

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

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

September 13, 2019


TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: September 18, 2019 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File		Page
2	19-0902	Apply for Grant Application - United States Department of Housing and Urban Development - Continuum of Care Program - Not to Exceed \$51,175,386.....	1
3	19-0768	Contract Amendment - Heluna Health - Comprehensive Outreach and Case Management Programming - Not to Exceed \$39,133,942	4
4 & 5	19-0878	Contract Amendment - XTech JV - Technology Marketplace - Not to Exceed \$44,000,000	
	19-0877	Contract Amendment - CCT Technologies, Inc. - Technology Marketplace - Not to Exceed \$23,000,000	8
8	19-0704	Lease Agreement - Emporio Rulli, Inc. dba G.R. Chocolate Boutique - \$150,000 Minimum Annual Guarantee	11
9	19-0705	Lease and Operating Agreement - Smarte Carte Inc. - \$6,493,853	14

TABLE OF CONTENTS (continued)

Item	File		Page
11 & 12	19-0895	Authorizing Certificates of Participation - Multiple Capital Improvement Projects - Not to Exceed \$94,600,000	
	19-0898	Appropriation - Certificates of Participation to the General Services Agency to Fund Site Acquisition Costs for the Hall of Justice Relocation Project - \$78,600,000 - FY2019-2020	17
13 & 14	19-0896	Authorizing Certificates of Participation - Multiple Capital Improvement Projects - Not to Exceed \$62,000,000	
	19-0897	Appropriation - Certificates of Participation to the General Services Agency to Fund Tenant Improvement Costs for the Hall of Justice Improvement Project - \$62,000,000 - FY2019-2020	23

Item 2 File 19-0902	Department: Homelessness and Supportive Housing (HOM)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The resolution approves the 2019 grant application for the United States Department of Housing and Urban Development (HUD) Continuum of Care (CoC) Program with an amount not-to-exceed \$51,175,386. The proposed resolution should be amended to correctly state the grant amount of \$51,175,586. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The San Francisco Department of Homelessness and Supportive Housing (Department) manages CoC grant monies, which can be used to support permanent supportive housing, rapid re-housing, supportive services, and the information technology necessary to manage these programs. In order for the City to draw down the entirety of the grant, it has to provide up to 25 percent in local matching funds to the same projects according to the grant application. Thus with a grant of \$51,175,586, the City is required to match up to \$12,793,8967 in General Fund monies. The City's match of \$12,793,897 was appropriated by the Board of Supervisors in the Department of Homelessness and Supportive Housing's budget for FY 2019-20. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Total grant funding and City matching funds are \$63,969,483. Of this amount, \$56,078,428 are renewal and new grants to nonprofit providers of permanent supportive housing, rapid re-housing, and supportive services, selected through a competitive Notice of Funding Availability. The balance of funds are for new permanent housing funds, new domestic violence project funds, administrative funds, and funds to account for an increase in fair market rent. HUD reimburses the City for grant-eligible expenditures on a quarterly basis. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the resolution to state that the correct amount of grant funds from HUD is \$51,175,586. • Approve the proposed resolution as amended. 	

MANDATE STATEMENT

Under San Francisco Administrative code section 10.170, the appropriate City department shall submit a resolution articulating its grant application as well as funding categories to the Board of Supervisors for all annual grant applications of \$5,000,000 or more.

BACKGROUND

Under the United States Department of Housing and Urban Development (HUD) 2019 Continuum of Care (CoC) grant application, the City and County of San Francisco and participating nonprofit entities are eligible to submit funding applications for funds not-to-exceed \$51,175,586. The San Francisco Department of Homelessness and Supportive Housing (Department) manages CoC grant monies, which can be used to support permanent supportive housing, rapid re-housing, supportive services, and the information technology necessary to manage these programs. All programs funded with CoC funds contribute to San Francisco's efforts to end homelessness.

Continuum of Care programs are overseen by the San Francisco Local Homeless Coordinating Board (LHCB), an independent advisory body to the Department consisting of nine members. The LHCB acts as the Continuum of Care Board and its processes are governed by HUD regulations, which specify that projects selected to receive HUD CoC Funding must be chosen through a community led process. LHCB oversees the community selection process including establishing CoC program priorities, funding categories, application guidelines, and scoring.

Agencies can apply for CoC funding annually through a competitive Notice of Funding Availability (NOFA) process. The key service types for the 2019 application cycle included Permanent Supportive Housing, Transitional Aged Youth, Services for Coordinated Entry into the Department's programs, Rapid Rehousing for Transition Aged Youth, Rapid Rehousing for Adults, and Homelessness Information Systems. In the 2019 budget, approximately 84 percent of funds are directed toward permanent supportive housing.

DETAILS OF PROPOSED LEGISLATION

The resolution approves the 2019 grant application for the United States Department of Housing and Urban Development (HUD) Continuum of Care (CoC) Program with an amount not-to-exceed \$51,175,386. The proposed resolution should be amended to correctly state the grant amount of \$51,175,586.

The grant monies will be used to support non-profit agencies throughout the city that provide permanent supportive housing, rapid-rehousing, and supportive services to address homelessness in San Francisco.

In order for the City to draw down the entirety of the grant, it has to provide up to 25 percent in local matching funds to the same projects according to the grant application. Thus with a grant of \$51,175,586, the City is required to match up to \$12,793,897 in General Fund monies. The Board of Supervisors appropriated this amount in the Department of Homelessness and Supportive Housing's FY 2018-19 budget. According to Ms. Dylan Rose Schneider, participating

agencies are reimbursed on a quarterly basis, and they have a 2.5 year period to fully spend grant funds.

FISCAL IMPACT

The grant application for Continuum of Care funds is for \$51,175,586, with a City match of up to \$12,793,897, as shown in Table 1 below.

Table 1: Budget for Grant Application for the HUD Continuum of Care Program

	HUD Continuum of Care Funds	San Francisco's Required Match	
Grants to Non-profit Providers	\$44,862,742	\$11,215,686	\$56,078,428
New Permanent Housing Project Funds	2,243,127	560,783	2,803,910
New Domestic Violence Project Funds	1,329,166	332,292	1,661,458
CoC Administrative Funds	1,250,000	312,500	1,562,500
<i>Subtotal</i>	\$49,685,035	\$12,421,259	\$62,106,294
Fair Market Rent Increase (3%)	1,490,551	372,638	1,863,189
TOTAL Funds	\$51,175,586	\$12,793,897	\$63,969,483

Source: Department of Homelessness and Supportive Housing

The City's match of \$12,793,897 was appropriated by the Board of Supervisors in the Department of Homelessness and Supportive Housing's budget for FY 2019-20.

RECOMMENDATIONS

1. Amend the resolution to state that the correct amount of grant funds from HUD is \$51,175,586.
2. Approve the proposed resolution as amended.

Item 3 File 19-0768	Department: Department of Homelessness and Supportive Housing
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve the fifth amendment to the contract between the City and County of San Francisco and Heluna Health to (1) extend the contract term by approximately two years, for a total term of August 1, 2014 through June 30, 2021 and (2) increase the contract amount by \$15,367,886, for a total contract amount of \$39,133,942. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Department of Public Health selected Heluna Health in March 2014 following a competitive solicitation to provide outreach and case management to the City’s homeless population. Administration of the contract was transferred to the Department of Homelessness and Supportive Housing when the new department was formed. • The original contract was for \$6,152,039 for 11 months from August 1, 2014 through June 30, 2015, with nine one-year options to extend the contract through June 30, 2024. The contract has been amended four times, increasing the contract amount to \$23,766,056 and extending the contract term to December 31, 2019. The proposed fifth amendment to the contract (1) extends the contract term by approximately two years, for a total term of August 1, 2014 through June 30, 2021 and (2) increases the contract amount by \$15,367,886, for a total contract amount of \$39,133,942. • Of the \$23,766,056 allocated to the contract, \$21,587,482 was spent through the end of FY 2018-19. According to the Department of Homelessness and Supportive Housing, the contract has historically been underspent because of staff turnover and position vacancies. However, staffing at Heluna Health increased from 71 full time equivalent (FTE) positions in FY 2018-19 to 86 FTEs in FY 2019-20. In addition, the contractor has been working to fill vacant positions. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed resolution would increase the contract amount by \$15,367,886, for a total contract amount of \$39,133,942. The contract increase accounts for the contract term extension, increased case management and outreach staffing in order to increase client contact, and increased wages for caseworkers and outreach workers. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

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

BACKGROUND

In March 2014, the Department of Public Health (DPH) issued a Request for Proposals (RFP) to provide outreach and case management programming to meet the needs of people experiencing homelessness in San Francisco. The Department selected the non-profit Public Health Foundation Enterprises DBA Heluna Health as the highest scorer and entered into a contract with the non-profit with a not-to-exceed amount of \$6,152,039 for 11 months from August 1, 2014 through June 30, 2015, with nine one year options to extend the contract through June 30, 2024. Administration of the contract was transferred to the Department of Homelessness and Supportive Housing when the new department was formed.

Since the execution of the contract, the contract has been amended four times. The first amendment was approved by the Board of Supervisors in June 2015 (File 15-0403), extending the contract through June 30, 2018 and increasing the not to exceed contract amount to \$23,766,056. The second amendment, executed on July 1, 2016, was a no-cost amendment updating contract terms to reflect new standardized terms. The third amendment in 2018 updated the terms of the contract and extended the contract term by a period of one year for a total term of August 1, 2014 through June 30, 2019. The fourth amendment is a no cost amendment and extends the contract term from June 30, 2019 to October 31, 2019.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the fifth amendment to the contract between the City and County of San Francisco and Public Health Foundation Enterprises DBA Heluna Health to (1) extend the contract term by two years, for a total term of August 1, 2014 through June 30, 2021 and (2) increase the contract amount by \$15,367,886, for a total contract amount of \$39,133,942.

According to the Department of Homelessness and Supportive Housing, the increase in the contract amount accounts for the 17-month contract extension, 15 new positions which will be added upon approval of the contract (14.5 outreach positions, .5 FTE supervisory position), and salary increases for outreach and case manager positions. Case managers typically carry caseloads of 15 to 20 high-needs clients who are not already linked to a system of care. [HOT outreach teams \(two people per team\) have a target of serving 5-10 clients a week, or 20-40 clients a month. These targets vary based on special projects, SFHOT contracts, client needs/services available and available staffing.](#)

FISCAL IMPACT

The proposed resolution would increase the contract amount between the City and County of San Francisco and Heluna Health by \$15,367,886 for a total contract not-to-exceed amount of \$39,133,942, as shown below in table 1.

Table 1: Actual, Projected, and Budgeted Spending in Heluna Health Contract, FY 2014-15 through FY 2020-21

Year	Amount
Actual	
FY 2014-15	\$3,123,611
FY 2015-16	4,551,353
FY 2016-17	4,393,765
FY 2017-18	4,492,629
FY 2018-19 projected	<u>5,026,080</u>
Subtotal spending to date	21,587,438
FY 2019-20 budget	8,523,252
FY 2020-21 budget	<u>8,523,252</u>
Subtotal budget	17,046,504
Contingency (3%)	500,000
Total Budget FY 2014-15—FY 2020-21	\$39,133,942
Current not to exceed amount	23,766,056
Requested Increase	15,367,886

Of the \$23,766,056 allocated to the contract, \$21,587,482 was spent through the end of FY 2018-19, as shown in Table 1 below. According to Dylan Schneider, Manager of Policy and Legislative Affairs, the contract has historically been underspent because of staff turnover and position vacancies. Staffing at Heluna Health is expected to increase from 71 full time equivalent (FTE) positions in FY 2018-19 to 86 FTEs in FY 2019-20. The contractor has been working diligently to fill vacant positions. As of June 30, 2019 there were only seven vacant positions at the organization. The contractor has made several changes to encourage employee retention, including implementing a tiered employment structure for outreach and caseworkers and increasing wages for outreach and caseworkers.

The FY 2019-20 and FY 2020-21 budgets account for salaries, operating expenses, and indirect costs.

Table 2: Budgeted spending FY 2019-20 and FY 20-21

Cost category	FY 2019-20	FY 2020-21
Salaries and benefits	\$7,122,928	\$7,122,928
Operating expenses	355,702	355,702
Indirect costs	1,044,622	1,044,622
Total	\$8,523,252	\$8,523,252

The contract is funded by the City's General Fund, subject to annual appropriation by the Board of Supervisors.

RECOMMENDATION

Approve the proposed resolution.

Items 4 and 5 Files 19-0877 and 19-0878	Department: Office of Contract Administration (OCA)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolutions would authorize the Office of Contract Administration (OCA) to enter into the First Amendments for Technology Marketplace purchases between the City and (i) CCT Technologies Inc., dba ComputerLand of Silicon Valley, increasing the not-to-exceed amount to \$23,000,000 (File 19-0877); and (ii) XTech JV, increasing the not-to-exceed amount to \$44,000,000 (File 19-0878). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Office of Contract Administration (OCA) selects information technology firms through a competitive Request for Proposals (RFP) process to provide goods and services through the Technology Marketplace. City departments may purchase technology products and specialized services through the Technology Marketplace on an as-needed basis. • The Board of Supervisors approved the contracts with CCT Technologies and XTech in January 2019 as part of the approval of 19 contracts with information technology vendors for the Technology Marketplace. The CCT Technologies and XTech contracts each had an initial not-to-exceed amount of \$20 million and an initial tow-year term through December 2021. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Under the proposed resolution, the contract with CCT Technologies would increase by \$3 million to \$23 million, and the contract with XTech would increase by \$24 million to \$44 million. The contract term does not change. • The proposed contract increases are based on average monthly spending for each contract for the first six months of the contracts from January 2019 through June 2019. The increase of \$3 million for the contract with CCT Technologies and of \$24 million for the contract with XTech is expected to provide sufficient contract spending authority for 18 months through June 2020. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT

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

BACKGROUND

The Office of Contract Administration (OCA) selects information technology firms through a competitive Request for Proposals (RFP) process to provide goods and services through the Technology Marketplace. City departments may purchase technology products and specialized services through the Technology Marketplace on an as-needed basis.

In 2018, OCA implemented Technology Marketplace 2.0, which allowed a broader pool of vendors to compete for Tier 1 contracts.¹ In addition, Technology Marketplace 2.0 includes a specific procurement process for cloud services, the ability to refresh the Technology Marketplace by adding new vendors, and the implementation of language to allow for flexible insurance requirements.

In June 2018, OCA issued an RFP for Technology Marketplace 2.0 and received 21 Tier 1 proposals, of which 19 met the minimum requirements and the minimum score of at least 60 out of 100 points. In January 2019, the Board of Supervisors approved contracts with the 19 vendors, including CCT Technologies, Inc., dba ComputerLand of Silicon Valley (File 18-1117, Resolution 004-19), and XTech JV (File 18-1131, Resolution 018-19). Each contract has a term of approximately three years, from approximately January 2019 through December 2021, with two one-year options to extend through December 2023. The initial not-to-exceed amount of each contract is \$20,000,000. However, the exact amount to be spent on each contract is difficult to predict, as City departments purchase services on an as-needed basis. According to Mr. Alaric Degrafinried, OCA Director and Purchaser, Technology Marketplace contracts often have to be amended to increase the not-to-exceed amount.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would authorize OCA to enter into the First Amendments of Technology Marketplace contracts with (i) CCT Technologies, increasing the not-to-exceed amount to \$23,000,000 (File 19-0877), and (ii) XTech JV, increasing the not-to-exceed amount to \$44,000,000 (File 19-0878). Other contract terms would not change.

According to Mr. Degrafinried, the amended not-to-exceed amounts are projections based previous spending through June 28, 2019, or approximately the first six months of the contracts. Using the monthly spend rates, the CCT Technologies and XTech JV contracts are

¹ The Technology Marketplace offers three tiers of contracts. Tier 1 contracts have amounts of more than \$10 million and require the vendor to provide a wide selection of products, professional services, maintenance, and training for City departments. Tier 2 contracts are for amounts below \$10 million. Tier 3 contracts are for services provided by Local Business Enterprises for amounts of \$600,000 or less.

projected to exceed the \$20,000,000 not-to-exceed amounts before June 30, 2020, or halfway through the three-year contract terms. According to Mr. Degrafinried, 18-month projections were used rather than full three-year projections to increase transparency when seeking Board of Supervisors approval. The 18-month projections are shown in Table 1 below.

Table 1: 18-Month Contract Spending Projections

Vendor	Spent Through June 2019	Spending Per Month	18-Month Projection through June 2020
CCT Technologies	\$7,524,971	\$1,254,162	\$22,574,914
XTech JV	\$14,661,525	\$2,443,587	\$43,984,574

City departments may purchase goods and services through any approved vendor in the Technology Marketplace. According to Mr. Degrafinried, XTech JV is typically the top selling vendor, due to both pricing and quality of service.

FISCAL IMPACT

The proposed resolutions would increase the not-to-exceed amounts of the CCT Technologies contract by \$3 million, from \$20 million to \$23 million, and the XTech JV contract by \$24 million, from \$20 million to \$44 million. Funding to pay for goods and services under each contract is subject to Board of Supervisors annual appropriation approval in City departments' budgets.

The proposed contract amendments would provide sufficient authorization to cover projected expenditures over 18 months. As the contract terms are each three years, with two one-year options to extend, future contract amendments with increased not-to-exceed amounts are likely.

RECOMMENDATION

Approve the proposed resolutions.

Item 8 File 19-0704	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve a specialty retail concession lease in Terminal 1 between San Francisco International Airport (Airport) as landlord and Emporio Rulli, Inc. as tenant, for a term of seven years with two one-year options to extend and Minimum Annual Guaranteed (MAG) rent of \$150,000. <p>Key Points</p> <ul style="list-style-type: none"> • Emporio Rulli was selected in December 2018 to provide a retail concession in the International Terminal – G.R. Chocolate Boutique – following a competitive solicitation. In March 2019, the Airport Commission approved a revised resolution to include two one-year options to extend that were unintentionally omitted from the lease awarded to Emporio Rulli, Inc. in December 2018. • The Airport has not previously leased the retail space in question as it is brand new. The leased space is expected to open in Spring 2020 after tenant improvements are completed. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The Airport would receive a minimum of \$1,050,000 in MAG rent over the seven year term of the lease. The Airport calculates MAG rent as 75 percent of the projected rent for retail facilities. The Airport expects percentage rent to exceed the MAG. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of \$1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In June 2018, the San Francisco International Airport (Airport) Commission authorized staff to conduct a Request for Proposals (RFP) for the lease of a specialty retail concession space in Terminal 1, Boarding Area B. In July 2018, staff hosted an informational meeting with interested parties and presented and gathered feedback on the lease. Staff did not receive any substantive comments or comments from the interested parties, so no changes were made to the minimum qualification requirements or lease specifications. In September 2018, the Commission approved the lease specifications and authorized staff to begin accepting proposals.

The Airport received two proposals by the October 17, 2018 submittal deadline. Of the two proposals, one was deemed non-responsive for failure to submit an original proposal bond. A four-member panel evaluated the remaining proposal and scored it as shown in Table 1 below.

Table 1: Proposals and Scores for Terminal 1 Retail Concession Lease No. 3 – Specialty Retail

<u>Proposer</u>	<u>Concept Name</u>	<u>Score</u>
Emporio Rulli, Inc.	G.R. Chocolate Boutique	88.75

As the sole qualified respondent, Emporio Rulli, Inc. was awarded the lease in December 2018. In March 2019, the Airport Commission approved a revised resolution to include two one-year options to extend that were unintentionally omitted from the earlier lease awarded to Emporio Rulli, Inc.

The Airport has not previously leased these premises as the concession space in question is brand new.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new seven year specialty retail concession lease in Terminal 1 between the Airport as landlord and Emporio Rulli, Inc. as tenant with two one-year options to extend the lease, for a total nine-year lease term if the options to extend are exercised. The proposed lease requires first-year Minimum Annual Guaranteed (MAG) rent of \$150,000, which would increase annually by the Consumer Price Index (CPI). Under the lease, Emporio Rulli would pay the greater of the MAG rent or percentage rent based on gross revenues as shown in Table 2 below.

Table 2: Key Provisions of Lease

Tenant	Emporio Rulli, Inc. DBA G.R. Chocolate Boutique
Square Footage	320 square feet
Term	7 years
Options to Extend	2 one-year options
Initial MAG Rent	\$150,000/year
MAG Adjustment	The first MAG adjustment shall occur on January 1 st following the first full Lease Year and every January 1 st thereafter. Adjustments are based on the CPI.
Percentage Rent (of Gross Revenues)	12% up to \$500,000; 14% from \$500,000 - \$1,000,000; 16% over \$1,000,000.
Minimum Investment	\$700 per square foot
Interim Rent During Construction	16% of gross revenues
Deposit	One half of initial MAG (subject to midterm adjustment)
Promotional Charge	\$1 per square foot per year

According to Airport staff, the concession is expected to open in Spring 2020.

FISCAL IMPACT

The Airport would receive at least \$150,000 annually in MAG rent, for total revenue of at least \$1,050,000 over the seven-year term of the lease. The Airport calculates MAG rent as 75 percent of the projected rent for retail facilities. The Airport expects percentage rent to exceed the MAG.

RECOMMENDATION

Approve the proposed resolution.

Item 9 File 19-0705	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve a new three year lease between the Airport and Smarte Carte Inc. with one three-year option to extend, for a total six-year lease if the option to extend is exercised. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The San Francisco International Airport (Airport) provides customers with luggage cart rental services in Airport terminals, garages, and the rental car center, and offers free cart rental services in the Customs/Federal Inspections Services Zone in the International Terminal. • Smarte Carte currently provides luggage cart rental services at the Airport under a lease that began in 2012 and has been in holdover status since the lease expiration in June 2019. Smarte Carte was the sole respondent to a Request for Proposals for a new lease for luggage cart rental services that was advertised by the Airport in February 2019; the Airport awarded the new lease to Smarte Carte in April 2019. • Under the proposed lease, Smarte Carte would maintain at least 5,500 luggage carts at various locations in the Airport, defined in the proposed lease. Smarte Carte may charge \$6 per cart. Smarte Carte would maintain 2,000 luggage carts in the International Terminal, which are provided free of charge. • The Airport pays Smarte Carte an Annual Service Fee for luggage cart services, equal to \$3,100,000 in the first lease year; and Smarte Carte pays the Airport the greater of Minimum Annual Guarantee (MAG) rent of \$975,000 in the first lease year or 19 percent of gross revenues. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Net payments by the Airport to Smarte Carte in the first lease year are up to \$2,125,000. The proposed resolution sets maximum net payments by the Airport to Smarte Carte in the initial three-year lease term of \$6,493,853. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of \$1 million or more is subject to Board of Supervisors approval.

BACKGROUND

The San Francisco International Airport (Airport) provides customers with luggage cart rental services in Airport terminals, garages, and the rental car center, and offers free cart rental services in the Customs/Federal Inspections Services Zone in the International Terminal.

In November 2018, the San Francisco International Airport (Airport) Commission authorized staff to initiate a competitive selection process and issue a Request for Proposals (RFP) for the Airport Luggage Cart Lease and Operating Agreement (Lease). In December 2018, staff presented and gathered feedback on the lease from interested parties. In February 2019, the Airport Commission approved the lease specifications and authorized staff to begin accepting proposals.

In March 2019, staff received one proposal for the lease from Smarte Carte, Inc. (Smarte Carte). Smarte Carte provides cart rental services under the current Airport Luggage Cart Lease and Operating Agreement. Staff reviewed the proposal and determined that it met the RFP's minimum qualifications. The Airport awarded the lease to Smart Carte on April 2, 2019.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new three year lease with one three year option to extend between the Airport and Smarte Carte Inc. with one three-year option to extend, for a total six-year lease if the option to extend is exercised.

Under the proposed lease:

- The Airport pays Smarte Carte an Annual Service Fee, equal to the lesser of \$1.45 for each luggage cart distributed, increased annually by the Consumer Price Index (CPI), or:
 - \$3,100,000 in the first lease year;
 - \$3,125,600 in the second lease year; and
 - \$3,281,880 in the third lease year.

Total maximum Annual Service Fees to be paid by the Airport over the initial three-year term are \$9,507,480.

- Smarte Carte pays the Airport the greater of the Minimum Annual Guarantee (MAG) of \$975,000, increased annually by the CPI, or percentage rent of 19 percent of gross revenues.

Under the proposed resolution, the net payment to be made by the Airport to Smarte Carte over the initial three-year lease term (maximum Annual Service Fee less the MAG) is \$6,493,853.

Under the proposed lease, Smarte Carte would maintain at least 5,500 luggage carts at various locations in the Airport, defined in the proposed lease. Smarte Carte may charge \$6 per cart. Smarte Carte would maintain 2,000 luggage carts in the International Terminal, which are provided free of charge.

Smarte Carte currently holds the Airport Luggage Cart Lease and Operating Agreement, which has been in holdover status since the lease expiration in June 2019.

FISCAL IMPACT

Maximum payment to Smarte Carte by the Airport under the initial three-year lease term is \$6,493,853, as shown in Table 1 below.

Table 1: Maximum Payments by the Airport to Smarte Carte Lease Years 1 - 3

	MAG Paid by Smarte Carte to Airport^a	Annual Service Fee Paid by Airport to Smarte Carte	Net Payment by Airport to Smarte Carte
Year One	\$975,000	(\$3,100,000)	(\$2,125,000)
Year Two	1,004,250	(3,125,600)	(2,121,350)
Year Three	1,034,378	(3,281,880)	(2,247,503)
Total	\$3,013,628	(\$9,507,480)	(\$6,493,853)

^a Assumes annual 3.0% CPI increase

Airport staff determined the MAG by reviewing prior Luggage Cart Lease gross revenues, rent, and passenger traffic growth projections, and adjusted upward to better align the lease with their expectations for market rent. The Airport expects that Smarte Carte will pay the MAG rather than percentage rent.

RECOMMENDATION

Approve the proposed resolution.

<p>Items 11 and 12 Files 19-0895 and 19-0898</p>	<p>Departments: Office of Public Finance Capital Planning</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • File 19-0895 is a resolution authorizing the execution and delivery of Certificates of Participation (COPs) in an amount up to \$94.6 million to (i) repay taxable commercial paper notes that the City issued to purchase 814-20 Bryant Street and 470 6th Street and related demolition, preparation and improvement costs; and (ii) finance and refinance the acquisition of 1828 Egbert Avenue and related site demolition, preparation, and improvement costs. • File 19-0898 is an ordinance appropriating \$78.6 million of the \$94.6 million in COPs proceeds to purchase 1828 Egbert Avenue. The balance of \$16 million in COPs proceeds were previously appropriated by the Board of Supervisors in May 2019 for the purchase of 814-820 Bryant Street and 470 6th Street, subject to future Board of Supervisors approval of the COPs sale and security documents (File 19-0416). 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • In June 2019, the Board of Supervisors adopted the Ten-Year Capital Plan for FY 2020-21 through FY 2029-30, which calls for \$131 million in COPs to relocate City departments and functions from the Hall of Justice. Of the \$131 million in COPs to be issued in 2020, approximately \$79.5 million are allocated to the purchase of 814-820 Bryant Street, 470 6th Street, and 1828 Egbert Street, previously approved by the Board of Supervisors, and approximately \$51.6 million are allocated to constructing new holding cells and relocating existing offices with the Hall of Justice (Files 19-0895 and 19-0898 of this report). 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • The \$94.6 million in COPs issuance includes \$78.6 million for the purchase and related costs for 1828 Egbert Avenue, and \$16 million for the purchase and related costs for 814-820 Bryant Street, 470 6th Streets, previously appropriated by the Board of Supervisors. • Of the \$94.6 million in COPs proceeds, \$79.5 million is directly allocated to the purchase of 1828 Egbert Avenue and 814-820 Bryant Street/470 6th Street, as provided in the Ten-Year Capital Plan. The balance is allocated to COPs financing, reserves, and related costs. • Issuance of the \$94.6 million in COPs conforms to the City’s Debt Service limits and Debt Policy. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> • Approve the proposed ordinances. 	

MANDATE STATEMENT

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

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

BACKGROUND

The Hall of Justice (the Hall or HOJ), located at 850 Bryant Street, was constructed in 1958 and is seismically deficient. In January 2017, given the serious concerns about the safety and working conditions in the building, the City Administrator declared that the offices and jail located at the Hall of Justice be closed as quickly as possible. As a result, the Capital Plan was updated in 2017 to target an expedited exit in 2019 from the Hall of Justice for all staff and inmates. The building currently houses the County courthouse, County jails #3 and #4, and office space for various justice-related staff.

10-Year Capital Plan

In June 2019, the Board of Supervisors adopted the Ten-Year Capital Plan for FY 2020-21 through FY 2029-30. The Capital Plan calls for \$131 million in certificates of participation (COPs) for the Hall of Justice Relocation Projects to relocate the District Attorney's Office, Adult Probation Department, Police Department Investigations Unit, Medical Examiner, and other administrative offices from the Hall of Justice.¹ Staff from the District Attorney's Office, Police, and Adult Probation departments will be relocated to leased space by the end of 2020. Remaining City offices in the Hall will be consolidated on the Harriet Street side of the building and acquired properties once obtained. The Bryant Street side of the building will be demolished once all staff and inmates are vacated, and the remaining Harriet Street side will be enclosed, leaving a rectangular structure with better expected seismic performance. However, as of September 2019, there is no plan in place for relocation of inmates and staff from County Jail #4.² Demolition of the Bryant Street side of the Hall is planned for funding with FY 2024-25 COPs.

¹ Files 19-0895 and 19-0896 approved the issuance of \$94.6 million and \$62 million in COPs respectively. Of this amount, \$79.4 million of COPs proceeds are allocated to project costs for the purchase of 814-820 Bryant Street/470 6th Street and 1828 Egbert Avenue (File 19-0895), and \$51.6 million is allocated for tenant improvements to the Hall of Justice (File 19-0896), totaling \$131 million.

² County Jail #3 is currently closed.

Previously approved resolutions

In May 2019, the Board approved authorized the (a) the purchase of 814-820 Bryant Street and 470 6th Street for \$12 million for the purpose of relocating City departments and programs from the HOJ, and (b) the Controller to issuance of \$16 million in COPs to fund the purchase, subject to future Board of Supervisors approval of the COPs sale and security documents. (File 19-0420). The City issued short-term commercial paper in July 2019 to purchase these properties as interim financing pending the issuance of the COPs.

The Board authorized the purchase of 1828 Egbert Avenue in July 2019 in an amount of \$67.3 million to relocate the Police Department's evidence and property storage from the HOJ (File 19-0774). The approval of the purchase was subject to the Board of Supervisors future authorization of COPs to fund the purchase.

DETAILS OF PROPOSED LEGISLATION

File 19-0895 is an ordinance that would:

- Authorize the execution and delivery of Certificates of Participation (COPs) not-to-exceed \$94.6 million to finance and refinance the acquisition of property located at 1828 Egbert Avenue, and at
- Repay certain taxable commercial paper notes issued by the city for the acquisition of properties at 814-820 Bryant and 470 6th Street, and preparation for site demolition, preparation and improvement
- Approve the form of Supplement to the Trust Agreement between the City and County of San Francisco and U.S. Bank National Association
- Approve the respective forms of Supplements to Property Lease and Project Lease, each between the City and the Trustee for the lease and lease back of 375 Laguna Honda Boulevard City property and facilities (or other property as determined by the Director of Public Finance);
- Approve the form of an official statement in preliminary and final form;
- Approve the form of a Continuing Disclosure Certificate;
- Grant general authority to City officials to take necessary actions in connection with the authorization, sale, execution, and delivery of the Certificates of Participation;
- Approve modifications to documents;
- Ratify previous actions taken in connection to this ordinance;

Certificates of Participation

COPs are structured as a lease-lease back, in which the City-owned Laguna Honda Hospital campus at 375 Laguna Honda Boulevard would serve as the leased property to secure the

COPs.³ The COPs could be structured for a term up to 25 years at an interest rate not-to-exceed 12 percent. According to the proposed ordinance, maximum annual debt service (or maximum annual base rent) is \$8.25 million.

The Office of Public Finance estimates that the COPs would be paid over 20 years with annual principal and interest payments of \$7.2 million and an estimated interest rate of 4.435 percent.

Negotiated Sale

The proposed ordinance permits the COPs to be sold through a negotiated or a competitive sale. Based on current market conditions, the Office of Public Finance intends to sell the COPs competitively. However, according to Ms. Jamie Querubin, Public Finance Deputy, the Office of Public Finance may propose a negotiated sale rather than a competitive sale if one of more of the factors described in the City's Debt Policy are present, which currently include: (1) significant deterioration in the City's overall credit rating or outlook; (2) market disruptions that are outside of the City's control, including new or proposed changes in taxation or sector risks; and (3) the transaction consists of (i) variable rate debt or commercial paper, (ii) a non-traditional debt structure (e.g. forward delivery bonds, long-dated maturities or special call features), or (iii) a public/private partnership.

Commercial Paper

The Office of Public Finance issued \$10.7 million in taxable commercial paper in July 2019 to purchase 814-820 Bryant Street and 470 6th Street, as noted above.⁴ The Office of Public Finance anticipates issuing additional commercial paper to purchase 1828 Egbert Avenue, pending the sale of the COPs.

File 19-0898 is an ordinance appropriating \$78.6 million of the \$94.6 million in COPs proceeds for the purchase of purchase of 1828 Egbert Avenue. The balance of \$16 million in COPs proceeds were previously appropriated by the Board of Supervisors in May 2019 for the purchase of 814-820 Bryant Street and 470 6th Street (File 19-0416). In May 2019 when the Board of Supervisors approved the appropriation of COPs proceeds for the purchase of 814-820 Bryant Street and 470 6th Street, the Board of Supervisors also authorized \$16 million in COPs, pending additional Board action, as noted above (File 19-0420). The proposed ordinance authorizing \$94.6 million in COPs (File 19-0895) includes the \$16 million in COPs previously authorized by the Board of Supervisors.

³ The City leases the City-owned property to the Trustee and leases back the property. The City makes annual base rental payments to the Trustee in an amount required to repay the COPs. When the COPs are fully paid, the property lease is terminated. Annual base rental payments (in effect, debt service) are paid from the City's General Fund. The City entered into the Original Trust Agreement, Original Project Lease, and Original Property Lease in 2009 and entered into two supplemental agreements/leases to the Original Trust Agreement, Original Project Lease, and Original Property Lease for the subsequent series of COPs issued in 2009 and 2012. The City also intends to enter into a third supplemental agreement/lease in 2019 for refunding previously issued COPs.

⁴ Commercial paper is short term (30 to 90 days) low-interest debt.

FISCAL IMPACT

Of the \$94,600,000 authorization, the City would pay approximately \$79,523,730 in total project costs, \$2,295,400 in financing costs, and \$10,829,871 in reserves and capitalized interest, totaling \$92,650,000. The balance of \$1,950,000 is for market uncertainty pending the sale of the COPs.

Table 1: Estimated Project Costs for 814-820 Bryant & 470 6th St. and 1828 Egbert Ave.

	814-820 Bryant Street/ 470 6th Street (File 19-0416)	1828 Egbert Avenue (File 19-0898)	Total
Total Estimated Sources:			
COPs Proceeds	\$16,000,000	\$78,600,000	\$94,600,000
Total Estimated Sources:	\$16,000,000	\$78,600,000	\$94,600,000
Estimated Uses:			
Purchase Price	\$11,520,000	\$67,300,000	\$78,820,000
Title Fees, Escrow Fees, Misc. Fees	18,766	65,000	83,766
Estimated Demolition/Site Preparation Costs	461,234		461,234
CSA Audit Fee (0.2% of project amount)	24,000	134,730	158,730
Total Project Fund Deposits	12,024,000	67,499,730	79,523,730
Cost of Issuance	807,525	800,000	1,607,525
Underwriter's Discount	133,100	555,775	688,875
Total Delivery Expenses	940,625	1,355,775	2,296,400
Reserve Fund	1,233,238	5,734,765	6,968,003
Capitalized Interest Fund/CP Interest & Fees	1,337,138	2,524,730	3,861,868
Total Reserves and Capitalized Interest	2,570,376	8,259,495	10,829,871
Total Estimated Uses	15,535,000	77,115,000	92,650,000
<i>Reserve for Market Uncertainty</i>	465,000	1,485,000	1,950,000
Maximum Not-to-Exceed Par Amount	\$16,000,000	\$78,600,000	\$94,600,000

Source: Office of Public Finance

Debt Service

Average annual debt service on the \$94.6 million in COPs is \$7.2 million. Total debt service over the anticipated 20-year term is \$144.5 million, which includes \$94.6 million in principal and \$49.9 million in interest. In addition, File 19-0896, included in this report, authorizes issuance of \$62.0 million in COPs, with annual debt service of \$4.7 million. Therefore, if the Board of Supervisors approves the proposed ordinances (Files 19-0895 and 19-0896), total annual debt service would be \$11.4 million. Debt service is paid from the City's General Fund.

City's Debt Policy

The current plan of finance anticipates utilizing the City's commercial paper program, which was approved by the Board of Supervisors in March 2009 (File 09-0197) and March 2010 (File

10-0269) to finance project costs pending issuance of the COPs. Of the City's total commercial paper program of \$250 million re-authorized by the Board of Supervisors in May 2016 (File 16-0427); \$105.25 million is unencumbered as of September 1, 2019.

The City's policy is to limit General Fund debt service at or below 3.25 percent of discretionary General Fund revenues. The anticipated incremental debt service associated with the delivery and execution of the COPs complies with the City's policy of limiting General Fund debt service payments at or below 3.25 percent of General Fund Discretionary Revenue, as set forth and maintained in the City's Capital Plan.

RECOMMENDATION

Approve the proposed ordinances.

<p>Items 13 and 14 Files 19-0896 and 19-0897</p>	<p>Departments: Controller, Office of Public Finance Capital Planning Public Works</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • File 19-0896: The proposed ordinance would authorize the execution and delivery of Certificates of Participation (COPs) on a tax-exempt or taxable basis for a not-to-exceed \$62,000,000 to (a) finance the costs of the improvement of Hall of Justice (HOJ) facilities and acquisition of adjacent property; and (b) the repayment of certain commercial paper notes of the City issued on an interim basis for such purposes. • File 19-0897: the proposed ordinance would appropriate \$62,000,000 of proceeds from COPs to the General Services Agency in FY 2019-2020 to fund the Hall of Justice Improvement Project. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • In June 2019, the Board of Supervisors adopted the Ten-Year Capital Plan for FY 2020-21 through FY 2029-30. The Capital Plan calls for \$131 million in COPs for the Hall of Justice Relocation Projects to relocate City departments and functions from the Hall of Justice. Of the \$131 million in COPs to be issued in 2020, approximately \$79.5 million are allocated to the purchase of 814-820 Bryant Street, 470 6th Street, and 1828 Egbert Street, previously approved by the Board of Supervisors (File 19-0895 and 19-0898 of this report), and approximately \$51.6 million are allocated to constructing new holding cells and relocating existing offices with the Hall of Justice. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • The Office of Public Finance is requesting authorization to issue a total not-to-exceed \$62,000,000 of COPs, including \$51,635,000 for project costs, \$8,510,000 for issuance costs, and \$1,855,000 to be reserved for market uncertainty. Project costs totaling \$51,635,000 include \$6,000,000 to acquire adjacent property located on the Harriet Street side of the HOJ, \$26,400,000 to construct holding cells adjacent to the HOJ (as required by the Courts), and \$19,235,000 for tenant improvements at City-owned properties for HOJ relocation projects. • The Department of Public Works prepared estimates of relocating the holding cells based on prior estimates prepared by the consulting firm, AECOM, in October 2017. The cost estimates provide for \$6.8 million in contingencies equal to 35 percent of project costs. The Budget and Legislative Analyst recommends placing \$3.8 million (\$6.8 million in contingencies less the \$3 million construction contingency) on Budget and Finance Committee reserve pending further details on the project budget and contingencies. 	
<p style="text-align: center;">Recommendations</p>	
<ul style="list-style-type: none"> • Amend the proposed ordinance (File 19-0897) to place \$3,829,982 for contingencies for construction of the holding cells of the \$62,000,000 COPs proceeds on Budget and Finance Committee reserve pending budget details. • Approve the File 19-0896 and File 19-0897 as amended 	

MANDATE STATEMENT

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

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

BACKGROUND

The Hall of Justice (the Hall or HOJ), located at 850 Bryant Street, was constructed in 1958 and is seismically deficient. In January 2017, given the serious concerns about the safety and working conditions in the building, the City Administrator declared that the offices and jail located at the Hall of Justice be closed as quickly as possible. As a result, the Capital Plan was updated in 2017 to target an expedited exit in 2019 from the Hall of Justice for all staff and inmates. The building currently houses the County courthouse, County jails #3 and #4, and office space for various justice-related staff.

10-Year Capital Plan

In June 2019, the Board of Supervisors adopted the Ten-Year Capital Plan for FY 2020-21 through FY 2029-30. The Capital Plan calls for \$131 million in certificates of participation (COPs) for the Hall of Justice Relocation Projects to relocate the District Attorney's Office, Adult Probation Department, Police Department Investigations Unit, Medical Examiner, and other administrative offices from the Hall of Justice.¹ Staff from the District Attorney's Office, Police, and Adult Probation departments will be relocated to leased space by the end of 2020. Remaining City offices in the Hall will be consolidated on the Harriet Street side of the building and acquired properties once obtained. The Bryant Street side of the building will be demolished once all staff and inmates are vacated, and the remaining Harriet Street side will be enclosed, leaving a rectangular structure with better expected seismic performance. However, as of September 2019, there is no plan in place for relocation of inmates and staff from County Jail #4.² Demolition of the Bryant Street side of the Hall is planned for funding with FY 2024-25 COPs.

¹ Files 19-0895 and 19-0896 approved the issuance of \$94.6 million and \$62 million in COPs respectively. Of this amount, \$79.4 million of COPs proceeds are allocated to project costs for the purchase of 814-820 Bryant Street/470 6th Street and 1828 Egbert Street (File 19-0895), and \$51.6 million is allocated for tenant improvements to the Hall of Justice (File 19-0896), totaling \$131 million.

² County Jail #3 is currently closed.

Previously Approved Resolutions

In May 2019, the Board approved a resolution authorizing the Real Estate Division to acquire property at 814-820 Bryant Street and 470 6th Street for \$12 million for the purpose of relocating staff from the Hall. The resolution authorized the issuance of \$16 million in COPs, subject to future Board of Supervisors approval of the COPs sale, and of commercial paper notes³ to finance the cost of acquisition in anticipation of the approval of the COPs. The City issued commercial paper in July 2019 to acquire these properties.

In July 2019, the Board approved a resolution authorizing the director of the Real Estate Division to acquire 1828 Egbert Avenue in an amount of \$67.3 million to relocate the Police Department's evidence and property storage from the HOJ (File 19-0774). The approval of the purchase was subject to the Board of Supervisors future authorization of COPs to fund the purchase.

DETAILS OF PROPOSED LEGISLATION

File 19-0896: the proposed ordinance would:

- Authorize the execution and delivery of taxable or tax-exempt COPs representing an aggregate principal amount not to exceed \$62,000,000 to: (a) finance the costs of the improvement of Hall of Justice facilities and acquisition of adjacent property; and (b) the repayment of certain commercial paper notes of the City issued on an interim basis for such purposes;
- Approve the form of a Supplement to Trust Agreement between the City and County of San Francisco (City) and the U.S. Bank National Association, as trustee (Trustee) (including certain indemnities contained therein);
- Approve the respective forms of Supplements to Property Lease and Project Lease, each between the City and the Trustee for the lease and lease back of 375 Laguna Honda Boulevard City property and facilities (or other property as determined by the Director of Public Finance);
- Approve the form of an Official Notice of Sale and a Notice of Intention to sell the COPs;
- Approve the form of an official statement in preliminary and final form;
- Approve the form of a Continuing Disclosure certificate;
- Grant general authority to City officials to take necessary actions in connection with the authorization, sale, execution and delivery of the COPs;
- Approve modifications to documents; and
- Ratify previous actions taken in connection therewith

³ Commercial paper is short term (30 to 90 day) low interest debt.

Certificates of Participation

COPs are structured as a lease-lease back, in which the City-owned Laguna Honda Hospital campus at 375 Laguna Honda Boulevard would serve as the leased property to secure the COPs.⁴ The COPs could be structured for a term of up to 25 years at an interest rate not-to-exceed 12 percent. According to the proposed ordinance, maximum annual debt service (or maximum annual base rent) is \$5.4 million.

The Office of Public Finance estimates that the COPs would be paid over 20 years with annual principal and interest payments of \$4.7 million and an estimated annual interest rate of 4.481 percent.

Negotiated Sale

The proposed ordinance permits the COPs to be sold through a negotiated or a competitive sale. Based on current market conditions, the Office of Public Finance intends to sell the COPs competitively. However, according to Ms. Jamie Querubin, Public Finance Deputy, the Office of Public Finance may propose a negotiated sale rather than a competitive sale if one of more of the factors described in the City's Debt Policy are present, which currently include: (1) significant deterioration in the City's overall credit rating or outlook; (2) market disruptions that are outside of the City's control, including new or proposed changes in taxation or sector risks; and (3) the transaction consists of (i) variable rate debt or commercial paper, (ii) a non-traditional debt structure (e.g. forward delivery bonds, long-dated maturities or special call features), or (iii) a public/private partnership

File 19-0897 is a proposed ordinance that would appropriate \$62,000,000 of proceeds from COPs to the General Services Agency in FY 2019-2020 to fund the Hall of Justice Improvement Project with related costs of construction, acquisition, improvement, renovation, and retrofitting of City-owned properties and place the total \$62,000,000 on Controller's Reserve pending the sale of the COPs.

The Project

The proposed \$62,000,000 of proceeds from COPs would fund the following components of the Hall of Justice Improvement Projects: (1) acquisition of property adjacent to the HOJ; (2) construction of holding cells adjacent to the HOJ, as required by the Courts; and (3) tenant improvements at City-owned properties to relocate HOJ staff, primarily to repurpose the former Medical Examiner, District Attorney, and Police suites currently located on the basement, first, and third through sixth floors of the HOJ on the Harriet Street side (approximately 92,000 rentable square feet). According to Ms. Heather Green, Capital Planning Director, offices and facilities that would otherwise remain on the Bryant Street side would be

⁴ The City leases the City-owned property to the Trustee and leases back the property. The City makes annual base rental payments to the Trustee in an amount required to repay the COPs. When the COPs are fully paid, the property lease is terminated. Annual base rental payments (in effect, debt service) are paid from the City's General Fund. The City entered into the Original Trust Agreement, Original Project Lease, and Original Property Lease in 2009, and entered into two supplemental agreements/leases to the Original Trust Agreement, Original Project Lease, and Original Property Lease for the subsequent series of COPs issued in 2009 and 2012. The City also intends to enter into a third supplemental agreement/lease in 2019 for refunding of previously issued COPs.

moved to the Harriet Street side. As of September 2019, Ms. Green expects that the following offices and facilities would be relocated to the Harriet Street side: Police Investigations, Security and Transport staff from the Sheriff's Department, Project SAFE,⁵ Prisoner Legal Services, Real Estate Division building services, hoteling space⁶ for the District Attorney's Office, as well as Traffic Courts and offices.

FISCAL IMPACT

The City would pay approximately \$51,635,000 for the total project cost, including \$6,000,000⁷ to acquire adjacent property located on the Harriet Street side of the HOJ, \$26,400,000 to construct holding cells adjacent to the HOJ, and \$19,235,000 for tenant improvements at City-owned properties for HOJ relocation projects, as shown in Table 1 below. In addition, the City's estimated costs to issue the COPs are \$8,510,000, including the audit fee, debt service reserve fund, capitalized interest, commercial paper interest and fees, and cost of issuance and underwriter's discount. An additional \$1,855,000 would be reserved for market uncertainty. Table 1 below identifies the sources and uses for the proposed supplemental appropriation and the proceeds from the sale of the COPs.

Table 1: Sources and Uses for COPs

Sources and Uses	Amount
Sources	
COP Par Amount	\$62,000,000
Uses	
Acquisition of Adjacent Sites	6,000,000
Courts-required Holding Cells (see below)	26,400,000
HOJ Tenant Improvements (Harriet St. Wing) (see below)	19,235,000
Subtotal Estimated Project Costs	51,635,000
Audit Fee	103,270
Debt Service Reserve Fund	4,588,397
Capitalized Interest/CP Interest and Fees	2,563,381
Issuance Costs	803,864
Underwriter's Discount Fee	451,088
Subtotal Costs of Issuance	8,510,000
Total Estimated Costs	60,145,000
Reserve for Market Uncertainty	1,855,000
Total Uses	\$62,000,000

Source: Capital Planning

⁵ Safety Awareness for Everyone (SAFE) is a non-profit organization that provides crime prevention education and public safety services citywide.

⁶ Office space to be used by attorneys from the District Attorney's Office on a temporary basis between court appearances

⁷ Estimated by the Real Estate Division

Courts-required Holding Cells

The Department of Public Works (Public Works) prepared estimates of relocating the holding cells based on prior estimates prepared by the consulting firm, AECOM, in October 2017. These cost estimates accounted for escalation in construction costs between 2017 and 2019 and future escalation in construction costs between 2019 and the mid-point in the construction project; and for uncertain market conditions. Details of estimated holding cell construction costs of \$26.4 million are shown in Table 2 below. Project contingencies, in addition to construction cost escalation and uncertain market conditions, total \$6.8 million, equal to 35 percent of project costs. The Budget and Legislative Analyst recommends placing \$3.8 million (\$6.8 million in contingencies less the \$3 million construction contingency) on Budget and Finance Committee reserve pending further details on the project budget and contingencies.

Table 2: Estimated Holding Cell Construction Costs

Base Estimate	\$9,924,462
Market Conditions (6%)	595,468
Escalation (14%)	1,472,790
Subtotal Construction Costs	11,992,720
Building Code & Compliance	600,000
Project Phasing	500,000
Art	240,000
Hazardous Materials	200,000
Subtotal Associated Costs	1,540,000
Construction and Associated Costs	13,532,720
Project Management and Other Costs	6,070,000
Total Project Costs	19,602,720
Construction Contingency	3,000,000
Unknown Existing Conditions	1,200,000
Extraordinary Inflation	1,051,993
Owner's Contingency	1,577,989
Total Contingency	6,829,982
Total Estimated Project Costs	\$26,432,702^a

Source: Public Works

^a Total differs from COPs budget and appropriation due to rounding

Office Relocation

Public Works prepared estimates of the cost per square foot to make tenant improvements to relocate City offices to the Harriet Street wing based on the City's tenant improvement costs in comparable projects, as shown below. Details of estimated tenant improvement costs of \$19.2 million are shown in Table 3 below.

Table 3: Estimated Office Relocation Costs

Current/Previous Use	Planned Future Tenant	Rentable Sq. Ft. (RSF)	Estimated Cost per RSF	Estimated Cost
Medical Examiner (1st Floor)	Traffic Courts, Project SAFE, Prisoner Legal Services, Sheriff Security	20,000	\$376 ^a	\$7,520,000
Medical Examiner, Supplies, Storage (Basement)	Real Estate Div. Building Services, Police Fingerprinting	7,000	351 ^b	2,457,000
District Attorney, Police Office Suites (4th - 6th Floors)	Police Investigations	57,000	114 ^d	6,498,000
Commission Room (5th Floor)	District Attorney Hoteling	3,250	289 ^c	939,250
Auditorium (6th Floor)	Police Investigations Overflow	4,875	376 ^a	1,833,000
Total		92,125		\$19,247,250^e

Source: Capital Planning

^a Based on costs to renovate 350 Rhode Island Street from a commercial kitchen to District Attorney office use

^b Based on costs to redesign Warrants and Records facilities

^c Based on costs to convert office space to other office use

^d Based on costs to convert office space to other office use, reduced to reflect minimal expected capital modifications

^e Total differs from COPs budget and appropriation due to rounding

City's Debt Policy

The current plan of finance anticipates utilizing the City's commercial paper program, which was approved by the Board of Supervisors in March 2009 (File 09-0197) and March 2010 (File 10-0269) to finance project costs pending issuance of the COPs. Of the City's total commercial paper program of \$250 million re-authorized by the Board of Supervisors in May 2016 (File 16-0427); \$105.25 million is unencumbered as of September 1, 2019.

The City's policy is to limit General Fund debt service at or below 3.25 percent of discretionary General Fund revenues. The anticipated incremental debt service associated with the delivery and execution of the COPs complies with the City's policy of limiting General Fund debt service payments at or below 3.25 percent of General Fund Discretionary Revenue, as set forth and maintained in the City's Capital Plan.

RECOMMENDATIONS

1. Amend the proposed ordinance (File 19-0897) to place \$3,829,982 for contingencies for construction of the holding cells of the \$62,000,000 COPs proceeds on Budget and Finance Committee reserve pending budget details.
2. Approve File 19-0896 and File 19-0897 as amended.