 2012, and to date, there are only 18 companies that have filed for benefit incorporation with the California Secretary of State. At this time, it is uncertain how many, and what types of, companies will seek benefit corporation status, and of those, which will seek contracts with the City and County of San Francisco.

The Budget and Legislative Analyst cannot quantify the actual fiscal impact of this ordinance at this time. However, as a comparison, based on 2011 construction contract award information provided by HRC, for construction contracts of less than \$10,000,000, in which an LBE was awarded the contract and a bid discount was applied, the total additional cost to the City as a

³ "14B LBEs" are LBEs that receive a bid discount when competing for City contracts, according to the Administrative Code Chapter 14B.

result of granting the bid discount was \$984,445, or 6.6 percent of the total amount of the contracts of \$14,914,885.

POLICY CONSIDERATIONS

Verifying Public Benefit

The Budget and Legislative Analyst notes that the adoption of this ordinance will make San Francisco the first government entity in the United States to provide bid preferences for benefit corporations. This ordinance allows the bid discount to apply only to California benefit corporations. Other States that have passed benefit corporation legislation have included mandates for third-party assessments and annual benefit reports to ensure that benefit corporations are in fact meeting a specific public benefit. Typically, State benefit corporation laws include an obligation to report on the company's overall social and environmental performance using a comprehensive, credible, independent and transparent third-party standard. The California law does not include such a mandate. The Board of Supervisors should consider implementing a process to verify that benefit corporations receiving bid discounts for City contracts are meeting their public benefit objectives.

Monitoring the Impact of the Ordinance

The proposed ordinance to provide bid discounts to benefit corporations in San Francisco has been modeled on the bid discount policies for LBEs, previously approved by the Board of Supervisors. The bid discount has been established at the 4 percent rate in an attempt to ensure that benefit corporations do not displace LBEs competing for City contracts.

The proposed ordinance establishes an evaluation of the bid discount program in year 2 of its implementation. Given the uncertainty regarding the number and types of companies that may utilize this bid discount, the Board of Supervisors should consider implementing monitoring of the impact of the proposed ordinance every six months.

In addition, according to the ordinance, the bid discount will be applied by City departments with contracting authority, with no centralization across City departments. The Budget and Legislative Analyst recommends that the City centralize this process so that data can be tracked and outcomes can be measured more efficiently, if the Board of Supervisors approves the proposed ordinance.

RECOMMENDATIONS

Amend the proposed ordinance to implement a process to verify that benefit corporations receiving bid discounts for City contracts are meeting their public benefit objectives.

Amend the proposed ordinance to require that the bid discount program be monitored every six months.

Amend the proposed ordinance to centralize the bid discount program in order to coordinate data collection and measure outcomes.

Approval of this ordinance, as amended, is policy decision for the Board of Supervisors.

Item 5
File 12-0049
(continued from February 15, 2012)

Department:
 Office of Economic and Workforce Development (OEWD),

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would appropriate \$1,000,000 of General Fund prior year fund balance for the Small Business Revolving Loan Fund Program managed by TMC Development Working Solutions (Working Solutions), through the Office of Economic and Workforce Development (OEWD).

Key Points

- The Small Business Revolving Loan Fund Program is a City funded loan program, to generate additional economic activity by providing greater access to capital for small and micro-businesses in San Francisco that have had difficulty accessing regular credit markets. Loans are up to \$25,000 for startup companies and \$50,000 for existing businesses. To qualify, businesses must be (a) in San Francisco, (b) unable to get a bank loan, and (c) able to create or retain at least one full-time job for a low- to moderate-income person.
- In 2009, the City provided Working Solutions, a non-profit organization, \$800,000 of unused Community Development Block Grant and Title IX Economic Development Administration (EDA) funds, of which \$680,000, or 85 percent, was for loan capital and \$120,000, or 15 percent, was for administrative costs to fund staff to process the loans and provide technical assistance.
- Between July 13, 2009 and February 13, 2012, the Small Business Revolving Loan Fund Program, through Working Solutions, provided loans to 29 businesses totaling \$715,585. These businesses pledged to create 52 jobs, and actually resulted in the creation of 73 jobs and the retention of two jobs. To date, two businesses are 30 days late in making their loan payments.

Fiscal Impacts

- The proposed ordinance would be funded with \$1,000,000 from the General Fund prior year fund balance.
- As of February 25, 2012, the Small Business Revolving Loan Fund has an available balance of \$275,420 including \$215,832 in principal repayments, \$45,173 in interest payments, and \$14,415 not yet loaned monies.
- In addition, the City is providing (a) \$77,000 of repayments from previous Economic Development Administration Title IX loans, and (b) \$432,500 of previously approved loan funds from Wells Fargo, for a total of \$509,500, such that together with the proposed \$1,000,000 supplemental appropriation, a total of \$1,509,500 would be provided to the Small Business Revolving Fund. Of the total \$1,509,500, \$226,425 would be for Working Solutions administrative expenses and \$1,283,075 would be available for small and micro business loans.

Policy Issue

- Given that there has not yet been an evaluation of this program, and that there is currently a total of \$784,920 (\$275,420 plus \$509,500) of funds available to continue the Small Business Revolving Loan Program, the Budget and Legislative Analyst considers approval of an additional \$1,000,000 of General Fund revenues at this time, to be a policy decision for the Board of Supervisors.

Recommendation

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

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Under Section 9.103 of the City's Charter, the Board of Supervisors is responsible for amending and approving the Annual Appropriation Ordinance.

Background

The Small Business Revolving Loan Fund Program is a City-funded loan program, which commenced in April of 2009, through the Office of Economic and Workforce Development (OEWD), to generate additional economic activity by providing greater access to capital for small San Francisco businesses. In 2009, based on a Request for Proposals (RFP) process conducted by the OEWD, the City awarded an agreement for a total of \$800,000 (\$550,000 of unused Federal Housing and Urban Development (HUD) Community Development Block Grant funds and \$250,000 of unused Title IX Economic Development Administration funds¹) to TMC Development Working Solutions (Working Solutions), a non-profit organization, specializing in providing micro-financing and related services to small businesses, to administer the Small Business Revolving Loan Fund Program.

The Program is targeted to small and micro-businesses² that have had difficulty accessing regular credit markets. Small Business Revolving Loans are up to \$25,000 for startup companies and \$50,000 for existing businesses and can be used for working capital, inventory purchase, equipment purchase, startup costs, and tenant improvements. The terms of the loans are up to five years with fixed interest rates ranging from four to six percent depending on the level of risk. To qualify, businesses must be (a) located in San Francisco, (b) unable to get a bank loan, and (c) able to create or retain at least one full time job for a low- to moderate-income person³.

Of the total \$800,000 awarded to Working Solutions \$680,000, or 85 percent, was for loan capital and \$120,000, or 15 percent, was for Working Solutions' administrative costs to fund approximately 1.0 full-time equivalent (FTE) position for the first two years and ten months to process the loans and provide technical assistance to the small-business owners. Under the existing Small Business Revolving Loan Fund Program, loans are to be repaid to Working Solutions with interest.

According to Ms. Emily Gasner, Executive Director for Working Solutions, OEWD tracks the previously issued loans and any new loans issued through the Small Business Revolving Loan Fund Program through bi-monthly Loan Committee Meetings and through monthly reports submitted by Working Solutions. Working Solutions also (a) meets with each business that has an outstanding loan every three months, (b) reviews each business's annual tax returns and bi-monthly financial statements and (c) provides five years of business coaching, mentoring, and support services to each business.

¹ The Economic Development Administration Title IX funds were from a \$1,100,000 grant given to the City in 1980 that was matched with \$1,136,787 in City funds at that time. Over the last 32 years, those funds have provided 151 loans totaling \$7,046,269. The \$250,000 EDA Title IX funds used to initiate the subject Small Business Revolving Loan Fund Program in 2009 were from loan repayments from that original \$1,100,000 EDA Title IX grant.

² Small businesses are defined as businesses with less than 100 employees while micro-businesses are defined as businesses with five or fewer employees, including the owner.

³ A low to moderate income person is defined as a single person making \$62,200 or less per year, or a family of four making \$88,800 or less per year.

As shown in the Attachment, provided by Ms. Gasner, between July 13, 2009 and February 13, 2012, the Small Business Revolving Loan Fund Program, through Working Solutions, has provided loans to 29 businesses totaling \$715,585. Ms. Gasner advises that all businesses that receive a loan from the Small Business Revolving Loan Fund are required to create at least one new low to moderate income job per \$25,000 loan within 12 months of receiving the loan. According to Ms. Gasner, each business is asked up front to estimate the total number of jobs that will be created over time, which is the number of jobs shown as Jobs Pledged in the Attachment. As shown in the Attachment, these 29 businesses pledged to create 52 jobs. In fact, 73 jobs were created⁴ and two jobs have been retained⁵. As of the writing of this report, neither OEWD nor Working Solutions could identify the number of low-to- moderate-income jobs created or retained.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate \$1,000,000 of General Fund prior year fund balance for the Small Business Revolving Loan Fund Program through the Office of Economic and Workforce Development (OEWD), to be allocated to Working Solutions to provide additional loans for San Francisco small and micro businesses.

FISCAL IMPACTS

Source of Funding

The proposed ordinance would appropriate \$1,000,000 of monies from the unassigned prior year-end General Fund balance to the Small Business Revolving Loan Fund Program, to be managed by Working Solutions. The unassigned prior year-end General Fund balance represents the surplus fund balance from FY 2010-11 that is greater than the amount assumed in the FY 2011-12 Annual Appropriations Ordinance. According to Mr. Leo Levenson, Budget and Analysis Director in the Controller's Office, although the Controller's Office working with the Mayor's Office make updated projections regarding the year-end General Fund balance, how much the year-end General Fund balance actually will be is not known until all revenue accruals and other year-end analysis is complete, which is usually not until November of each year, or four months after the budget is approved by the Board of Supervisors. The City ended FY 2010-11 with \$168,451,129 in unassigned General Fund balance. Of that amount, \$159,390,028 was projected and assumed in the FY 2011-12 Annual Appropriation Ordinance, resulting in an actual surplus unassigned prior year-end General Fund balance of \$9,061,101. Of the original \$9,061,101, \$1,000,000 has been appropriated by the Board of Supervisors in FY 2011-12 for the Mirant Potrero LLC settlement related to the Potrero Power Plan closure, leaving a current remaining balance of \$8,061,101.

If the proposed \$1,000,000 supplemental appropriation ordinance is approved by the Board of Supervisors, the remaining General Fund prior year-end fund balance would be \$7,061,101 (\$8,061,101 less \$1,000,000). At the end of FY 2011-12, all remaining funds in the General

⁴ All businesses that receive a loan from the Small Business Revolving Loan Fund must have their employees fill out employee family income verification forms. This data is then aggregated to sum the total jobs actually created.

⁵ According to Ms. Gasner, retention of jobs is in addition to the jobs created and reflects the number of jobs that were able to continue in the existing business due to the receipt of the subject loan, which would have otherwise been eliminated.

Fund prior year-end fund balance would be closed out and used as a source for funding the FY 2012-13 General Fund budget.

Balance of the Small Business Revolving Loan Fund

According to Ms. Holly Lung of OEWD, as of February 25, 2012, a total of \$261,005 has been repaid to the Small Business Revolving Loan Fund, including \$215,832 in principal and \$45,173 in interest. As shown in Table 1 below, as of February 25, 2012, the Small Business Revolving Loan Fund had an available balance of \$275,420 including \$215,832 in principal repayments, \$45,173 in interest payments, and \$14,415 in funds that have not yet been loaned to businesses that remains from the original \$800,000 of grant funds.

Table 1: Current Balance in the Small Business Revolving Loan Fund

| | |
|---|------------------|
| Principal Repayments | \$215,832 |
| Interest Payments | 45,173 |
| Remaining Funds Not Yet Loaned from Original \$800,000 | 14,415 |
| Subtotal Available Funds as of February 25, 2012 | \$275,420 |

In addition, according to Ms. Jennifer Matz, Director of OEWD, and shown in Table 2 below, the City is using additional funding to further supplement the Small Business Revolving Loan Fund, including:

- (a) \$77,000 of repayments from previous Economic Development Administration Title IX loans⁶, and
- (b) \$432,500 of previously approved loan funds from Wells Fargo.⁷

⁶ The source of these funds was repayment of the same EDA Title IX loans granted to the City in 1980 as described above in footnote 1.

⁷ The \$432,500 is part of a \$500,000 loan from Wells Fargo to the City previously approved by the Board of Supervisors (File 04-1685). The terms of the loan established annual interest rates of two percent. The outstanding principal balance of the loan and accrued but unpaid interest is due and payable by the City to Wells Fargo on March 4, 2018. The original loan to the City was intended to be issued to businesses, in the form of loans, for facade and tenant improvements in the Bayview neighborhood. Due to a lack of interest on behalf of the businesses, in 2011, OEWD and Wells Fargo agreed to redeploy the funds for microfinance loans through the Small Business Revolving Loan Fund. \$432,500 of the original \$500,000 loan to the City by Wells Fargo will be provided to Working Solutions as a loan to be repaid to the City at two percent annual interest over five years. According to Ms. Lung, these Wells Fargo loan funds are targeted for the following five commercial corridors: San Bruno Avenue in the Portola, Third Street in the Bayview, Leland Avenue in Visitacion Valley, Mission Street in the Excelsior and Ocean Avenue in the Outer Mission Ingleside (OMI). Ms. Lung advises that if the Wells Fargo loan funds are not fully expended by the end of calendar year 2012, OEWD will work with Working Solutions to expand the use of these funds to other underserved neighborhoods in San Francisco.

Table 2: The Proposed Funding for Small Business Revolving Loan Fund Program

| | |
|--|--------------------|
| Proposed \$1,000,000 of General Fund Monies (<i>Proposed Ordinance</i>) | \$1,000,000 |
| Wells Fargo Funds | 432,500 |
| Repayments from Previous Small Business Loan Program* | 77,000 |
| Subtotal | \$1,509,500 |
| Working Solutions Administrative Fees (15%) | 226,425 |
| Available Capital | \$1,283,075 |
| * As of the writing of this report, two businesses are 30 days late in making their loan repayments. | |

As shown in Table 2 above, if the proposed \$1,000,000 supplemental appropriation ordinance is approved, coupled with the additional available \$432,500 Wells Fargo loan funds and \$77,000 of previous small business loan repayments, the Small Business Revolving Loan Fund would have a total of \$1,509,500 of new funding available, including \$226,425 for Working Solutions administrative expenses and \$1,283,075 in additional loan capital.

According to Ms. Gasner, 15 percent of the total funds provided to Working Solutions would be for expenses to administer the Small Business Revolving Loan Fund, which are designed to be one-time payments and are not intended to fund the administration of the Small Business Revolving Loan Fund in perpetuity. Ms. Gasner advises that the \$226,425 in administrative costs would fund approximately 3 FTE for the first year as shown in Table 3 below:

Table 3: FTE Administrative Positions for Working Solutions

| Position | FTE |
|--|-------------|
| Executive Director | 0.25 |
| Operations and Marketing Manager | 0.25 |
| Post Loan Technical Assistance Staff Manager | 0.50 |
| Business Development Manager | 0.50 |
| Client Intake Specialist | 0.50 |
| Loan Officer and Pre-Loan Technical Assistance Staff | 0.50 |
| Business Development Officer | 0.50 |
| Total FTE | 3.00 |

According to Ms. Gasner, Working Solutions will leverage additional funding from the U.S. Treasury Department and private corporations to continue the same level of services after the first year to continue to administer the new loans. Ms. Matz and Ms. Gasner are currently discussing entering into a Memorandum of Understanding (MOU) that would grant Working Solutions the use of the interest payments, from the loans, which have remained unused as of the writing of this report, to cover Working Solutions' future administrative costs.

According to Ms. Gasner, currently the average small and micro-business loan is \$25,000, such that the additional available capital of \$1,283,075, shown above in Table 2, would fund

approximately 51 loans, each of which, by the requirements of the loan, would generate at least one job for low or moderate income workers, or a total of at least 51 new jobs in San Francisco.

POLICY ISSUE

As discussed above, since 2009, the Small Business Revolving Loan Fund Program has been administered by the OEWD, through an agreement with Working Solutions, which was previously funded with \$550,000 of unused Federal Housing and Urban Development (HUD) Community Development Block Grant funds and \$250,000 of unused Title IX Economic Development Administration funds, for a total of \$800,000. However, as of the writing of this report, there has not been an overall evaluation of the existing Small Business Revolving Loan Fund Program. Ms. Lung advises that although an entity has not yet been identified to conduct such an evaluation, an overall evaluation of the Small Business Revolving Loan Fund Program will be completed by the end of this calendar year.

Furthermore, although as a direct result of the Small Business Revolving Loan Program, the Attachment indicates that there were 52 jobs pledged to be created, 73 jobs were actually created and two jobs were retained, Ms. Gasner advises that the number of jobs created and retained reflects only one point in time and there has not been follow-up to determine the number of jobs that have continued after one or more years. In addition, as of the writing of this report, neither the OEWD nor Working Solutions could identify the number of low or moderate income jobs that have been created under this Program. As noted above, to qualify for loans from the Small Business Revolving Loan Program, businesses is required to create or retain at least one full time job for a low to moderate income person.

According to Ms. Matz, the requested \$1,000,000 of General Fund monies for the Small Business Revolving Loan Program is part of the Mayor's overall plan to invest approximately \$5,000,000 in San Francisco businesses in FY 2012-13. Ms. Matz notes that the requested \$1,000,000 would be available on a City-wide basis for all small and micro businesses that have had difficulty accessing regular credit markets, who are able to create or retain at least one full time job for a low- to moderate-income person, with five year loans of up to \$25,000 for startup companies and \$50,000 for existing businesses at fixed interest rates of four to six percent. To generate interest for such small business loans, Ms. Lung advises that OEWD will work with Working Solutions to collaborate with nonprofit economic development organizations, commercial banks, neighborhood community associations, chamber of commerce and merchant groups, and conduct outreach to specific underserved areas in the City, including marketing to non-English speaking small business owners.

Currently, the average small and micro-business loan is \$25,000, such that the additional available capital of \$1,283,075, as shown above in Table 2, would fund approximately 51 loans. Ms. Lung estimates that if the proposed \$1,000,000 supplemental appropriation is approved, which would provide \$226,425 of administrative funding for Working Solutions, as shown in Table 2 above, Working Solutions would have the capacity to process 6-12 loans per month, such that all the additional loan funds would be expended within approximately 4-9 months, or by the end of the 2012 calendar year.

Yet, as shown in Table 1 above, there is currently \$275,420 of repaid loans, interest and remaining monies available from the original funds previously allocated to the Small Business Revolving Loan Program. In addition, as shown in Table 2 above, the City is providing \$432,500 of previously approved loan funds from Wells Fargo and \$77,000 of repayments from previous Economic Development Administration Title IX loans, or a total of \$509,500, to the Small Business Revolving Loan Program. Together, these funding sources would provide a total of \$784,920 (\$275,420 plus \$509,500) of immediate funding for the Small Business Revolving Loan Program.

Assuming a conservative 15 percent deduction to fully cover Working Solutions administrative expenses, or \$117,738 from the currently available funds of \$784,920, a balance of \$667,182 would still be available to fund new small and micro business loans. Based on an average of \$25,000 per loan, this \$667,182 would provide an estimated additional 26 loans, without the necessity of funding the subject requested \$1,000,000.

Given that there has not yet been an evaluation of the Small Business Revolving Loan Program, and that there is currently a total of \$784,920 of funds available to continue the Small Business Revolving Loan Program, the Budget and Legislative Analyst considers approval of an additional \$1,000,000 of General Fund revenues at this time, to be a policy decision for the Board of Supervisors.

Further, as noted above, as of the writing of this report, neither OEWD nor Working Solutions could identify the number of low to moderate-income jobs created or retained, despite the fact that to qualify for loans, under the Small Business Revolving Loan Program, businesses are required to create or retain at least one full time job for a low to moderate income person within 12 months of receiving a loan.

RECOMMENDATION

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

San Francisco Revolving Loan Fund

| # | Name | Industry | Loan Amount | Loan Agt/Date | Interest | Term (Mos) | Loan Status | Jobs Created | Jobs Retained | Expansion | Minority Owned? | Low Income | Jobs Pledged |
|----|--|---------------------------------------|------------------|---------------|----------|------------|-------------|--------------|---------------|-----------|-----------------|------------|--------------|
| 1 | Bubbles & Shampoo | Beauty Supply Shop | \$25,000 | 07/13/09 | 5% | 60 | Current | 2 | 0 | Startup | Yes | Yes | 1 |
| 2 | 18 Rabbits | Granola Bars | \$25,000 | 07/28/09 | 5% | 60 | Current | 3 | 0 | Expansion | No | No | 1 |
| 3 | Gallotoma | Sewing Clips | \$25,000 | 08/28/09 | 5% | 60 | Current | 1 | 0 | Startup | No | Yes | 1 |
| 4 | Out of Thyme Catering & Event Design | Catering | \$25,000 | 09/03/09 | 6% | 60 | Current | 1 | 0 | Expansion | No | Yes | 1 |
| 5 | Pediatric Developmental Specialists | Developmental Assessments of Children | \$25,000 | 09/30/09 | 5% | 60 | Current | 2 | 0 | Startup | No | No | 2 |
| 6 | Macha Café | Café | \$20,000 | 11/20/09 | 6% | 60 | Current | 2 | 0 | Expansion | Yes | Yes | 1 |
| 7 | Oasis Café | Café | \$10,000 | 11/30/09 | 5% | 60 | Current | 5 | 0 | Startup | Yes | Yes | 1 |
| 8 | Cook | Specialty Food | \$25,000 | 02/19/10 | 5% | 60 | Paid Off | 1 | 0 | Expansion | Yes | No | 1 |
| 9 | Complete Party Supplies | Party Supplies | \$25,000 | 4/26/2010 | 5% | 60 | Current | 0 | 0 | Existing | No | No | 1 |
| 10 | 51st State | Food Truck | \$25,000 | 6/3/2010 | 6% | 60 | Paid Off | 6 | 0 | Startup | Yes: 33% | Yes | 3 |
| 11 | Petit Collage, Inc. | Decorations for kids rooms | \$25,000 | 6/22/2010 | 4% | 60 | Current | 1 | 0 | Existing | No | No | 1 |
| 12 | Urban Bazaar (Handcrafted Marketplace) | Retail | \$15,000 | 7/9/2010 | 4% | 60 | Current | 3 | 0 | Startup | No | Yes | 2 |
| 13 | Sarah Becker Skincare | Salon | \$25,000 | 7/23/2010 | 5% | 60 | Current | 1 | 0 | Startup | No | Yes | 1 |
| 14 | Seesaw LLC | Workshop for kids | \$25,000 | 8/16/2010 | 6% | 60 | Current | 4 | 0 | Startup | No | No | 1 |
| 15 | CandyStore Collective | Retail | \$37,500 | 8/27/2010 | 6% | 60 | Current | 2 | 0 | Existing | Yes | Yes | 1 |
| 16 | The Library | Retail | \$35,000 | 9/29/2010 | 6% | 60 | Paid Off | 2 | 0 | Existing | Yes | No | 2 |
| 17 | Joshu+Vela | Handbags | \$15,960 | 9/30/2010 | 5% | 60 | Current | 2 | 0 | Startup | No | Yes | 1 |
| 18 | CORE Foods | Food | \$25,000 | 9/30/2010 | 6% | 60 | Current | 3 | 0 | Startup | No | Yes | 1 |
| 19 | The Pretty Pretty Collective | Hair salon | \$18,325 | 9/30/2010 | 6% | 60 | Current | 2 | 0 | Startup | No | Yes | 1 |
| 20 | Twisterz Toys | Retail | \$25,000 | 1/7/2011 | 6% | 60 | Current | 2 | 0 | Startup | No | No | 2 |
| 21 | Piqueos | Restaurant | \$25,000 | 1/14/2011 | 6% | 60 | Current | 6 | 0 | Startup | Yes | Yes | 3 |
| 22 | Cake Coquette | Bakery | \$50,000 | 1/21/2011 | 4% | 60 | Current | 1 | 0 | Existing | No | Yes | 2 |
| 23 | Mission Cheese | Café | \$25,000 | 2/9/2011 | 5% | 60 | Current | 7 | 0 | Startup | No | Yes | 5 |
| 24 | Vengat Empanadas | Café | \$31,300 | 2/9/2011 | 5% | 60 | Current | 6 | 0 | Existing | Yes | No | 6 |
| 25 | Heliotrope | Lotions and Aromatherapy | \$25,000 | 2/24/2011 | 5% | 60 | Current | 2 | 0 | Startup | No | No | 1 |
| 26 | Safaara Tea | Herbal Tea | \$25,000 | 3/1/2011 | 6% | 50 | Current | 1 | 0 | Existing | Yes | Yes | 1 |
| 27 | Animals Internal Medicine | Emergency Veterinary Clinic | \$25,000 | 4/14/2011 | 6% | 60 | Current | 5 | 0 | Startup | No | No | 5 |
| 28 | T-We Tea | Artisan Tea | \$7,500 | 4/25/2011 | 5% | 60 | Current | 1 | 0 | Startup | No | Yes | 1 |
| 29 | Life | Gift Shop and Boutique | \$25,000 | 2/13/2012 | 5% | 60 | Current | 0 | 2 | Existing | Yes | Yes | 2 |
| | TOTAL | | \$715,585 | | | | | 73 | 2 | | | | 52 |

Item 7
File 12-0216

Department:
Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objectives

- PUC is requesting the release of (a) \$41,659,458 currently on reserve for the Bioregional Habitat Restoration Program; and (b) \$670,000 from the Water System Improvement Program (WSIP) Program Reserve of \$144,459,649 for the Tesla Water Treatment Facility project.

Fiscal Impacts

- The Bioregional Habitat Restoration Program creates or restores approximately 2,375 acres of tidal marsh, sycamore and oak woodland, grassland, and other sites, to compensate for the WSIP's environmental impact in San Joaquin, Alameda, and San Mateo Counties. The Board of Supervisors has appropriated \$90,363,839 for the Bioregional Habitat Restoration Program, of which \$48,704,381 is available and \$41,659,458 is on reserve. Of the \$48,704,381 in available funds, \$45,573,926 has been expended or encumbered and \$3,130,455 is unexpended. PUC has provided a budget of \$44,221,219 for the remaining Bioregional Habitat Restoration Program, which includes \$3,130,455 in unexpended funds, and \$41,090,764 in funds currently on reserve. PUC plans to award 20 contracts through a competitive process for Bioregional Habitat Restoration Program projects in San Joaquin, Alameda, and San Mateo Counties on or before December 2012.
- The Tesla Water Treatment Facility project, located in Tracy in San Joaquin County, consists of a new ultra-violet disinfection facility, chemical storage, office, laboratory, piping and valves, and emergency engine generators to provide treatment of Hetch Hetchy flow. Construction began in March 2009 and was substantially completed in June 2011. The original Tesla Water Treatment Facility project budget was \$114,162,348. In June 2011, PUC determined that the Tesla Water Treatment Facility project would be completed for \$110,683,233, resulting in a savings of \$3,479,115, which was reappropriated by the Board of Supervisors to the WSIP Program Reserve (File 11-1159). Since substantial completion of the Tesla Water Treatment Facility project in June 2011, PUC has incurred higher than expected costs for PUC staff and professional services contracts to (a) supervise the construction contractor in completing construction items which had not been sufficiently completed as of June 2011, and (b) comply with environmental requirements for water discharge and incorporation of renewable energy technology into the water treatment facility. PUC is requesting release of \$670,000 from the WSIP Program Reserve funds to pay for the PUC staff and existing construction management professional services contracts to complete the Tesla Water Treatment Facility project by June 2012.

Policy Consideration

- The remaining Bioregional Habitat Restoration Program budget of \$41,090,764 is \$568,694 less than the requested release of \$41,659,458 from the Bioregional Habitat Restoration Program Reserve. The balance of \$568,694 should be allocated to the WSIP Program Reserve and made available to other WSIP projects, subject to Board of Supervisors approval.

Recommendations

- Approve the release \$41,090,764, which is \$568,694 less than the requested \$41,659,458 for the Bioregional Habitat Restoration Program; and re-allocate the difference of \$568,694 to the WSIP Program Reserve.
- Approve the release \$670,000 from the WSIP Program Reserve for the Tesla Water Treatment Facility project.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with Section 3.3 of the City's Administrative Code, the committee of the Board of Supervisors that has jurisdiction over the budget (i.e., Budget and Finance Committee) may place any proposed budget expenditures on reserve, subject to approval by the Board of Supervisors. Subsequently, the Budget and Finance Committee may release such funds from reserve.

Background

The San Francisco Public Utilities Commission (PUC)'s Water System Improvement Program (WSIP) consists of 86 projects organized into 11 project regions to repair, replace, and seismically upgrade the Hetch Hetchy water system's aging pipelines, tunnels, pumps, tanks, reservoirs and dams. PUC commenced the WSIP in FY 2002-03 and is scheduled to complete all projects by July 2016. WSIP is funded with PUC Water Revenue Bonds, which will be repaid from water rate revenues paid by PUC water customers.

The Board of Supervisors had previously appropriated \$4,113,856,261 in Water Revenue Bonds for WSIP projects. Of the \$4,113,856,261, \$450,639,237 is on Budget and Finance Committee Reserve, as shown in Table 1 below.

Table 1
WSIP Project Appropriations on Budget and Finance Committee Reserve

| Project | Budget and Finance Committee Reserve |
|---|---|
| WSIP Program Reserve | \$144,459,649 |
| Recycled Water Project San Francisco | 120,827,000 |
| Bioregional Habitat Restoration Program | 41,659,458 |
| Program Management Services - WSIP | 34,897,331 |
| Regional Groundwater Storage/Recovery | 33,490,259 |
| Calaveras Dam Replacement | 26,829,206 |
| Lake Merced Water Level Restoration | 22,919,437 |
| Alameda Creek Fishery Enhancement | 15,314,352 |
| Peninsula Pipeline Seismic Upgrade | 10,242,545 |
| Total | \$450,639,237 |

DETAILS OF PROPOSED LEGISLATION

PUC is requesting the release of:

- (1) \$41,659,458 currently on reserve for the Bioregional Habitat Restoration Program; and
- (2) \$670,000 from the WSIP Program Reserve, which has a current balance of \$144,459,649, for the Tesla Water Treatment Facility project.

FISCAL IMPACTS

Bioregional Habitat Restoration Program

The Bioregional Habitat Restoration Program, which is a WSIP project, creates or restores approximately 2,375 acres of tidal marsh, sycamore and oak woodland, grassland, and other sites, to compensate for the WSIP's environmental impact in San Joaquin, Alameda, and San Mateo Counties. The Bioregional Habitat Restoration Program includes (1) design, environmental permitting, construction and construction management, maintenance, and performance monitoring during a three-year period in which the new habitats are established, and (2) establishment of a long-term maintenance endowment account.

The Board of Supervisors has previously appropriated \$90,363,839 for the Bioregional Habitat Restoration Program, of which \$48,704,381 is available and \$41,659,458 is on reserve, as shown in Table 2.

Table 2
Bioregional Habitat Restoration Program Appropriation

| | |
|-----------------------------------|---------------------|
| Expended to Date | \$16,526,372 |
| Encumbered to Date | <u>29,047,554</u> |
| Subtotal, Expended and Encumbered | 45,573,926 |
| Unexpended Balance | <u>3,130,455</u> |
| Total Available Funds | 48,704,381 |
| Total Reserved Funds | <u>41,659,458</u> |
| Total Appropriation | \$90,363,839 |

PUC has provided a budget of \$44,221,219 for the remaining Bioregional Habitat Restoration Program, which includes \$3,130,455 in unexpended funds (see Table 2) and \$41,090,764 in funds currently on reserve. The remaining Habitat Restoration Program budget is shown in Table 3 below.

Table 3
Remaining Bioregional Habitat Restoration Program Budget for Funds on Reserve

| Project | Amount |
|---|---------------------|
| <i>Contractual Services</i> | |
| <u>San Joaquin County</u> | |
| Vernal Pool Creation and Preservation | \$2,600,000 |
| California Tiger Salamander Habitat | 282,000 |
| <u>San Mateo County</u> | |
| Crystal Springs/San Andreas Oak Restoration | 1,700,000 |
| Lower Crystal Springs Dam Oak Restoration | 3,050,000 |
| Boat Ramp Tree Removal | 1,700,000 |
| Sherwood Park, Adobe Gulch Creek, Skyline Boulevard/ Creek, Upper San Mateo Creek | 7,277,399 |
| Fountain Thistle Establishment | 1,000,000 |
| <u>Alameda County</u> | |
| Sheep Camp Creek and Goat Rock | 5,600,672 |
| Watershed Baseline Survey | 600,000 |
| <u>Program Wide</u> | |
| Long-Term Management Endowment Fund | 12,000,000 |
| Land Use Endowment Accounts for Land Trusts | 1,120,000 |
| Annual Monitoring of Habitat Restoration Sites | <u>1,200,000</u> |
| Subtotal, Contractual Services | 38,130,071 |
| City Staff Costs from March 2012 to July 2016 | <u>6,091,148</u> |
| Total Budget for Remaining Bioregional Habitat Restoration Program | 44,221,219 |
| Less Unexpended Balance (see Table 2) | <u>(3,130,455)</u> |
| Total Budget for Funds on Reserve | \$41,090,764 |

Source: PUC

Attachment I, provided by PUC, describes the Bioregional Habitat Restoration Program projects, as shown in Table 3 above, to be funded by the above budget of \$44,221,219 budget¹. Attachment II, provided by PUC, gives the approximate contract award dates for each of the Bioregional Habitat Restoration Program projects with a total contractual services budget of \$38,130,071, as shown in Table 3 above. Attachment III, provided by the PUC, provides PUC and City Attorney additional staffing costs, totaling \$6,091,148, as shown in Table 3 above.

According to Mr. Surinderjeet Bajwa, PUC WSIP Deputy Director Pre-construction, environmental review for the Bioregional Habitat Restoration Program was completed as part of other WSIP projects. As shown in Attachment II, PUC plans to award 20 contracts for the Bioregional Habitat Restoration Program projects on or before December 2012. PUC plans to award contracts to establish plants at Goat Rock, Grimes and portions of Sheep Camp Creek, and to manage the land use endowment accounts for land trusts in February 2013.

Tesla Water Treatment Facility

The Tesla Water Treatment Facility project, located in Tracy in San Joaquin County, which is a WSIP project, consists of a new ultra-violet disinfection facility, chemical storage, office, laboratory, piping and valves, and emergency engine generators to provide treatment of Hetch

¹ As noted above, the remaining Bioregional Habitat Restoration Program budget is \$44,221,219, which includes \$41,090,764 in requested release of reserves and \$3,130,455 in unexpended balance of previously appropriated and available funds.

Hetchy flow. The water treatment facility project received environmental approval in December 2008. Construction began in March 2009 and was substantially completed in June 2011.

In June 2011, PUC determined that the Tesla Water Treatment Facility project would be completed for \$3,479,115 less than the approved budget, as shown in Table 4 below. The Board of Supervisors approved a reappropriation of the \$3,479,115 to the PUC WSIP Program Reserve in November 2011 (File 11-1159).

Table 4
Original and Revised Tesla Water Treatment Facility Budget

| | June 2009 Adopted Budget | June 2011 Revised Budget | November 2011 Reappropriation (File 11-1159) | Estimated Total Budget at Completion | Increase/ (Decrease) From June 2011 |
|--------------------|---|---|---|---|--|
| Project Management | \$4,892,920 | \$4,252,617 | \$640,303 | \$4,562,000 | \$309,383 |
| Construction | | | | | |
| Management | 10,290,156 | 8,398,613 | 1,891,543 | 9,095,000 | 696,387 |
| Construction | 85,839,518 | 84,683,818 | 1,155,700 | 84,357,000 | (326,818) |
| Design | 10,484,956 | 10,667,559 | (182,603) | 10,667,559 | 0 |
| Environmental | | | | | |
| Review | 1,080,000 | 1,111,025 | (31,025) | 1,111,025 | 0 |
| Planning | 1,520,610 | 1,515,413 | 5,197 | 1,515,413 | 0 |
| Right of Way | 54,188 | 54,188 | 0 | 54,188 | 0 |
| TOTAL | \$114,162,348 | \$110,683,233 | \$3,479,115 | \$111,362,185 | \$678,952 |

Source: PUC

Since substantial completion of the water treatment facility in June 2011, PUC has incurred higher than expected costs for PUC project management support staff and professional services contractors to (a) supervise the construction contractor in completing construction items which had not been sufficiently completed as of June 2011, and (b) comply with environmental requirements for water discharge and incorporation of renewable energy technology into the water treatment facility. According to the WSIP Quarterly Report for the quarter ending December 31, 2011, the estimated final completion date of the Tesla Water Treatment Facility project is June 2012.

As shown in Table 4 above, PUC now expects to spend \$678,952 more than the June 2011 revised budget for the Tesla Water Treatment Facility project. PUC is requesting release of \$670,000 from the WSIP Program Reserve to pay for the increased costs. According to Mr. Bajwa, the balance of \$8,952 (\$678,952 less \$670,000) will be absorbed within the Tesla Water Treatment Facility project budget. Table 5 below shows the budget for the \$670,000 in additional PUC and contractual services costs.

Table 5
Release of Reserves for Tesla Water Treatment Facility Project

| Project Expenditure | Amount |
|---|------------------|
| PUC Project Management and Program Controls Staff | \$58,000 |
| PUC Operations and Regulatory Support Staff | 252,000 |
| PUC Construction Management and Design Staff | 217,000 |
| Construction Management Professional Services Contracts | 469,000 |
| Construction Contract Contingency Savings | <u>(326,000)</u> |
| Total Release of Reserves | \$670,000 |

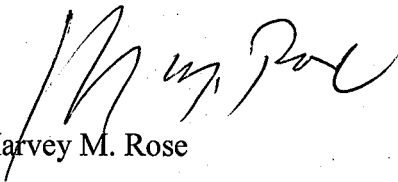
Source: PUC

POLICY CONSIDERATION

The total Bioregional Habitat Restoration Program budget of \$41,090,764 (see Table 3 above) is \$568,694 less than the amount of \$41,659,458 requested for release from reserve for the Bioregional Habitat Restoration Program. Therefore, the balance of \$568,694 should be re-allocated to the WSIP Program Reserve and made available to other WSIP projects, subject to Board of Supervisors approval.

RECOMMENDATIONS

1. Approve the release \$41,090,764, which is \$568,694 less than the requested \$41,659,458 for the Bioregional Habitat Restoration Program; and re-allocate the difference of \$568,694 to the WSIP Program Reserve.
2. Approve the release \$670,000 of the WSIP Program Reserve for the Tesla Water Treatment Facility project.



Harvey M. Rose

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

Bioregional Habitat Restoration Board of Supervisors Release Request

| | |
|---|--|
| Goat Rock | Prepare Storm Water Pollution Prevention Plan (SWPPP) and install SWPPP Best Management Practices (BMPs); install pumps and controllers; install solar panels and wiring; install water pipes and cattle troughs, install fences and gates, remove temporary fencing and restore disturbed areas |
| Sheep Camp Creek | Prepare SWPPP, install SWPPP BMPs, install Wildlife Exclusion Fence (WEF), temporary protection fence and permanent fence; design and install permanent cattle water supply and drill well; earthwork to repair pond outfalls and install bypass flow pipes; install erosion control features and repair several drainages; relocate access road; treat non-native invasive weeds; collect, store, propagate, divide and transplant seeds, plugs, plants and trees; install browse protection, perform 3 years of plant maintenance, remove temporary fencing and SWPPP BMPs |
| Sherwood Park, Adobe Gulch Creek, Skyline Boulevard/ Creek, Upper San Mateo Creek | Develop access from Highway 35 (Skyline Blvd) and Highway 92 (Sherwood, Skyline Quarry, Adobe Gulch Creek and Upper San Mateo Creek), Install Wildlife Exclusion Fence, develop tree removal plan, develop SWPPP, install SWPPP BMPs, construct road improvements, collect rare plant seed and bunch grasses from within project area, collect native grass seed for revegetation, store seed and grow grass plugs, install protection fencing, excavate wetlands, haul and dispose of surplus soil, collect, propagate, divide, store and plant seasonal wetlands plants, remove non-native vegetation, scrub and trees, install fencing, install irrigation, remove temporary fencing, remove SWPPP BMPs, provide three years plant establishment period maintenance |
| Boat Ramp Vegetation Removal | Develop access from Highway 35 (Skyline Blvd), Install WEF, develop tree removal plan, develop SWPPP, install SWPPP BMPs, collect lessingia seed and bunch grasses from within project area, collect native grass seed for revegetation, store seed and grow grass plugs, install protection fencing, Remove scrub and trees from upland area (Zone 1), Build temporary road 'Spur C', remove scrub and trees from FT area (Zone 2), remove, 'Spur C', staging area and access improvements, replace fence and gate, remove protective fencing and WEF, Remove SWPPP BMPs. |
| Crystal Springs/ San Andreas Oaks | Weed suppression where black acacia removed, planting of oak trees, tree protection, 3 years of maintenance |
| Lower Crystal Springs Dam Oaks | Remove non-native trees, weed suppression for two growing seasons, plant oak trees, tree protection, maintenance for 3 years |
| Fountain Thistle Expansion Sites | Installation of Storm Water Pollution Protection measures, Wildlife Exclusion Fence, temporary protection fencing and permanent fencing; remove vegetation and trees from selected sites, fill and grade selected eroded drainage channels and install erosion protection features to create seasonal wetlands; remove SWPPP measures, WEF and temporary fences; rare plant seed collection, storage and propagation; rare plant transplanting and seed amplification; wetland plant collection, storage, division, propagation and transplanting; native grass seed collection, storage, propagating and amplification; native grass transplanting; non-native invasive weed suppression; three year plant establishment period |

| | Estimated Budget | Estimated Contract Award Date |
|---|---------------------|-------------------------------|
| San Joaquin Vernal Pool Preservation | 600,000 | November-11 |
| San Joaquin Vernal Pool Creation | 2,000,000 | May-12 |
| Subtotal, San Joaquin Vernal Pool Creation and Preservation | 2,600,000 | |
| San Joaquin California Tiger Salamander | 282,000 | May-12 |
| Sheep Camp Creek (Includes 10% Contingency) | 2,914,450 | May-12 |
| Sheep Camp Creek (Construction Management) | 600,000 | June-12 |
| Goat Rock Pipe, Tank, Trough, Power & Pump (Includes 10 % Contingency) (micro- LBE) | 336,222 | May-12 |
| Goat Rock Pipe, Tank Trough, Solar, Power (Construction Management) | 150,000 | June-12 |
| Contractor for Plant Establishment at Goat Rock, Grimes, and portions of Sheep Camp Creek | 1,600,000 | February-13 |
| Subtotal, Sheep Camp Creek and Goat Rock | 5,600,672 | |
| Crystal Springs Oaks | 1,200,000 | June-12 |
| Crystal Springs Oaks (Construction Management) | 500,000 | June-12 |
| Subtotal, Crystal Springs/ San Andreas Oak Restoration | 1,700,000 | |
| Lower Crystal Springs Dam Oaks | 2,000,000 | November-12 |
| Lower Crystal Springs Dam Oaks (Construction Management) | 1,050,000 | November-12 |
| Subtotal, Lower Crystal Springs Dam Oak Restoration | 3,050,000 | |
| Boat Ramp Tree Removal | 1,200,000 | May-12 |
| Boat Ramp Tree Removal (Construction Management) | 500,000 | May-12 |
| Subtotal, Boat Ramp Tree Removal | 1,700,000 | |
| Sherwood, Adobe Gulch, Skyline Boulevard/ Creek, Upper San Mateo Creek (Includes 10% Contingency) | 7,127,399 | March-12 |
| Sherwood, Adobe Gulch, Skyline Boulevard/ Creek, Upper San Mateo Creek (Construction Management) | 150,000 | March-12 |
| Subtotal, Sherwood Park, Adobe Gulch Creek, Skyline Boulevard/ Creek, Upper San Mateo Creek | 7,277,399 | |
| Fountain Thistle Establishment | 500,000 | December-12 |
| Fountain Thistle Establishment (Construction Management) | 500,000 | December-12 |
| Subtotal, Fountain Thistle Establishment | 1,000,000 | |
| Baseline Surveys for Alameda Watershed | 600,000 | May-12 |
| Habitat Long-term Management Endowment Fund | 12,000,000 | October-12 |
| Land Use Endowment Accounts for Land Trusts | 1,120,000 | February-13 |
| Annual Monitoring of BHR sites | 1,200,000 | July-12 |
| Total | \$38,130,071 | |

| | March 2012 through June 2012 | FY 2012- 13 | FY 2013- 14 | FY 2014- 15 | FY 2015- 16 | July 2016 | Total |
|--|---------------------------------------|--------------------|--------------------|--------------------|------------------|-----------------|--------------------|
| Project Management- Utilities Engineering Bureau | \$180,000 | \$420,000 | \$360,000 | \$240,000 | \$240,000 | \$0 | \$1,440,000 |
| Project Management - Natural Resources | 80,000 | 180,000 | 180,000 | 180,000 | 180,000 | 0 | 800,000 |
| City Attorney | 160,000 | 480,000 | 360,000 | 240,000 | 0 | 0 | 1,240,000 |
| Right of Way- Utilities Engineering Bureau | 40,000 | 120,000 | 120,000 | 120,000 | 30,000 | 0 | 430,000 |
| Right of Way - Water Supply and Treatment Division | 24,000 | 72,000 | 60,000 | 60,000 | 60,000 | 0 | 276,000 |
| Environmental Review - Utilities Engineering Bureau | 72,000 | 0 | 0 | 0 | 0 | 0 | 72,000 |
| Environmental Review - City Planning | 18,148 | 0 | 0 | 0 | 0 | 0 | 18,148 |
| Design - Utilities Engineering Bureau | 160,000 | 180,000 | 0 | 0 | 0 | 0 | 340,000 |
| Construction Management - Utilities Engineering Bureau | 80,000 | 420,000 | 420,000 | 300,000 | 240,000 | 0 | 1,460,000 |
| Project Close Out - Various | 0 | 0 | 0 | 0 | 0 | 15,000 | 15,000 |
| Total | \$814,148 | \$1,872,000 | \$1,500,000 | \$1,140,000 | \$750,000 | \$15,000 | \$6,091,148 |