CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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July 11, 2014

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: July 16, 2014 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objective

The proposed resolution authorizes the Director of Real Estate to enter into a purchase and sale agreement for 900 Innes Avenue for a purchase price of $2,975,000.

Key Points

- Under the proposed resolution, the Real Estate Division would enter into a purchase and sale agreement to purchase 900 Innes Avenue in the India Basin neighborhood in southeast San Francisco from the current property owner, Tenderloin Housing Clinic, a non-profit organization. The property consists of 3.156 acres of land and submerged areas, previously used for boat building and repair, and a vacant building designated as a San Francisco Landmark in 2008.
- The property was identified by the Recreation and Park Department in 2011 as a potential acquisition for park and open space by the Open Space Acquisition Fund. The Real Estate Division would purchase and hold the property for up to 24 months, during which time the Recreation and Park Department would undertake planning for use of the property as open space, including whether to exchange a portion of the property with the adjacent property at 700 Innes Avenue.

Fiscal Impact

- The Real Estate Division would use commercial paper to purchase 900 Innes Avenue for a purchase price of $2,975,000. The Recreation and Park Department would reimburse the commercial paper from the Open Space Acquisition Fund. Estimated Open Space Acquisition Fund expenditures, including the purchase price, 2.5 percent annual interest, and title policy premiums is $3,126,000.
- The Open Space Acquisition Fund balance as of June 30, 2014 is $9,149,000. Estimated expenditures of $3,126,000 would leave a fund balance of $6,023,000.

Policy Consideration

- The Budget and Legislative Analyst considers approval of the purchase of 900 Innes Avenue to be a policy matter for the Board of Supervisors because the Recreation and Park Department has not yet (1) undertaken planning, design or environmental review of the property for potential park and open space uses; (2) evaluated the costs or identified a source of funds to develop and maintain the proposed park and open space; or (3) secured funding to pay environmental remediation costs.

Recommendations

- Amend the resolution to replace the existing resolution language that the acquisition of 900 Innes Avenue "is categorically exempt under CEQA" with the correct language that the acquisition of 900 Innes Avenue "is not a project under CEQA"
- Amend the resolution to:

  (a) Require that the approval is contingent on the approval by the Recreation and Park Commission of the final MOU between the Real Estate Division, the Recreation and Park Department, and Office of Public Finance; and request a report from the Real Estate Division and Recreation and Park Department on the terms of the MOU prior to final Board of Supervisors approval for the propose resolution.

  (b) Request a report from the Recreation and Park Department no later than December 31, 2015 on the proposed use of 900 Innes Avenue as a park or open space, including (i) proposed reconfiguration of the property and sale or exchange of a portion of the property in coordination with the owner of 700 Innes Avenue/800 Hudson Avenue; and (ii) estimated costs and sources of funds to develop and maintain the property at 900 Innes Avenue and undertake environmental remediation; and

  (c) Require that any future agreement to (i) sell a portion of 900 Innes Avenue to a third party, or (ii) exchange a portion of 900 Innes Avenue for a portion of 700 Innes Avenue/800 Hudson Avenue, be subject to Board of Supervisors approval.

- Approval of the proposed resolution, as amended, is a policy decision for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with Administrative Code Section 23.1, all resolutions and ordinances involving sales, leases, acceptances, and other real estate transactions must be conducted through the Director of Real Estate and are subject to approval by the Board of Supervisors.

In accordance with Administrative Code Section 23.4, the Director of Real Estate cannot accept deeds or other instruments granting real property to the City without Board of Supervisors approval.

According to City Charter Section 16.107 (b), the City must set aside from the annual property tax levy an amount equivalent to two and one-half cents ($0.025) for each one hundred dollars ($100) assessed property valuation which is to be deposited into the Park, Recreation and Open Space Fund. Charter Section 16.107(f)(3) states that an allocation of not less than 5% of the monies to be deposited in the Fund shall be dedicated to the acquisition of real property.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (1) authorizes the purchase of 900 Innes Avenue by the Department of Administrative Services' Real Estate Division for the net purchase price of $2,975,000; and (2) finds that the purchase of the property is in conformance with the City's General Plan and the priority policies of Planning Code Section 101.1, and that the transaction is categorically exempt from environmental review under the California Environmental Quality Act (CEQA).

Under the proposed resolution, the Real Estate Division would enter into a purchase and sale agreement to purchase 900 Innes Avenue in the India Basin neighborhood in southeast San Francisco from the current property owner, Tenderloin Housing Clinic, a non-profit organization. The property consists of 3.156 acres of land and submerged areas, previously used for boat building and repair, and a vacant building designated as a San Francisco Landmark in 2008. The property is an industrial site currently used for construction equipment storage. The building was the first residence erected by shipwrights in the neighborhood as part of the India Basin boat building community. Exhibit 1 below shows the location of the 900 Innes site.

Exhibit 1: 900 Innes Avenue

Source: Recreation and Park Department

Proposed Purchase of 900 Innes Avenue

The Recreation and Park Department plans to develop 900 Innes Avenue as an open space area between two existing Recreation and Park Department open space areas – India Basin Shoreline Park and India Basin Shoreline Open Space, shown in Exhibit I above. The property is currently owned by the Tenderloin Housing Clinic, which listed the property for sale in January 2013.

The Real Estate Division would purchase the property on behalf of the City from the Tenderloin Housing Clinic. Under the proposed purchase and sale agreement between the Tenderloin Housing Clinic and the City, the City would buy the property "as-is" from the Tenderloin Housing Clinic. Table 1 shows the property details and purchase price to the City.

Table 1: 900 Innes Avenue Property Details and Purchase Costs to the City

	Square Feet
Land	137,500
Improvements	
Shipwright's Cottage (San Francisco Landmark)	2,360
Steel Framed Canopy Building	1,600
Wood Framed Building	1,700
Wood Framed Shed	2,100
Total Square Feet of Improvements	7,760
Wharf Structure (Linear Feet)	120
	Price
Purchase Price	$3,500,000
Environmental Remediation Credit	(525,000)
Net Purchase Price	2,975,000
Title Policy Premium and Closing Costs (estimated)	1,500
Total Estimated Purchase Costs to the City	$2,976,500

Source: Purchase and Sale Agreement

Initial Use of Commercial Paper to Purchase the Property

The Real Estate Division, rather than the Recreation and Park Department, will purchase the property using commercial paper[1], because the Recreation and Park Department has not yet undertaken planning, design or environmental review of the property for potential park uses. The California Coastal Conservancy has awarded a $500,000 grant to the Recreation and Park Department, which will fund park planning and design, community outreach, and various technical studies.

According to the June 19, 2014 staff report to the Recreation and Park Commission, the Real Estate Division would hold the property for an initial period of up to 24 months. According to Mr. John Updike, Director of Real Estate, the primary reason for the Real Estate Division to buy and hold the property is for the Recreation and Park Department to investigate the potential to sell some portion of the 900 Innes property or exchange a portion of the property for the adjacent property at 700 Innes Avenue/800 Hudson Avenue, which is owned by Build, Inc. [2], a

[1] Commercial paper is short term, low-interest loans. The Board of Supervisors authorized the issuance of up to $250 million in commercial paper to provide interim financing for capital projects (File 13-0627). The City has issued commercial paper with an outstanding balance of $58,498,000, resulting in $191,502,000 in authorized but unissued commercial paper.

[2] Build, Inc. is a private San Francisco real estate developer specializing in mixed use residential/commercial developments. According to the June 19, 2014 staff report, Build, Inc. is interested in developing 700 Innes Avenue/800 Hudson Avenue as mixed use residential and commercial, of which a portion would be open space.

private developer in order to optimize the size, configuration, and continuity of public open space.

Future Acquisition of the Property by the Recreation and Park Department

Although the June 19, 2014 staff report states that the details under which the Recreation and Park Department would acquire 900 Innes Avenue from the Real Estate Division would be set forth in a Memorandum of Understanding (MOU) between the Real Estate Division, the Recreation and Park Department and the Office of Public Finance, the final MOU has not been approved by the Recreation and Park Commission as of the writing of this report.

According to the June 19, 2014 staff report, the Recreation and Park Department plans to work with Build, Inc., the owner of the adjacent property at 700 Innes Avenue/800 Hudson Avenue, on a comprehensive planning and public engagement process to plan for a park at 900 Innes Avenue and possible sections of 700 Innes Avenue/800 Hudson Avenue.

Open Space Acquisition Roster

The Recreation and Park Department maintains a roster of potential properties for purchase by the Open Space Acquisition Fund, which currently contains nine properties that were listed on the roster in June 2011, of which 900 Innes Avenue is one property.

The roster categorizes properties as desirable, more desirable, and most desirable based on how the property meets 10 policy goals. Most desirable properties serve high needs areas or fill a gap in services (such as location of nearby playgrounds or other public recreation and park facilities). More desirable properties are able to leverage other sources of funds for purchase, construction, or maintenance. Desirable properties provide various recreation and other attributes.

The Recreation and Park Department categorizes 900 Innes Avenue as “desirable” for meeting the following criteria:

- Provides passive and active recreation opportunities;
- Protects natural resources; and
- Provides access to the waterfront and scenic views.

Property Appraisal

The 137,500 square foot land at 900 Innes Avenue consists of 14 separate Assessor’s parcels. The Real Estate Division selected Carneghi-Blum & Partners through a competitive process to prepare an appraisal of the 14 parcels.

According to the appraisal report, of the 137,500 square feet of land, 68,900 square feet (50.1 percent) are usable land, and 68,600 square feet (49.9 percent) are submerged land and not usable. The usable portion of the property could be used to develop up to 113 units of housing. The appraiser estimated that the fair market value of the property as-is, based on comparable properties and potential use for residential development, is $3,500,000.

Environmental Remediation

900 Innes Avenue was previously used as a boatyard and has contaminated soil. According to a September 2013 report by Weston Solutions, Inc. for the U.S. Environmental Protection Agency, excavation of the soil will completely remove contaminated soil from the shallow subsurface, eliminating the threat from skin contact (primarily to construction workers) and future occupants. Weston Solutions estimated environmental remediation costs ranging from $496,000 for removal of soil up to 2 feet in unpaved areas to $2,810,000 for removal of soil up to 4 feet in paved and unpaved areas.

According to subsequent engineering report in February 2014 by Pacific Engineering and Construction, Inc. for the Tenderloin Housing Clinic, costs to excavate and dispose of contaminated soil at 900 Innes Avenue range from an estimated $294,998 to $942,498, depending on whether all soil or only unpaved soil is removed, and whether soil is removed up to 4 feet or up to 2 feet, as shown in Table 2 below.[3]

Table 2: Engineering Estimates to Remove Contaminated Soil at 900 Innes Avenue

Type of Removal	Estimate
Removal of all soils in paved and unpaved areas up to 4 feet	$942,498
Removal of all soils in paved and unpaved areas up to 2 feet	$563,220
Removal of soils in unpaved areas only up to 4 feet	$461,273
Removal of soils in unpaved areas only up to 2 feet	$294,998

Source: Pacific Engineering and Construction, Inc.

According to Mr. Updike, soil removal from paved portions of the property is mostly within existing street rights-of-way owned by the City and therefore an existing responsibility and cost to the City.

Conformance with the General Plan and Requirements under CEQA

The proposed resolution finds that the purchase of 900 Innes Avenue is in conformance with the City's General Plan and the priority policies of Planning Code Section 101.1, and is categorically exempt from environmental review under the California Environmental Quality Act (CEQA).

The Planning Department, in their December 11, 2013 General Plan Referral Letter determined that the purchase of 900 Innes Avenue conforms to the General Plan. While the proposed resolution states that the transaction is categorically exempt from environmental review under CEQA, revised information provided by the Planning Department shows that the acquisition is

[3] The Pacific Engineering and Construction, Inc. report evaluated the prior report by Weston Solutions, Inc. on environmental remediation of 900 Innes Avenue, which was formerly used as a boat yard. Both reports evaluated three alternatives. Alterative 1 is the "no-action" alternative, in which the property is used as open space and therefore would "meet none of the protective criteria for this project and is therefore dismissed without additional evaluation". Alternative 2 is the construction of a physical soil barrier to raise the existing grade by 2 to 3 feet, which "is not protective for the extended term and additional remediation would likely be required at some point in the future". Alterative 3 is the excavation and removal of soils, noted in Table 2 above, to provide long-term protection.

not a project under CEQA. Therefore, the proposed resolution should be amended to reflect this revised information. Improvements to the property after purchase will require environmental review under CEQA.

FISCAL IMPACT

The purchase price to the City to purchase 900 Innes Avenue are $2,975,000 for the purchase of the property plus $1,500 to pay the title insurance premium, totaling $2,976,500 as shown in Table 1 above. The Open Space Acquisition Fund would reimburse the City for the commercial paper amount used to purchase the property, including interest payments, as discussed above, resulting in estimated total Open Space Acquisition Fund expenditures of $3,126,000, shown in Table 3 below.

Table 3: Open Space Acquisition Fund Reimbursement of Commercial Paper

Purchase Price	$2,975,000
Title Policy Premium	1,500
Subtotal	2,976,500
Estimated Interest	149,500
Total	$3,126,000

According to Ms. Holly Pearson, Recreation and Park Department Planner, the Open Space Acquisition Fund balance as of June 30, 2014 is $9,149,000. Approval by the Board of Supervisors of the proposed resolution to Purchase 900 Innes Avenue for total estimated costs of $3,126,000, as shown in Table 3 above, would leave of balance of $6,023,000 in the Open Space Acquisition Fund. The Attachment, provided by the Recreation and Park Department, shows the projected Open Space Acquisition Fund balance over the remaining term of the Open Space Acquisition Fund through FY 2030-31.

Real Estate Division Costs

According to the draft MOU between the Recreation and Park Department and the Real Estate Division, the Real Estate Division's estimated costs to maintain the property and perform related real estate activities over 24 months is $95,000. These costs are in addition to the purchase costs noted in Table 3 above.

Environmental Remediation, Development, and Maintenance Costs

The Recreation and Park Department has not yet identified funds to pay for environmental remediation, development and maintenance costs once the property has been developed.

According to Ms. Pearson, potential sources of funds to pay environmental remediation costs include an allocation from the Open Space Acquisition Fund and a possible Environmental Protection Agency grant of up to $600,000 for brownfields remediation. However, the Recreation and Park Department has not yet identified sufficient funding sources to pay for environmental remediation costs of up to $2,810,000.

Ms. Pearson states that the Recreation and Park Department has not developed estimates of the costs to develop or maintain 900 Innes Avenue as an open space area. According to Ms. Pearson, these cost estimates will be developed as part of the planning, design and environmental review for the proposed property.

POLICY CONSIDERATION

The purchase of 900 Innes Avenue, which is listed on the Open Space Acquisition Roster, would create a continuous open space area between two existing Recreation and Park Department open space areas – India Basin Shoreline Park and India Basin Shoreline Open Space. The Recreation and Park Department categorizes the purchase of 900 Innes Avenue as "desirable" because it (1) provides passive and active recreation opportunities; (2) protects natural resources; and (3) provides access to the waterfront and scenic views.

The Budget and Legislative Analyst considers approval of the purchase of 900 Innes Avenue to be a policy matter for the Board of Supervisors because the Recreation and Park Department has not yet:

- Undertaken planning, design or environmental review of the property for potential park and open space uses;
- Evaluated the costs or identified a source of funds to develop and maintain the proposed park and open space; or
- Secured funding to pay environmental remediation costs.

The Recreation and Park Department plans to submit the final MOU between the Department and the Real Estate Division to the July 17, 2014 Recreation and Park Commission for approval. If the Board of Supervisors approves the proposed purchase and sale agreement for the purchase by the Real Estate Division, approval of the agreement should be contingent on the future approval by the Recreation and Park Commission of the pending MOU. The Board of Supervisors should also request the Recreation and Park Department and the Real Estate Division to report to the Board of Supervisors on the terms of the MOU prior to final approval of the proposed resolution.

The Board of Supervisors should also amend the proposed resolution to:

- Request a report from the Recreation and Park Department no later than December 31, 2015 on the proposed use of 900 Innes Avenue as a park or open space, including (a) proposed reconfiguration of the property and sale or exchange of a portion of the property in coordination with the owner of 700 Innes Avenue/800 Hudson Avenue; and (b) estimated costs and sources of funds to develop and maintain the property at 900 Innes Avenue and undertake environmental remediation.
- Require that any future agreement to (a) sell a portion of 900 Innes Avenue to a third party, or (b) exchange a portion of 900 Innes Avenue for a portion of 700 Innes Avenue/800 Hudson Avenue, is subject to Board of Supervisors approval.

RECOMMENDATIONS

- Amend the resolution to replace the existing resolution language that the acquisition of 900 Innes Avenue “is categorically exempt under CEQA” with the correct language that the acquisition of 900 Innes Avenue “is not a project under CEQA”.
- Amend the resolution to:
  (a) Require that the approval is contingent on the approval by the Recreation and Park Commission of the final MOU between the Real Estate Division, the Recreation and Park Department, and Office of Public Finance; and request a report from the Real Estate Division and Recreation and Park Department on the terms of the MOU prior to final Board of Supervisors approval for the propose resolution.

  (b) Request a report from the Recreation and Park Department no later than December 31, 2015 on the proposed use of 900 Innes Avenue as a park or open space, including (i) proposed reconfiguration of the property and sale or exchange of a portion of the property in coordination with the owner of 700 Innes Avenue/800 Hudson Avenue; and (ii) estimated costs and sources of funds to develop and maintain the property at 900 Innes Avenue and undertake environmental remediation; and

  (c) Require that any future agreement to (i) sell a portion of 900 Innes Avenue to a third party, or (ii) exchange a portion of 900 Innes Avenue for a portion of 700 Innes Avenue/800 Hudson Avenue, be subject to Board of Supervisors approval.
- Approval of the proposed resolution, as amended, is a policy decision for the Board of Supervisors.

Open Space Acquisition Fund Analysis

2013/14 to 2030/31

	Estimated Deposits	Projected Balance (start of FY)	Francisco *(Projected)*	900 Innes *(Estimated)*	Schlage Lock *(Estimated)*	Remaining Funds (end of FY)	Balance with no acquisitions
13-14		9.149				9.149	9.149 *
14-15	2.149	11.298	0.208			11.090	11.298
15-16	2.246	13.336	0.295	3.126		9.915	13.544
16-17	2.342	12.257	0.293		1.967	9.997	15.886
17-18	2.435	12.432	0.519			11.913	18.320
18-19	2.508	14.421	0.544		2.534	11.343	20.828
19-20	2.583	13.926	0.540			13.387	23.411
20-21	2.660	16.047	1.030			15.017	26.071
21-22	2.740	17.757	1.050			16.707	28.812
22-23	2.822	19.530	1.100			18.430	31.634
23-24	2.907	21.337	1.614			19.723	34.541
24-25	2.994	22.717	1.668			21.049	37.535
25-26	3.084	24.134	1.810			22.324	40.619
26-27	3.177	25.500				25.500	43.796
27-28	3.272	28.772				28.772	47.068
28-29	3.370	32.142				32.142	50.438
29-30	3.471	35.614				35.614	53.909
30-31	3.575	**39.189**				**39.189**	57.485
Totals	***48.336***		***10.670***	***3.126***	***4.500***		

* The difference between the FY 2013-14 end-of-year balance discussed above and Attachment I is due to delays in reconciling year-end balances for FY 2013-14.

Last Updated: 07/07/2014

Item 2 File 14-0782	Departments: Recreation and Park Department (RPD) Public and Utilities Commission (PUC) Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution (1) authorizes the jurisdictional transfer of Assessor's Parcel Block 0046, Lot 001, and a portion of Block 0047, Lot 001 (known as the Francisco Reservoir site) from the San Francisco Public Utilities Commission (SFPUC) to the Recreation and Park Department in the amount of $9,900,000, and (2) finds that the transaction is consistent with the City's General Plan and Planning Code Section 101.1 as well as exempt from California Environmental Quality Act (CEQA) review.

Key Points

- The Francisco Reservoir is a 3.29 acre, 143,344 square foot site located at 2445 Hyde Street in the City's Russian Hill neighborhood. The site has not been in active use since the reservoir was closed in 1940 by SFPUC's predecessor, the San Francisco Water Department. It is adjacent to the 0.96 acre Russian Hill Open Space.
- Recent City policy documents, including a resolution passed by the Board of Supervisors (File 08-1327) on December 19, 2008, have expressed support for maintaining the property as open space in light of neighborhood resistance to development and desire for additional park space.
- The Recreation and Park Department intends to leverage Open Space Acquisition Funds to finance the transfer of the site and enable the future development of a neighborhood park in partnership with the site's surrounding community. From FY 2000-01 through FY 2013-14, deposits into the Open Space Acquisition Fund have totaled $20.3 million, of which $11.0 million or 55.7% have been used to acquire property, with a current balance of $9.3 million. In accordance with the Open Space Acquisition Fund's acquisition policy, an evaluation of the Francisco Reservoir designated the site as servicing a "mid-range" of needs.

Fiscal Impact

- Under the Memorandum of Understanding (MOU) approved by the Recreation and Park Commission on June 19, 2014, and the Public Utilities Commission on July 8, 2014, the Recreation and Park Department will make payments to SFPUC from the Open Space Acquisition Fund totaling an estimated $10,669,725 over 12 years, beginning on the later of September 30, 2014 or 30 days after execution of the MOU.
- Interest payments are estimated at 1 percent of the outstanding balance each year, based on the current Treasurer's Pooled interest. Because interest rates are likely to increase over the next 12 years, total principal and interest payments by the Recreation and Park Department to SFPUC will likely exceed $10,669,725. In addition, reductions in annual deposits due to lower property tax revenues or increased expenditures to acquire additional properties could result in a future Open Space Acquisition Fund balance that is lower than current estimates.

- A neighborhood organization, the Francisco Park Project, has set a goal to raise $11 million for development and maintenance of the park on the Francisco Reservoir property, including $8.5 million for park development and $2.5 million for ongoing maintenance costs. To date, the Francisco Park Project has raised pledges of $9 million. However, there is no certainty as to how much of the $11 million goal will be realized. The Recreation and Park Department states the project will be scaled down if the community group is unable to raise sufficient funds.
- A detailed proposed construction and design budget is not available at this time although the Francisco Park Project estimates $139,369 in ongoing annual maintenance costs and $56,500 in one-time costs. There is currently no official timeline for project completion.

Policy Consideration

- The Recreation and Park Department's Open Space Acquisition Policy prioritizes acquisition of properties (1) in neighborhoods designated "High Needs" or deficient in open space, (2) in areas experiencing high population growth, and (3) to preserve natural resources. The Recreation and Park Department's current Open Space Acquisition Fund roster does not contain any sites that are classified as "High Needs" and the current acquisition process is highly community-driven. In 2013, the Recreation and Park Department formed the District 6 Open Space Committee to identify potential new park sites and develop a priority list of available properties in the Tenderloin and South of Market areas, much of which is designated as "High Needs".

Recommendations

- Amend the proposed resolution to request the Recreation and Park Department to report to the Board of Supervisors prior to December 31, 2014 on (1) the Department's strategy to acquire open space properties that meet the Open Space Acquisition Policy priorities; and (2) an evaluation of the District 6 Open Space Committee process and how it could be extended to other high needs neighborhoods in the City.
- Approval of the proposed resolution is a policy decision for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with Administrative Code Section 23.1, all resolutions and ordinances involving sales, leases, acceptances, and other real estate transactions must be conducted through the Director of Real Estate and subject to approval by the Board of Supervisors.

In accordance with Administrative Code Section 23.4, the Director of Real Estate cannot accept deeds or other instruments granting real property to the City without Board of Supervisors approval.

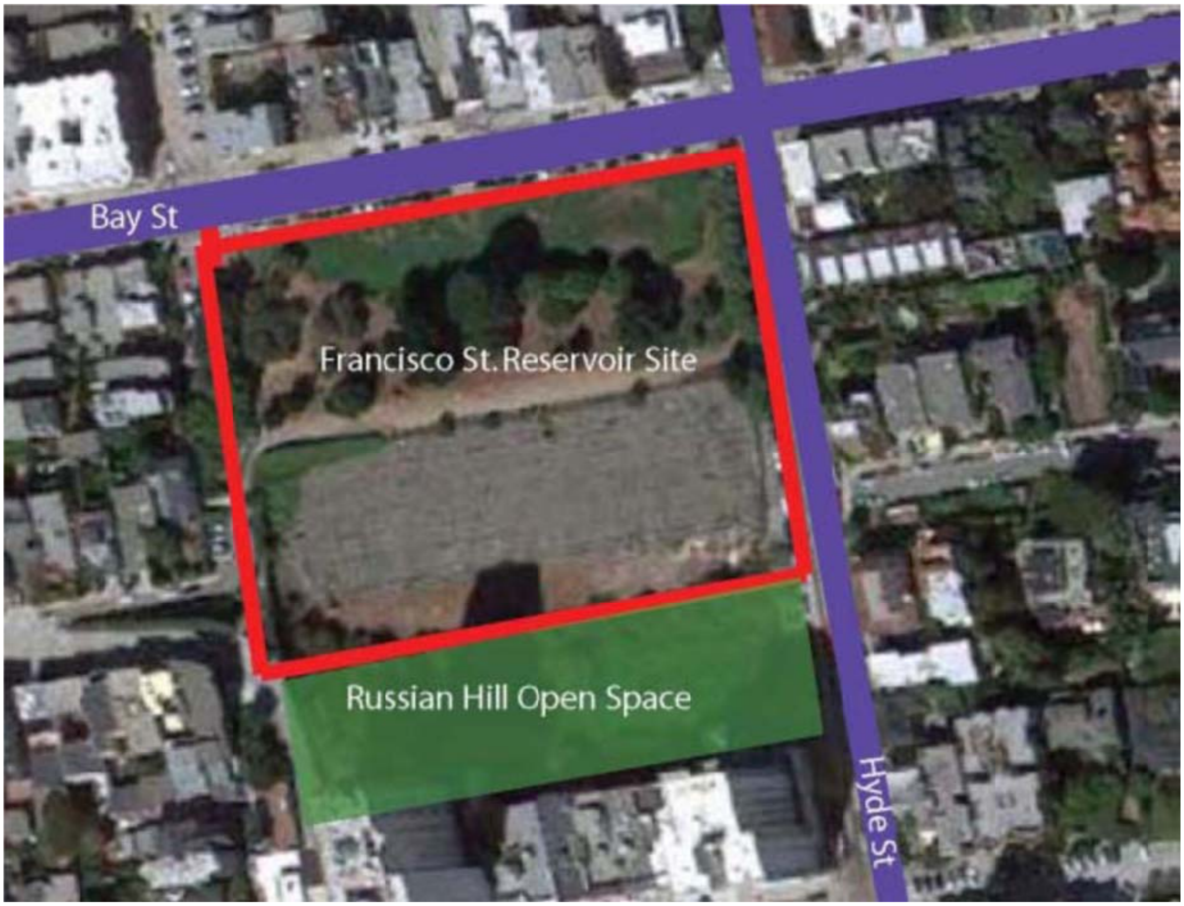
According to City Charter Section 16.107 (b), the City must set aside from the annual property tax levy an amount equivalent to two and one-half cents ($0.025) for each one hundred dollars ($100) assessed property valuation which is to be deposited into the Park, Recreation and Open Space Fund. Charter Section 16.107(f)(3) states that an allocation of not less than 5% of the monies to be deposited in the Fund shall be dedicated to the acquisition of real property.

Background

Francisco Reservoir

The Francisco Reservoir is a 3.29 acre, 143,344 square foot site owned by the San Francisco Public Utilities Commission (SFPUC), located at 2445 Hyde Street in the Russian Hill neighborhood (Assessor's Block 0046, Lot 001 and a portion of Block 0047, Lot 001). See Figure 1 below for a map of the Francisco Reservoir site.

Figure 1: Map of Francisco Reservoir Site



Source: San Francisco Public Utilities Commission

The brick and concrete-lined reservoir was opened for use in 1865 by the Spring Valley Water Company and purchased in 1930 by SFPUC's predecessor, the San Francisco Water Department. The site, which is adjacent to the 0.96 acre Russian Hill Open Space, has not been in active use since the reservoir was closed in 1940.

Recent City Policy Documents

There have been several competing plans considered for the site since the reservoir's closure, including residential redevelopment and recreation and park services. Several recent City policy documents have expressed support for open space plans in light of strong neighborhood resistance to development and desire for additional park space.

- On October 20, 2008 the SFPUC Citizens Advisory Committee passed a policy resolution recognizing the Francisco Reservoir as a major open space amenity.
- On December 19, 2008 the Board of Supervisors passed a resolution (File 08-1327) declaring it to be Board policy that Francisco Reservoir be maintained as open space and urging SFPUC to designate the site as such.
- On June 26, 2012 the SFPUC Citizens Advisory Committee approved a policy resolution further affirming the site's value and desired use as open space, and

affirming SFPUC's need to receive fair compensation in the event of a property transfer to another City department.

The June 26, 2012 resolution further noted that SFPUC's Stewardship Policy encourages community participation in major land use decisions, and that the Recreation and Open Space Element in the City's General Plan designates that surplus PUC lands should be maintained as open space and made accessible to the public.

According to Mr. Anthony Bardo, SFPUC Assistant Real Estate Director, the SFPUC has been actively seeking to dispose of properties not essential to the SFPUC's operations in order to raise funds to assist rate-payers and ease budget pressures resulting from the $4.6 billion Water System Improvement Program. SFPUC does not want the responsibility or liability of ongoing maintenance and operations costs for the Francisco Reservoir property; further, SFPUC is mandated to receive fair market value in the event of a property transfer.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (1) authorizes the jurisdictional transfer of the Francisco Reservoir site from SFPUC to the Recreation and Park Department in the amount of $9,900,000, and (2) finds that the transaction is consistent with the City's General Plan and Planning Code Section 101.1 as well as exempt from California Environmental Quality Act (CEQA) review.

The Recreation and Park Department intends to leverage Open Space Acquisition Funds to finance the transfer of the site and enable the future development of a neighborhood park in partnership with the site's surrounding community and neighborhood associations. According to Ms. Stacy Bradley, Recreation and Park Department Planner, the Department has been engaging with community stakeholders for several years on potential park plans. The Recreation and Park Department believes the site is "an excellent location for a signature park in our system".

The total cost to purchase the property is projected to be $10,669,725, as shown in Table 1 below.

Table 1: Total Projected Cost to Purchase the Property

Terms	Amount
Total Square Footage	143,344
Proposed Price Per Square Foot	x $69.06
Proposed Purchase Price (rounded)	$9,900,000
Projected Interest Payments [1]	769,725
Total Projected Cost to Acquire Property	**$10,669,725**

Source: Recreation and Park Department

[1] Purchase payments by the Recreation and Park Department to SFPUC are scheduled over 12 years; interest accrues annually on the outstanding balance (see Fiscal Impact section below).

Open Space Acquisition Fund and Francisco Reservoir Site Evaluation

The Recreation and Park Department has had an active open space acquisition program supported through property tax set-asides since Proposition J was approved in 1975. Open space acquisition support was extended in November of 1988 through the approval of Proposition E, and again in March of 2000 with the approval of Proposition C. This latest extension maintains property tax funding for the Open Space program through FY 2030-2031.

Table 2 below details Open Space Acquisition Fund deposits, expenditures, and acquisitions from FY 2000-01 through FY 2013-14. As shown in Table 2, deposits into the Open Space Acquisition Fund from FY 2000-01 through FY 2013-14 are $20.3 million, of which $11.0 million or 55.7% have been used to acquire property, with a remaining balance of $9.3 million.

Table 2: Open Space Acquisition Fund Expenditures, FY 2000-2001 to FY 2013-14

Fiscal Year	Deposits	Expenditures	Percent of Fund Used in Each Fiscal Year	End-of-Year Balance	Property Acquisitions
FY 2000-01	$1,300,000	0	0.0%	$1,300,000	
FY 2001-02	0	0	0.0%	1,300,000	
FY 2002-03	1,089,315	1,088,023	99.9%	1,301,292	Hawk Hill Park
FY 2003-04	1,200,000	677,859	56.5%	1,823,433	Page Street Community Gardens
FY 2004-05	1,213,500	2,805,163	231.2%	231,770	Edgehill Mountain Park & 701 Lombard St.
FY 2005-06	1,299,680	1,204,220	92.7%	327,230	Edgehill Mountain Park
FY 2006-07	1,461,150	1,224,203	83.8%	564,177	Edgehill Mountain Park & 701 Lombard St.
FY 2007-08	1,646,500	0	0.0%	2,210,677	
FY 2008-09	1,858,000	0	0.0%	4,068,677	
FY 2009-10	1,830,450	0	0.0%	5,899,127	
FY 2010-11	1,736,000	3,723	0.2%	7,631,404	DPW and Real Estate Division work orders for property appraisals and environmental assessments.
FY 2011-12	1,808,450	7,182	0.4%	9,432,672	DPW and Real Estate Division work orders for property appraisals and environmental assessments.
FY 2012-13	1,860,000	3,960,447	212.9%	7,332,225	Environmental Assessment for 900 Innes Ave and 3861 24th St acquisition.
FY 2013-14	2,028,000	39,516	1.9%	9,320,709	DPH fee for 900 Innes acquisition, Noe Valley Town Square Environmental Assessment (081WM), various expenses/fees related to Noe Valley Town Square Acquisition, Noe Valley Ministry Acquisition
Total	**$20,331,045**	**$11,010,336**	**55.7%**	**$9,320,709**	

Source: Deposits: FY 2000-01 to FY 2013-14 Annual Appropriate Ordinances; Expenditures: Recreation and Park Department and the Office of the Controller; Percentages and balances calculated by the Budget and Legislative Analyst

In 2011, the Recreation and Park Department adopted an Acquisition Policy to provide guidance to the City and stakeholders with respect to how Open Space Acquisition Funds should be utilized. The policy has three distinct goals:

1. Acquire properties that are found within or serve a High Needs Area[1] and/or an open space deficient area
2. Acquire properties that have identified funding for the purchase, development, and maintenance of the property
3. Acquire properties that encourage a variety of recreational and open space uses.

The Francisco Reservoir has been on the Recreation and Park Department's Acquisition Roster since 2011 and is classified as servicing an area with a mid-range of needs. Below are the primary findings of the site's evaluation:

- The site is not located within and does not serve an area designated as High Needs
- The site is located within a Distribution Deficiency Gap due to the lack of a children's playground within a ¼ mile radius around the site
- The site is not located within an adopted Area Plan
- The proposed project has significant community support and financial pledges from a neighborhood coalition
- The site is adjacent to an existing Recreation and Park Department property, and provides opportunities for passive and active recreational uses, in addition to providing scenic views.

Francisco Reservoir Fair Market Value

On September 1, 2013, SFPUC procured an appraisal of the property from Clifford Advisory LLC[2] giving the land a fair market value of $9,900,000. This appraisal has been approved by the City's Director of Real Estate, in accordance with Section 23.14 of the City's Administrative Code. According to Mr. Bardo, although the site could technically support improvements that would result in a greater potential market value, such as residential and commercial development, significant neighborhood opposition to such development raised concerns about feasibility. According to the appraisal report, only 1.09 acres of the 3.29 acre Francisco Reservoir property (33 percent) would support vertical development with the balance of the property representing an expansion of surrounding open space and park uses.

California Environmental Quality Act Review

The Planning Department has determined that the jurisdictional transfer of the Francisco Reservoir from SFPUC to the Recreation and Park Department is not considered a project as

[1] The Recreation and Open Space Element of the San Francisco General Plan defines "High Needs Areas" as those areas of the city that have (a) high population density, (b) a high percentage of children and / or seniors, (c) a high percentage of low-income households, and (d) low access to open space, and areas with high growth projections between 2014 and 2040.

[2] Clifford Advisory, LLC is a San Francisco-based real estate valuation and arbitration firm that has been working in the Bay Area for approximately 30 years. The firm was selected for the Francisco Reservoir appraisal via a competitive bid.

defined by CEQA. Future development of the property will be subject to separate environmental review pursuant to CEQA.

FISCAL IMPACT

Proposed Payment Schedule

The Recreation and Park Department and SFPUC will enter into a Memorandum of Understanding (MOU) for the jurisdictional transfer of the Francisco Reservoir from SFPUC to the Recreation and Park Department subsequent to Board of Supervisors approval of the proposed jurisdictional transfer. Under the MOU approved by the Recreation and Park Commission on June 19, 2014 and the Public Utilities Commission on July 8, 2014, the Recreation and Park Department will make payments to SFPUC from the Open Space Acquisition Fund totaling an estimated $10,669,725 over 12 years. Payments will begin on the later of September 30, 2014 or 30 days after execution of the MOU. The payment schedule is shown in Table 3 below, including annual principal and interest payments. As can be seen in Table 3, the proposed schedule is back-loaded, with $7,959,600 in principal, or approximately 80% of the total $9,900,000, coming due in the last six years of the 12-year payment schedule.

Table 3: Francisco Reservoir Payment Schedule

Year	Principal	Interest	Total
1	$207,900	$0	$207,900
2	198,000	96,921	294,921
3	198,000	94,941	292,941
4	425,700	92,961	518,661
5	455,400	88,704	544,104
6	455,400	84,150	539,550
Subtotal Years 1 through 6	1,940,400	457,677	2,398,077
7	950,400	79,596	1,029,996
8	980,100	70,092	1,050,192
9	1,039,500	60,291	1,099,791
10	1,564,200	49,896	1,614,096
11	1,633,500	34,254	1,667,754
12	1,791,900	17,919	1,809,819
Subtotal Years 7 through 12	7,959,600	312,048	8,271,648
Total	**$9,900,000**	**$769,725**	**$10,669,725**

Source: Recreation and Parks Department

Interest payments in Table 3 above are estimated at 1 percent of the outstanding balance each year, based on the current Treasurer's Pooled interest rate. Because interest rates are likely to increase over the next 12 years, total principal and interest payments by the Recreation and Park Department to SFPUC will likely exceed $10,669,725. For example, if interest rates were to remain at 1% for Years 1 – 6 of the payment schedule, but rise to 3% for Years 7 – 12, it would result in an additional $624,096 in interest payments and raise the total projected transfer cost to $11,293,821.

Attachment I to this report shows the Recreation and Park Department's projected Open Space Acquisition Fund balance from FY 2014-15 through FY 2030-31, the year in which the Fund sunsets, which includes expenditures for the proposed purchase of Francisco Reservoir, Innes Avenue, and the Schlage Lock Factory properties. While Attachment I shows an estimated end-of-year Fund balance ranging from $11.1 million in FY 2014-15 up to $39.2 million in FY 2030-31, reductions in annual deposits due to lower property tax revenues or increased expenditures to acquire additional properties could result in a lower fund balance.

Development and Maintenance Costs

According to Ms. Bradley, the Francisco Park Project, a neighborhood organization, has set a goal to raise $11 million for development and maintenance of the park on the Francisco Reservoir property, including $8.5 million to pay for park development and $2.5 million to establish a fund for ongoing maintenance costs. To date, the Francisco Park Project has raised pledges of $9 million. However, there is no certainty as to how much of the $11 million will be realized.

According to Ms. Bradley, the initial construction and design budget is based on a conceptual plan developed by the community which has not been officially endorsed by the Recreation and Park Department; a detailed proposed construction and design budget is therefore not available at this time. Once the property is acquired, the Recreation and Park Department will work with the neighborhood organization to enter into an MOU for the construction and design budget. As shown in Table 4 below, the Francisco Park Project estimates $139,369 in ongoing annual maintenance costs and $56,500 in one-time costs.

Table 4: Francisco Park Estimated Maintenance Costs

Item	Amount
Annual Costs	
Landscape Maintenance (1 Gardener)	$129,168
Turf Renovation (1 Operator Engineer)	1,476
Subtotal Labor Costs	130,644
Replacement Plant Material	3,000
Miscellaneous bulk landscape materials and supplies	5,000
Seed	563
Fertilizer	162
Subtotal Supplies	8,725
Total Annual Costs	**$139,369**
One Time Costs	
Miscellaneous hand gardening tools	$1,500
Power landscaping equipment	25,000
Vehicle	30,000
Total One Time Costs	**$56,500**

Source: Recreation and Parks Department

If the Francisco Park Project does not secure all or a portion of its $11 million goal, the balance of the costs for development and maintenance of the proposed park at Francisco Reservoir will result in General Fund costs unless other funding sources are identified. Ms. Bradley states that the Recreation and Park Department will scale down the park project as needed to conform to available funding.

Ms. Bradley states it will likely take eight months to two years to complete the design process and receive project approvals. There is currently no official timeline for project completion.

POLICY CONSIDERATION

The Recreation and Park Department's current Open Space Acquisition Fund roster does not contain any sites that are classified as "High Needs", as shown in Attachment II to this report. As noted above, the Recreation and Park Department's Open Space Acquisition Policy prioritizes acquisition of properties (1) in neighborhoods designated "high needs" or deficient in open space, (2) in areas experiencing high population growth, and (3) to preserve natural resources. As previously noted in the Budget and Legislative Analyst's report on the acquisition of 3861 24th Street (File 13-0341), the Recreation and Park Department's acquisition process is highly community-driven and in most cases, properties that are included on the Open Space Acquisition Fund roster are recommended by community members rather than identification of properties in high needs areas.

The Recreation and Park Department began a process in 2013 to identify potential new park sites in District 6 (Tenderloin and South of Market), much of which is designated as a high needs area. According to Ms. Dawn Kamalanathan, Recreation and Park Department Director of Capital and Planning, the District 6 Open Space Committee has developed a priority list of available properties and the Director of Real Estate hired Colliers, a real estate broker, to assist in selecting a short list of potential properties for acquisition. Ms. Kamalanathan states the process in District 6 could potentially serve as a model for future acquisition of open space in high needs areas.

The Budget and Legislative Analyst recommends amending the proposed resolution to request the Recreation and Park Department to report to the Board of Supervisors prior to December 31, 2014 on (1) the Department's strategy to acquire open space properties that meet the Open Space Acquisition Policy priorities, noted above; and (2) an evaluation of the District 6 Open Space Committee process and how it could be extended to other high needs neighborhoods in the City.

RECOMMENDATIONS

1. Amend the proposed resolution to request the Recreation and Park Department to report to the Board of Supervisors prior to December 31, 2014 on (1) the Department's strategy to acquire open space properties that meet the Open Space Acquisition Policy priorities; and (2) an evaluation of the District 6 Open Space Committee process and how it could be extended to other high needs neighborhoods in the City.
2. Approval of the proposed resolution, as amended, is a policy decision for the Board of Supervisors.

Open Space Acquisition Fund Analysis

2013/14 to 2030/31

	Estimated Deposits	Projected Balance (start of FY)	Francisco *(Projected)*	900 Innes *(Estimated)*	Schlage Lock *(Estimated)*	Remaining Funds (end of FY)	Balance with no acquisitions
13-14		9.149				9.149	9.149 *
14-15	2.149	11.298	0.208			11.090	11.298
15-16	2.246	13.336	0.295	3.126		9.915	13.544
16-17	2.342	12.257	0.293		1.967	9.997	15.886
17-18	2.435	12.432	0.519			11.913	18.320
18-19	2.508	14.421	0.544		2.534	11.343	20.828
19-20	2.583	13.926	0.540			13.387	23.411
20-21	2.660	16.047	1.030			15.017	26.071
21-22	2.740	17.757	1.050			16.707	28.812
22-23	2.822	19.530	1.100			18.430	31.634
23-24	2.907	21.337	1.614			19.723	34.541
24-25	2.994	22.717	1.668			21.049	37.535
25-26	3.084	24.134	1.810			22.324	40.619
26-27	3.177	25.500				25.500	43.796
27-28	3.272	28.772				28.772	47.068
28-29	3.370	32.142				32.142	50.438
29-30	3.471	35.614				35.614	53.909
30-31	3.575	**39.189**				**39.189**	57.485
Totals	***48.336***		***10.670***	***3.126***	***4.500***		

* The difference between the FY 2013-14 end-of-year balance discussed above and Attachment I is due to delays in reconciling year-end balances for FY 2013-14.

Last Updated: 07/07/2014

Attachment II

RECREATION and PARK DEPARTMENT ACQUISITION ROSTER

POLICY GOALS 1-3	MOST DESIRABLE	Located within or Serves a High Needs Area										
		Located within a Distribution Deficiency Gap										
	MORE DESIRABLE	Leverages Other Funding for Acquisition										
		Leverages other Funding for Construction										
		Leverages other Funding for Maintenance										
	DESIRABLE	Passive Recreation										
		Active Recreation										
		Natural Resources Protection										
		Special Attributes (Scenic Views, Accessibility to Water)										
PROJECT INFORMATION	Property Description and Site	**Project Title**	I. M. Scott School	Balboa Park Reservoir	India Basin (900 Innes Avenue)	Visitacion Valley Greenway	Selby & Palou Transfer	Francisco St. Reservoir	7th & Lawton	Palou / Phelps Open Space Extension	3rd and Hudson	Noe Valley Town Square
		Address / Block and Lot	20th Street b/w Tennessee and Minnesota St Block 4107, Lot 006	Block 3180, Lot 001	Properties surrounding 900 Innes Avenue. Block 4645 Lots 10, 10A, 11; Block 2629	Block 6201 lots 8 & 37; Block 6202 lots 2,3 & 45; Block 6208 lots 18-22 & 28-31 Block 6235 lots 13-15 & 32-34; Block 6238 lot 12,13,32 & 33; Block 6247 lots 11, 12, 30 &31.	Selby St.& Palou Ave Block 5331, Lot 055, 057	851 Bay St. Block 0046, Lot 001 and portion of Block 007, lot 001	Block 1937, Lot 001	Palou Street and Phelps Avenue Block 5336 lots 052, 047, 048, 049, 001	4101 3rd Street Block 5260, lot 001	3861 24th Street/ Block 6509, Lot 040
		Property Size	29,999 sf. / 0.69 acres	TBD	TBD	90,000 + / - sf. /2.11 acres	8,900 sf. / 0.2 acres	172,000 sf. / 3.95 acres	82, 764 sf. / 1.9 acres	14980 sf. / 0.34 acres	7,200 sf. / 0.16 acres	0.25 acres / 10, 829 sq. ft.
Important Attributes & Notes From Site Info Sheet			Close Proximity to Transit; Existing Site Features and existing historic building likely provide both recreation opportunities and challenges; Within Central Waterfront Area Plan	Close Proximity to Transit; Within the Balboa Park Station Area Plan	Historic Resources located on site; Former Industrial Uses on site may require clean up; adjacent to RPD Properties; Part of local and regional trail alignment; Within Bayview Hunters Point Area Plan & India Basin Subarea Plan; In discussion; Investigation of property and status in progress; 3 different owners.	PUC owned; Existing recreational site features are currently maintained by RPD	DPW owned; Proximity to transit; Existing recreational site currently maintained by RPD; Adjacent to elevated portion of 280 Freeway; RPD previously requested improvements to site by DPW prior to transfer; Within the Bayview Hunters Point Area Plan.	PUC owned; Adjacent to RPD property; Scenic views of the Bay	Potential for Natural Resources to exist on site; SFUSD owned; partial views; Close Proximity to Transit; Surrounding area sloped; Adjacent streets pose potential hazards; On study corridor for cross town trail	Adjacent to existing RPD Property; Provides Scenic Views; Natural Area; Within Bayview Hunters Point Area Plan; Appraised value less than asking price.	Close Proximity to Transit; between 3 streets - 1 very busy; Appraised value less than asking price; Within Bayview Hunters Point Area Plan.	Strong community partner has leveraged funds for construction and maintenance; Possible Prop 84 grant may also contribute to acquisition.
PROSAC Findings			Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster Jan. 2013
Date Listed			Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	Approved Roster June 2011	12/12/2012

Items 4 and 5 **Files 14-0749 and 14-0750**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

File 14-0749 is a proposed resolution approving a license agreement between the Port and PG&E for approximately (a) 435,600 square feet of submerged land between Pier 28 ½ and the foot of 23rd Street, (b) 52,272 square feet of underground access for horizontal directional drilling, and (c) 21,120 square feet of land along 23rd Street. The license is for 40 years with one 26-year option to extend, totaling 66 years.

File 14-0750 is a proposed resolution approving an option agreement for the City to purchase from PG&E the Hoedown Yard at Illinois and 22nd Streets for a purchase price of $8,283,726.

Key Points

- Pacific Gas and Electric (PG&E) has two existing 230 kV cables that transmit electricity from the Embarcadero Substation to the Martin Substation, serving most of downtown San Francisco, including sections of the Embarcadero, Chinatown, North Beach, Financial District, Union Square, Mid-Market, South of Market, and Mission Bay. Loss of these two cables or failure of the Embarcadero Substation breaker will result in the loss of electricity to the areas served by the Embarcadero Substation.
- PG&E requests to enter into a license with the Port to construct the proposed Embarcadero-Potrero 230 kV Cable Project (Cable Project) on Port property.
- City staff has negotiated a transferable option to acquire the PG&E Hoedown Yard. The City will only exercise the purchase option with PG&E if (1) the option is transferred to a third party that agrees to pay the full purchase price and assume all environmental liabilities on the property or (2) a City department proposes a public use for the property and has identified a funding source to pay the purchase price.

Fiscal Impact

- Under the proposed license agreement, PG&E would pay the Port $15,275,205 for the initial 40-year term of the license agreement.
- Under the proposed option agreement, the Real Estate Division would have the option to purchase the Hoedown yard for an estimated price of $8,322,942. Documents provided by Port staff estimate that increased value of the property due to entitlement changes could exceed $20,000,000.

Recommendation

Approve the proposed resolutions based on prior policy decisions made by the Board of Supervisors.

MANDATE STATEMENT

Charter Section 9.118 (c) states that any lease of real property for a period of ten or more years, including options to renew, or having anticipated revenue to the City and County of $1 million or more, shall first be approved by resolution of the Board of Supervisors.

Administrative Code Section 23.1 states that each department, board of commission of the City shall conduct all negotiations through the Director of Real Estate for the acquisition, conveyance or lese of any real property required for use or owned by the City. The Director of Real Estate must recommend resolutions and ordinances involving these transactions for approval by the Board of Supervisors.

BACKGROUND

Embarcadero-Potrero 230 kV Transmission Project

Pacific Gas and Electric (PG&E) has two existing 230 kV cables that comprise an electricity transmission line extending from the Embarcadero Substation (Fremont and Folsom Streets) to the Martin Substation (Schwerin Street and Geneva Avenue in Daly City,). Electricity generated by the Embarcadero Substation serves most of downtown San Francisco, including sections of the Embarcadero, Chinatown, North Beach, Financial District, Union Square, Mid-Market, South of Market, and Mission Bay.

According to the 2011/2012 Independent System Operator (ISO) Transmission Plan, loss of these two cables or failure of the Embarcadero Substation breaker will result in the loss of electricity to the areas served by the Embarcadero Substation, and "while the likelihood of the simultaneous loss of both circuits is low, the consequences of the outage are severe…" PG&E plans to construct a 230KV transmission bus[1] at the Embarcadero Substation, with an estimated completion date by 2016.

PG&E requests to enter into a license agreement with the Port to construct the proposed Embarcadero-Potrero 230 kV Transmission Project (Transmission Project) on Port property during the same general time frame in which PG&E is constructing the new Embarcadero 230KV Bus Upgrade project.

The Hoedown Yard Option

As a condition of the license agreement, City staff has negotiated a transferable option to acquire the PG&E Hoedown Yard, which consists of two parcels located at Illinois and 22nd Streets adjacent to Pier 70. The site comprises of 130,720 square feet. Current uses at the Hoedown Yard include parking, equipment storage, stock piling and temporary storage of drilling mud, concrete, soil, sand, gravel and asphalt associated with PG&E utility projects. According to Mr. Brad Benson, Director of Special Projects of the Port of San Francisco, relocation of these PG&E functions from the Hoedown Yard will enhance the Port's efforts to develop Pier 70.

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[1] Transmission buses are steel structure arrays of switches used to route power into a substation.

The Hoedown Yard contains known contamination. PG&E has completed site investigation and a human health risk assessment. The findings of this assessment indicate that arsenic is present in soil with an approximately 20,000 square foot (by approx. 5 feet deep) area in the northwest corner of the site at concentrations that pose a potential human health risk to future construction workers upon disturbance of the soil (not to current or future commercial/industrial workers).

Based on preliminary analysis provided by Mr. Benson, the Port estimates that the difference between the as-is purchase price of the Hoedown Yard and its future rezoned value for residential use could be higher than $20,000,000. The range of possible future uses will be determined by the Planning Commission and the Board of Supervisors.

Recent Action by the Board of Supervisors

On February 25, 2014, the Board of Supervisors approved Resolution No. 54-14 endorsing the term sheet between the Port and the Real Estate Division and PG&E for the Embarcadero-Potrero 230 kV Transmission Project license agreement and the Hoedown Yard purchase option.

DETAILS OF PROPOSED LEGISLATION

File 14-0749 is a resolution approving a license agreement between the Port and PG&E for approximately (a) 435,600 square feet of submerged land between Pier 28 ½ and the foot of 23rd Street, (b) 52,272 square feet of underground access for horizontal directional drilling, and (c) 21,120 square feet of land along 23rd Street where PG&E will construct the Embarcadero-Potrero 230 kV Transmission Project. The license is for 40 years with one 26-year option to extend, totaling 66 years.

File 14-0750 is a resolution approving an option agreement for the City to purchase from PG&E the Hoedown Yard at Illinois and 22nd Streets for a purchase price of $8,283,726.

File 14-0749: ZA-1 Embarcadero-Potrero 230kV Transmission Project

Under the proposed resolution, the Port would enter into a license agreement with PG&E, in which PG&E would construct an underground/underwater cable extending from the Embarcadero Substation (Fremont and Folsom Streets) to the Potrero Switchyard at 23rd and Illinois Streets, as part of the Embarcadero-Potrero 230 kV T Project. The terms of the proposed license agreement are shown in Table 1 below.

Table 1: Summary of Key Agreement Terms of Proposed License Agreement Between the Port and PG&E

Port Property to be used by PG&E	79,200 square feet of exclusive use underwater land 356,400 square feet of non-exclusive use underwater land 435,600 square feet of underwater land 52,272 square feet horizontal downward drilling 21,120 square feet underground 23rd Street 508,992 square feet total
Initial Term	40 years from approximately 2014 through 2054
Option to Renew	26 years from approximately 2055 through 2081
Rent Initial Term Payable by PG&E to the Port	$15,275,205 pre-paid in two equal installments
Rent Option Term Payable by PG&E to the Port	Fair market value based on third party appraisal Rent may be prepaid or paid annually as determined by PG&E. Prepaid option term rent will be equal to present value as of extension term commencement date, discounted at 6.5%. If annual payments are chosen, the option term rent will be equal to 103 percent of the initial term rent.
Construction Period Rent	75% abatement of rent during first two years of the license term
Deposits Payable by PG&E to the Port	Security deposit equal to 1/6th of the license fee in the 40th year of the term (approximately $385,000) Environmental oversight deposit of $10,000, increased by 15% every five years Environmental assurances deposit up to $6 million at the discretion of the Port
Regulatory Approvals	California Public Utilities Commission (CPUC) California Environmental Quality Act (CEQA) San Francisco Department of Public Works (DPW) permits Port building and other permits Other State agencies, which may include State Water Resources Control Board, San Francisco Bay Conservation and Development Commission, and Regional Water Quality Control Board Army Corps of Engineers
Non-exclusive License	Port reserves the right to grant other licenses or easements except in PG&E's exclusive use zone or other Port areas described in the proposed term sheet

Source: Proposed license between the Port and PG&E

The terms of the proposed license are consistent with the term sheet previously approved by the Board of Supervisors.

As-Is Condition

According to the proposed license, PG&E acknowledges that the Port has made no representation or warranties concerning the license area. PG&E further acknowledges the presence of certain hazardous materials and accepts these areas as is and with all faults.

Southern Waterfront Community Benefits and Beautification Policy

Consistent with the revised term sheet approved by the Board of Supervisors on February 25, 2014, PG&E agrees to enclose or screen, at the City's option, a substantial portion of the existing Potrero Switchyard, located at 22nd Street @ Illinois Street, at any time within five years of designation of the City's preferred design. Screening of the switchyard may include either an enclosed building or perimeter screening, based on City preference and approval of the Port's Waterfront Design Advisory Committee. PG&E also agrees to conduct outreach to various community groups and stakeholders in the vicinity of the Project to educate the public with respect to the Project and to provide information the Board of Supervisors and other regulatory agencies about the Project.

File 14-0750: Option to Purchase the Hoedown Yard by the City from PG&E

Under the proposed resolution, the Board of Supervisors would authorize the Director of Real Estate to enter into an option agreement to purchase the Hoedown Yard from PG&E. The terms of the purchase option are summarized in Table 2 below.

The proposed option agreement sets out the terms of the future purchase and sale agreement between the City and PG&E. Once the Board of Supervisors approves option agreement, the Director of Real Estate may enter into a purchase and sale agreement, but requires approval to do so from Board of Supervisors and Mayor.

As the Director of Real Estate is required to submit a future purchase and sale agreement for the property to the Board of Supervisors and Mayor for approval, the proposed resolution urges the Director of Real Estate to seek Board of Supervisors and Mayoral approval prior to selling the purchase option to a third party or purchasing the property on behalf of a City department.

Table 2: Summary of Key Agreement Terms for the City to Purchase the Hoedown Yard from PG&E

Area	3.0 acres on the northeast corner of 22nd Street and Illinois Street
Purchase Price Payable by the City to PG&E	$8,283,726, equal to $63.37 per square foot for approximately 130,720 square feet (approximately 3.0 acres)
Option Period	Between January 1, 2018 and June 30, 2021
Transfer Rights	The option may be transferred or assigned to another party in the City's sole discretion without payment of fees or other consideration to PG&E.
Closing Costs	PG&E pays (a) the premium for title insurance; (b) all transfer and sales taxes; (c) one-half of escrow fees; and (d) PG&E's attorney and consultant fees City pays (a) one-half of escrow fees; (b) all other title costs; and (c) City's attorney and consultant fees
Closing Requirements	Real Estate Division must complete acquisition of the property within five years of exercising the option and the latter of CPUC, CEQA and other regulatory approvals
Rezoning of Property	The City may rezone the property, which is currently zoned for heavy industrial use, to another use, including residential use. Rezoning to residential use will require the City and PG&E to determine allocation of the risks associated with residential development on the Hoedown Yard based on the existing site conditions. The purchase price is not subject to change based on rezoning of the property.
Refinement of Terms	The terms and conditions of the option to purchase the property will be furthered refined in a separate option agreement, which will be submitted to the Board of Supervisors for approval concurrently with the License.

Table 2 (continued)

Environmental Provisions	• Certain uses on the Hoedown Yard will be prohibited, including school, daycare and hospital uses and ground floor private open space; • High density residential, office and public open space will be permitted, subject to a modification to the Water Board's deed restriction; • The ultimate buyer of the Hoedown Yard will clean up the arsenic in the northwest corner of the site and indemnify and hold harmless PG&E from liability, including liability for personal injury, property damage, or further cleanup, during and after the construction of any new uses on the Hoedown Yard; • The owner of the Hoedown Yard or its agent will supply a $1 million letter of credit to PG&E to back its indemnity until 3 years after Certificate of Occupancy; • Construction on site will comply with a risk management plan and defined institutional controls, such as use of 3' feet of clean soil and a demarcation layer above native soil in softscaped areas such as public open space; and • The property owner/operator will notify all residents of site conditions and tenants and contractors of site conditions and required institutional controls and require notification of subtenants and subcontractors.

Transferable Option to Purchase the Hoedown Yard

According to the proposed resolution, the City will only exercise the purchase option and enter into a sales and purchase agreement with PG&E if:

- The option is transferred to a third party that agrees to pay the full purchase price and assumes all environmental liabilities and other obligations related to the property; or
- A City department proposes a public use for the property and has identified a funding source to pay the purchase price.

FISCAL IMPACT

Rent to the Port under the Proposed License

Under the proposed license to be issued by the Port to PG&E, PG&E will prepay rent to the Port for the initial 40-year term, estimated to be $15,275,205. The Port calculated the prepayment of the rent based on 3 percent per year escalation of the rent and an annual discount rate of 6.5 percent.[2] The discount rate of 6.5 percent is based on the current estimated blended average of the Port's costs of funds (bonds, loans and other payables). The terms of the rent

[2] The discount rate is the rate used to calculate the present value of future payments.

under the proposed license are the same as in the term sheet previously approved by the Board of Supervisors.

Costs to Purchase the Hoedown Yard

Under the proposed agreement, the Real Estate Division would have the option to purchase the Hoedown Yard for $63.67 per square foot, for a total estimated cost of $8,322,942. The actual purchase price would be established based on the actual square footage of the Hoedown Yard, estimated to be 130,720 square feet. The purchase price is not subject to change due to rezoning of the property or the date when the title is transferred to the City.

According to Mr. John Updike, Director of Real Estate, the value of the Hoedown Yard would increase due to entitlement work that would change the relevant zoning codes to allow residential use on the site. A third-party developer would be sought to build out the property at a price higher than the $8,322,942 used by the City to acquire by the property. If creating new entitlements to the property does not generate increased value or a third-party developer is not found, the City may decline the option to purchase the property.

Under the proposed agreement, Real Estate Division must exercise the option to purchase the Hoedown Yard by June 30, 2021, which is approximately seven years. Upon exercising the option, the City may complete the acquisition within seven years following the later of California Public Utilities Commission, California Environmental Quality Act and other regulatory approvals.

RECOMMENDATION

Approve the proposed resolutions based on prior policy decisions made by the Board of Supervisors.

Items 6 and 7 **Files 14-0727 and 14-0728**	**Department:** Mayor's Office of Housing and Community Development (MOHCD)

EXECUTIVE SUMMARY

Legislative Objectives

- **File 14-0727**: The proposed resolution authorizes and directs the sale of not to exceed $24,000,000 aggregate principal amount of City and County of San Francisco taxable general obligation bonds (Seismic Safety Loan Program, 1992), Series 2014C in one or more series.
- **File 14-0728**: The proposed ordinance appropriates $24,000,000 of City and County of San Francisco taxable general obligation bonds, Series 2014, for the Seismic Safety Loan Program in the Mayor's Office of Housing in FY 2014-2015.

Key Points

- Passed in 1992, Proposition A authorizes the issuance of up to $350,000,000 in general obligation bonds to provide loans for the seismic strengthening of unreinforced masonry buildings; up to $35,000,000 can be issued in any given year.
- These funds are collectively referred to as the Seismic Safety Loan Program (SSLP) and are administered by the Mayor's Office of Housing and Community Development (MOHCD).
- On May 23, 2014, the UMB Seismic Safety Loan Committee approved a loan in the amount of $20,100,871 for the 20th Street Historic Buildings Project. The Project consists of the rehabilitation of six buildings that form the historic core of Pier 70.
- The SSLP funds will be used to rehabilitate two buildings: 113/114 (1885 Union Iron Works Machine Shop) and 104 (the 1896 Office Building), which are both located at Pier 70 and are unreinforced masonry buildings in need of rehabilitation and verified by a structural engineer to be unreinforced masonry construction.
- For the rehabilitation of the six buildings to proceed, the Board of Supervisors must approve the 66-year lease of the buildings to Orton Development, Inc. (the Developer) (Item 14-0729).

Fiscal Impact

- The proposed resolution (Item 14-0727) authorizes the issuance of not to exceed $24,000,000 aggregate principal amount of City and County of San Francisco taxable general obligation bonds; an estimated $20,100,871 of the funds will be used to fund loans for the seismic projects in Buildings 113/114 and 104.
- The Office of Public Finance estimates that the average fiscal year debt service on the Bonds will be approximately $1,791,000. The total principal and interest payment over the approximate 20-year life of the Bonds is $35,828,000; including an estimated $13,343,000 million in interest payments over the life of the Bonds.
- The bonds are expected to be issued and delivered in September of 2014.
- The City Charter imposes a limit on the amount of general obligation bonds that the City can have outstanding at any given time. The limit is 3% of the assessed value of property in the City.
- As of June, 2014, there were $1.94 billion in general obligation bonds outstanding or approximately 1.12% of the net assessed value of property in the City for Fiscal Year 2013-14. If the Board approves the issuance of the proposed Bonds, the debt ratio would increase by approximately .02% to 1.14%, which is within the 3% legal debt limit.

Recommendation

Approve the proposed resolution and the proposed ordinance.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Charter Section 9.106 states that the Board of Supervisors is authorized to provide for the issuance of General Obligation bonds in accordance with the Constitution of the State of California. General Obligation Bonds may be issued and sold in accordance with state law or any local procedure adopted by ordinance. There shall be a limit on outstanding General Obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County.

Background

In 1992, the City electorate approved Proposition A, which authorized the issuance of not to exceed $350,000,000 in General Obligation Bonds to provide loans for the seismic strengthening of unreinforced masonry buildings (UMB). These funds are collectively referred to as the Seismic Safety Loan Program.

The Seismic Safety Loan Program is administered by the Mayor's Office of Housing and Community Development (MOHCD) under Administrative Code Sections 66 and 66A and the Seismic Safety Loan Program Regulations adopted through Ordinance No. 122-06. MOHCD administers the program and the cash proceeds from the bond sales are used to make loans to individual property owners whose applications are approved by the UMB Seismic Safety Loan Committee.

Recipients of the loans complete the necessary seismic repairs to their unreinforced masonry buildings. Repayments from seismic safety loans are used to pay the debt service on the General Obligation Bonds. Property taxes assessed on all taxable property owners in the City pay the difference between the cost of debt service and repayments by loan recipients.

Under Proposition A, funds are allocated to affordable housing and to market-rate residential, commercial and institutional buildings, as shown in Chart 1 below.

Table 1: Allocation of Bond Monies under Proposition A by Building Type

Building Type	Annual Allocation	Percentage of Total Funds
Affordable Housing	$150,000,000	43%
Market-rate Residential, Commercial and Institutional	$200,000,000	57%
TOTAL	$350,000,000	100%

Source: Office of the Controller

The City has sold two series of Seismic Safety Loan Program bonds. The City sold the first series of bonds with a total principal amount of $35,000,000 in April 1994, pursuant to Resolution 160-94. All of these bonds were redeemed in full as of October 2002. The City sold the second series of bonds in the principal amount of $30,315,450 in May 2007 pursuant to Resolution 65-07. With the second series of bonds, MOHCD funded and administers a Seismic Safety Loan Program portfolio with an outstanding balance of approximately $25,193,783 and available funds to make future loans of $5,121,667.

On May 23, 2014, the UMB Seismic Safety Loan Committee approved a loan in the amount of $20,100,871 for the 20th Street Historic Buildings Project on Pier 70. Building 113/114 (1885 Union Iron Works Machine Shop) and Building 104 (the 1896 Office Building) are both located at Pier 70 and are unreinforced masonry buildings in need of rehabilitation and verified by a structural engineer to be unreinforced masonry construction. Approval of the ground lease agreement between the Port and Orton Development, Inc. (the developer) for the rehabilitation of the 20th Street Historic Buildings is calendared for the July 16, 2014 Budget and Finance Subcommittee (File 14-0729).

DETAILS OF PROPOSED LEGISLATION

File 14-0727: The proposed resolution authorizes and directs the sale of not to exceed $24,000,000 aggregate principal amount of City and County of San Francisco taxable General Obligation Bonds (Seismic Safety Loan Program, 1992), Series 2014C in one or more series; prescribing the form and terms of said bonds; authorizing the execution, authentication, and registration of said bonds; providing for the appointment of depositories and other agents for said bonds; providing for the establishment of accounts related to said bonds; providing for the manner of sale of said bonds by competitive sale or negotiated sale; approving the forms of official notice of sale, a notice of intention to sell bonds, and a bond purchase contract; directing the publication of the notice of intention to sell bonds in the event of a competitive sale; authorizing the selection of underwriters in the event of a negotiated sale; approving the form of the preliminary official statement and authorizing the execution of the official statement relating to the sale of said bonds; approving the form of the continuing disclosure certificate; authorizing and approving modifications to documents; ratifying certain actions previously taken; and granting general authority to City officials to take necessary actions in connection with the authorization, issuance, sale, and delivery of said bonds.

File 14-0728: The proposed ordinance appropriates $24,000,000 of City and County of San Francisco taxable General Obligation Bonds, Series 2014, for the Seismic Safety Loan Program in the Mayor's Office of Housing in FY 2014-2015 as one source of funds for the 20th Street Historic Buildings Project (see file 14-0729).

FISCAL IMPACT

The proposed resolution (Item 14-0727) authorizes the issuance of not to exceed $24,000,000 aggregate principal amount of City and County of San Francisco taxable General Obligation bonds as part of the Seismic Safety Loan Program. According to Ms. Nadia Sesay, the sale of the proposed Seismic Safety Loan Program bonds is expected to result in $22,485,000 in bond proceeds,[1] of which $20,100,871 are available to the Seismic Safety Loan Program to fund loans for the seismic projects in Buildings 113/114 and 104, as shown in Table 2 below.

Table 2: Sources and Uses of the General Obligation Bonds, Series 2014

Sources	
Bond Proceeds	$24,000,000
Uses	
Funds Available for Loans	$20,100,871
Reserve Pending Bond Sale [1]	3,227,653
Cost of Issuance [2]	502,838
Underwriter's Discount [3]	168,638
Total	$24,000,000

Source: Controller's Office of Public Finance

[1] The reserve pending bond sale accounts for fluctuations in interest rates.
[2] The costs of issuance include bond counsel, financial advisors, bond trustees, rating agencies, and other fees and miscellaneous expenses for issuing bonds.
[3] The underwriter's discount is the difference between the price an underwriter pays an issuer and the price at which it sells the offering to the public.

Principal and Interest Payments

The Office of Public Finance estimates that the average annual debt service, including principal and interest, on the bonds is approximately $1,791,400. The total interest payments are approximately $13,343,000 over the 20 year term of the bonds based on an interest rate of 5.1 percent. The combined total debt service of principal and interest payment over the 20 year term of the bonds is $35,828,000.

The bonds are expected to be issued and delivered in September of 2014. Timing milestones in connection with the financing are summarized in Chart 3 below.

Table 3: Bond Issuance Time Lines

Milestone	Estimated Date
Consideration by the Capital Planning Committee	June 23, 2014
Introduction of authorizing resolution	July, 2014
Issuance and delivery of Bonds	September, 2014
Closing of SSLP Loan, Lease and Construction Loan	September, 2014

Source: Controller's Office of Public Finance

[1] The difference between the resolution to issue bonds up to $24,000,000 and the expected bond proceeds of $22,485,000 is due to the reserve pending bond sale, which accounts for interest rate fluctuations, the cost of issuance, and the underwriter's discount.

Although under the proposed resolution, the Board of Supervisors authorizes the competitive sale of the Seismic Safety Loan Program bonds, the resolution also authorizes the Controller and the Director of Public Finance to negotiate rather than competitively sell the bonds. According to Ms. Sesay, the default option is to competitively bid the sale; however, the resolution allows for a negotiated sale to occur if market conditions make a competitive sale not feasible.

Debt Limit

The City Charter imposes a limit on the amount of General Obligation bonds the City can have outstanding at any given time. The limit is 3 percent of the assessed value of property in the City. As of June 16, 2014, there were $1.94 billion in General Obligation bonds outstanding or approximately 1.12 percent of the net assessed value of property in the City for FY 2013-14. If the entire City's authorized and unissued bonds were issued, the total outstanding bonds would be 1.44 percent of the net assessed value of property in the City. If the Board approves the issuance of the proposed bonds, the total outstanding bonds would increase by approximately .02 percent to 1.14 percent of net assessed value of property in the City, which is within the 3 percent legal debt limit.

Capital Plan

The Capital Planning Committee approved a financial constraint regarding the City's planned use of General Obligation bonds such that debt service on approved and issued General Obligation bonds are estimated not to increase property owners' long-term property tax rates above FY 2005-06 levels. The FY 2005-06 property rate for the General Obligation bond fund was $.1201 per $100 of assessed value. If the Board of Supervisors approves the issuance of the Bonds, it is estimated that the property tax rate for General Obligation bonds for FY 2014-15 would be maintained below the FY 2005-06 rate and within the Capital Planning Committee's approved financial constraint.

POLICY CONSIDERATION

$20.1 million of $24 million appropriated in funds from the Seismic Safety Loan Program (SSLP) are anticipated to comprise approximately 26 percent of total costs of $76,500,000 to serve as one source of funds for the 20th Street Historic Buildings Project (File 14- 0729) rehabilitation of the six historic buildings at 20th Street and are an integral part of Project funding.

The Project will deliver a number of public benefits, both during construction and upon completion, including:

- The rehabilitation and reuse of historic structures of nationwide importance;
- The creation of new public spaces;
- The elimination of $110 million of unfunded costs from Port's Capital Plan;
- $50 to $60 Million of new assessed value that can be bonded to provide IFD funding for public infrastructure;
- Participation by Local Business Enterprises (LBE), with an LBE Goal of 17% for project work;

- Construction of the project will employ an estimated 250 people over a 10-year period;
- Between 400-500 permanent jobs when the project is complete and leased; and
- Improves the Port's operating cash flow, reduces the Port's security and repair costs due to ongoing vandalism and deterioration of these historic buildings, and provides the Port a new, long-term revenue source that can be used to fund other capital improvement needs and public benefits such as parks and open space.

The proceeds of the $20,100,000 for the Seismic Safety Loan Program General Obligation bonds will be issued to the developer as a loan and will be repaid by the developer over a term of 20 years. The loan terms are highlighted in the table below.

Table 4: Basic Seismic Safety Loan Program Market Rate Terms

Loan Term	20 years fully amortizing
Interest Rate	City's cost of funds plus 1%
Loan to Value	90% to 95% LTV
Debt Service Coverage Ratio	1.05x to 1.10x

Source: Keyser Marston Associates; the Port

RECOMMENDATION

Approve the proposed resolution and the proposed ordinance.

Item 8 File 14-0729	Department: Port Commission (Port)

EXECUTIVE SUMMARY

Legislative Objectives

- File 14-0729 is a resolution that would approve and authorize a 66-year lease for the historic buildings along 20th Street at and East of Illinois Streets at Pier 70 between the San Francisco Port Commission and Orton Development, Inc. or its affiliate, Historic Pier 70, LLC, a California limited liability company (the Developer).

Key Points

- Pier 70 encompasses approximately 69 acres on the Port's Central and Southern Waterfront, bounded by Mariposa, Illinois and 22nd Streets. The proposed Project will rehabilitate and seismically strengthen a set of six large historic buildings (the Project) located on or near 20th Street, in an area of Pier 70 known as the historic core. The buildings will be used for office, commercial and light industrial tenants.
- On February 28, 2012, the Port Commission awarded Orton Development, Inc. an exclusive right to negotiate with the Port for the development, rehabilitation, and lease of the 20th Street historic buildings pursuant to a validly authorized and conducted RFP process (Resolution 12-18).
- The Port worked with the Developer to compose a Term Sheet for the Project that was subsequently endorsed by the Port Commission on October 9, 2012 (Resolution 12-78), and by the Board of Supervisors (Resolution 12-1045).
- On May 13, 2014, the Port Commission approved the adoption of the final lease and the lease disposition and development agreement (LDDA) for a term of 66 years (Resolution 14-33).
- Provisions in the lease from the original Term Sheet include that the Developer will invest up to $14 million of equity in the Project and secure Project debt and tax credit investors for the remaining funds.
- Net revenue from the Project after operating expenses and debt service will be used to first pay the Developer a 14% simple interest return, then to repay the Developer's equity, then to repay the Port's equity and associated return and will finally be split equally with the Port (as participation rent).
- Changes to the Term Sheet include that: 1) the Project is estimated to cost $76.5 million, up from $58 million, 2) the Port will contribute $1.75 million, up from $1.5 million, and 3) the minimum base rent to be received by the Port in Year 20 will be $240,000, up from $200,000.

Fiscal Impact

- The Developer is projecting total gross rental income from the Project at $5.97 million per year. This equates to an average of $25 per square foot of net leasable area. Higher rents of $34 per square foot are projected for the office and restaurant space and lower rents of $16 to $21 per square foot are projected for the light industrial space.
- According to the pro-forma analysis, under the base case scenario, Port Equity repayment and participation rent will commence in 2024. Port Equity and Return will amount to $298,000 annually for ten years and the Port's Participation Rent is estimated at $122,000 in 2024, rising to $ 692,000 in 2034.
- The net present value discounted at 6% of all Port revenue including repayment of and return on Port Equity, Base Rent and Participation Rent is estimated at $17,000,000 for the 66 year term of the Lease, which is $1,300,000 more than was estimated when the Board endorsed the Term Sheet in 2012.
- The Developer produced three sensitivity analyses to examine the impact on rental income to the Port in the case of 1) delayed phasing, 2) higher costs, and 3) lower rents. According to Jonathan Stern, Assistant Deputy Director of Waterfront Development Projects, the most likely of the three scenarios is that hard costs for the Project could be higher than anticipated. In the case that costs are 15% higher than planned, the total rent paid to the Port over the life of the Project will be 60% of the base case scenario total of $7,000,000.
- Mr. Stern notes however, that even if construction costs are higher than anticipated, the pro forma utilizes a conservative estimate for rent, which does not include rental income for the mezzanine space in Buildings 113/114. If construction costs are higher, they may be mitigated by high demand for space, and the rental income generated by the mezzanine space.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Charter Section 9.118(c) states that any lease of real property for a period of ten years or more, including options to renew, or having anticipated revenue to the City and County of one million dollars or more; the modification, amendment or termination of any lease, which when entered into was for a period of ten or more years, including options to renew, or had anticipated revenue to the City and County of one million dollars or more; and any sale or other transfer of real property owned by the City and County, shall first be subject to approval by resolution of the Board of Supervisors. Leases of property under the jurisdiction of the Port Commission for maritime use shall be exempt from the requirements of this section.

Background

Pier 70

Pier 70 encompasses approximately 69 acres on the Port's Central and Southern Waterfront, bounded by Mariposa, Illinois and 22nd Streets. The Port has proposed to rehabilitate and seismically strengthen a set of six large historic buildings, known as the 20th Street Historic Buildings Project (the Project), in an area of Pier 70 known as the historic core (see Figure 1 below). Some of the buildings date back to the 1880s and all are in urgent need of repair. The goal of the Project is to return the buildings to active use, and make them into a vibrant, integral part of the surrounding community.

Figure 1: Existing and Proposed Pier 70 Projects

Project Description

In April 2010, the Port published its Preferred Master Plan (Master Plan) for the Pier 70 area after a community planning and technical feasibility analysis effort. The Pier 70 Master Plan provides for sustained ship repair, historic preservation, new waterfront parks, and new development.

In 2011, California's Legislature passed Assembly Bill 418. AB 418 authorized several changes at Pier 70 including allowing non-trust uses of historic buildings if necessary to finance the rehabilitation of the buildings. A third-party analysis found that a reuse program reliant solely upon trust uses is not economically viable, as the buildings are not built for nor are conducive to current maritime or public trust uses.

Under the proposed 20th Street Historic Buildings Project, the developer will rehabilitate the six Port buildings comprising 316,307 square feet, including two buildings that made up the former Bethlehem Steel and Union Ironworks office buildings (Buildings #101, 104), the former Power House (Building #102), the former Union Ironworks Machine Shop (Buildings #113, 114) and surrounding warehouses (Buildings #115, 116, and Building 14). The buildings will be used for office, commercial and light industrial uses, as shown in Table 1 below. These uses are consistent with the historic purpose of the buildings.

Table 1: Proposed 20th Street Historic Buildings Project

Building	Square Feet	Proposed Use
101	56,268	Office
102	8,428	Restaurant/Commercial
104	42,846	Office
113/114	149,964	Light Industrial
115/116	42,486	Light Industrial
14	16,315	Light Industrial
Total	**316,307**	

Source: Orton Development, Inc.

Project Milestones

On February 28, 2012, the Port Commission awarded Orton Development, Inc. (the developer) an exclusive right to negotiate with the Port for the development, rehabilitation, and lease of the 20th Street Historic Buildings Project pursuant to a competitive Request for Proposals (RFP) process (Resolution 12-18). The Port management worked with Orton to develop a Term Sheet for the Project that was subsequently endorsed by the Port Commission in October 2012 (Resolution 12-78), and by the Board of Supervisors in December 2012 (Resolution 12-1045).

The Budget and Legislative Analyst issued a report prior to the Board's endorsement that examined the fiscal feasibility of the Project and analyzed the conditions of the Term Sheet in-depth. While supporting the endorsement of the Term Sheet and establishing a finding of fiscal feasibility under Chapter 29 of the City's Administrative Code, the Budget and Legislative Analyst noted that final approval of the project was subject to future approval of environmental findings under the California Environmental Quality Act (CEQA) and to the approval of the final lease between the Port and Orton. The Budget and Legislative Analyst recommended that the Board of Supervisors review the final ground lease and the lease disposition and development agreement (LDDA) to ensure consistency with the original findings.

The purpose of the lease disposition and development agreement (LDDA) is to document the requirements for the rehabilitation and redevelopment of the site, and the conditions for delivery of the lease to the developer. The Port will deliver the lease to the developer if the conditions are satisfied. The LDDA provides the developer with the certainty it needs to invest in the design and construction documents and approval process for the Project and to finalize the Project financing. The conditions for the developer in the LDDA are described below (see "Details of Proposed Legislation").

The Planning Department reviewed the Project and determined that a community plan exemption under California Environmental Quality Act (CEQA) Guidelines Section 15183 would be appropriate. The Project is within the scope of the Eastern Neighborhoods Rezoning and Area Plans Final Environmental Impact Review (EN FEIR) and would not have any additional or significant adverse effects that were not examined in the EN FEIR. The Planning Department prepared a Community Plan Exemption for the proposed Project, which was approved by the Planning Commission on May 7, 2014.

On May 13, 2014, the Port Commission approved the adoption of the final lease and LDDA for a term of 66 years (Resolution 14-33).

Project Benefits

The developer will rehabilitate the six historic buildings on Pier 70 which the Port is unable to rehabilitate with existing Port resources, and provide a public plaza and community spaces as well as office, restaurant and retail, and light industrial space. The voters approved Proposition D in November 2008, amending the City's Charter to facilitate development on Pier 70.

Goals of the Project include:

1. Rehabilitating historic buildings that the Port is otherwise unable to rehabilitate. The Port's capital plan has approximately $110 million of unfunded costs for these structures. Transferring responsibility for these buildings to the developer will reduce the Port's unfunded capital requirements and positively affect the Port's credit outlook;

2. Adding to the value of Port property. This effort will create about $50 - $60 million in new assessed value that could provide up to $40 million of future tax increment that can be reinvested in Pier 70 through the infrastructure financing district (discussed below);
3. Improving the Port's operating cash flow;
4. Reducing the Port's security costs and repair costs due to vandalism of these buildings; and
5. Providing Port revenue, in the longer-term.

DETAILS OF THE PROPOSED LEGISLATION

The proposed resolution would approve and authorize a 66-year lease for the 20th Street Historic Buildings Project to rehabilitate six historic buildings along 20th Street at and East of Illinois Streets at Pier 70 between the San Francisco Port Commission and Orton Development, Inc. or its affiliate, Historic Pier 70, LLC, a California limited liability company.

The Term Sheet

Consistent with the provisions in the original Term Sheet, the Developer will invest up to $14 million of equity in the Project and secure Project debt and tax credit investors for the remaining funds. Net revenue from the Project after debt service will be used to first pay the developer a 14% return on its equity investment, then to repay the developer's equity, then to repay the Port's equity and associated return, with the remaining net revenues to be divided equally between the developer and the Port (as participation rent).

Following the Board of Supervisor's endorsement of the Term Sheet in 2012, the Port and Orton continued to negotiate the provisions of the ground lease and lease disposition and development agreement (LDDA) over an 18-month period.

Changes made to the Term Sheet include:

- An increase in the total project cost by $18.0 million or 30.8 percent, from $58.5 million to $76.5 million, due to additional site work, additional building repair complexity after further due diligence and analysis, rising construction costs, and assessment of a $1.45 million transit impact development fee;
- An increase in the total Port contribution from $1.5 million to $1.75 million (see Table 3 below) due to the receipt of a $250,000 California Cultural Equity Endowment grant secured in 2013;
- An increase in the initial base rent payable to the Port from $200,000 to $240,000, which the Port is expected to receive in Year 20 even if the developer has not recovered its equity investment;
- Amendment of the Exclusive Negotiating Agreement (ENA) to defer reimbursement to the Port by the developer of the Port's transaction costs[1] in excess of $80,000 until the developer receives sufficient revenues from the Project to reimburse the Port. This provision reduces the Project's front-end costs and lowers the required equity investment by the developer that would accrue at a 14 percent return and that would otherwise be used to reimburse the Port;
- Inclusion of a provision to remove buildings from the Project and/or to defer the minimum rent payable to the Port if unforeseen conditions are discovered that cause a delay or increase the costs of the Project. Unforeseen conditions must meet a threshold of $1 million;

[1] The Port's transaction costs, estimated to be $700,000 as shown in Table 4, below, are to pay for the costs of negotiations, entitlements, and construction monitoring.

- The Port is responsible for upgrades of adjacent streets and sidewalks to accommodate the Project. The Port will use infrastructure financing district (IFD) funds if available for this work (see Policy Considerations section);
- After repayment of developer equity, the Port will receive repayment of its $1.5 million contribution over 10 years in equal installments that include a return on the Port's capital equivalent to the Port revenue bond interest rate as of May, 2014 (not to exceed 7%). The developer has the right to pre-pay the outstanding Port equity and return. The minimum rent will be delayed if Port equity is outstanding;
- If Port participation rent exceeds the amounts forecast in the Port approved proforma and attached to the Lease, the developer receives an incentive payment of 20% of the excess of such projections. This incentive payment only applies after the Developer's equity is repaid and is only in effect after a 2-year construction period for 20 years of the lease term; and
- Parking for the project will be provided as part of an area parking strategy on sites to be determined and the Port, not the Developer, will receive parking income from off-premises parking.

Table 2 below summarizes the Term Sheet and notes the changes from the original Term Sheet in bold.

Table 2: Summary of Updated Term Sheet

Lease Provision	Proposed Terms
Term of Lease	66 years
Total Project Cost	$76,500,000 (**up from $58.5 million**)
Port Capital Contribution	- $1,750,000 in Port funds (**includes receipt of $250,000 California Cultural Equity Endowment grant**)
Project Debt	- Parties agree to cooperate to secure the greatest amount of debt and the lowest cost of third-party capital and debt as reasonably possible - Orton will pay down remaining equity and equity interest in project through additional debt - Orton may obtain additional debt or assign the lease as security for project financing, with Port approval
Orton Equity	- Orton's equity contribution equals total project cost, less tax credits, debt proceeds, and Port's capital contribution - Orton's return on the project is 14% per year, on a simple interest basis (returns do not accrue on cumulative unpaid returns) for a maximum of $1,960,000 per year based on $14 million in equity. - Once debt financing is secured, Orton's equity shall not exceed $14 million
Orton Equity Repayment/ Participation Rent	- Port would participate in 50% of annual net revenues - Under the base case scenario (development costs of $76.5million), the Port would begin to receive participation rent of $122,000 in 2024 rising to $665,000 in 2034.
Initial Base Rent payable to the Port	- $240,000 per year (**up from $200,000 in 2012 dollars**) - Base rent is counted toward the Port's 50% participation rent, and will begin after Orton's equity is paid in approximately year 10. - Base rent is due in Year 20 even if Orton equity is not repaid
Base Rent Escalation	- Escalated every 5 years based on the Consumer Price Index (CPI) but no more than 20%
Base Rent Re- Sets	- Adjusted every 10 years to the higher of (1) base rent as escalated by the CPI; or (2) every 10 years after the commencement of Base Rent Payments, 60% of the average Port participation rent over the previous 5 years
Participation in refinancing proceeds	- If Orton refinances, excess proceeds will be used to pay down Orton's equity and interest - Net proceeds after repaying debt and Orton's equity will be shared equally between the Port and Orton
Participation in sale or assignment	- Port receives 10% of any net sales proceeds

The Lease Disposition and Development Agreement

Under the lease disposition and development agreement (LDDA), the developer will have the following obligations for development of the Site:

1. Accept the Site in its "as is" condition, perform due diligence investigations, comply with laws and regulations and obtain all regulatory approvals necessary to undertake the planned development;
2. Construct the improvements in conformance with the Scope of Development and Schematic Drawings and within the timeframes set forth in the Schedule of

Performance. The improvements must comply with the Secretary of the Interior's Standards the Treatment of Historic Properties;

3. Secure necessary construction loan, historic tax credits and Seismic Safety Loan Program (SSLP) proceeds;
4. Comply with the Mitigation Monitoring and Reporting Program;
5. Carry insurance and indemnify the Port;
6. Reimburse the Port for costs of staff time and legal fees incurred during the term of the LDDA and any outstanding costs incurred during the term of the ENA;
7. Furnish the Port with "Record Documents" documenting all improvements after completion of the improvements; and
8. If the LDDA terminates prior to close of escrow (for any reason other than a title defect, casualty or a termination caused by a Port event of default), developer will be required to pay a termination fee of $200,000 to the Port.

After the developer completes construction of the improvements described in the Scope of Development, the Port will issue a Certificate of Completion, which upon recordation will terminate the LDDA. Port Commission approval of the LDDA is required because it concerns a major development on Port property and sets forth requirements for delivering the lease. The LDDA is not subject to Board of Supervisors approval.

Source of Project Funds

Despite an increase in the estimated cost of the Project by $18 million to $76.5 million, Orton and the Port anticipate that the combination of strong revenues and the pre-leasing of a significant portion of the Project will allow them to secure favorable debt terms. Table 3 below shows the estimated sources of funds for the Project.

Table 3: Estimated Sources of Project Funds

Sources	Construction Financing (2014-16)	% of Total	Permanent Financing (2017)	% of Total
Orton Development Inc. (Orton) Equity	$5,950,000	8%	$5,950,000	8%
Federal Historic Tax Credits	13,700,000	18%	13,700,000	18%
Port/Grant Contribution	1,750,000	2%	1,750,000	2%
Bank Loan	35,000,000	46%		0%
Seismic Safety Loan	20,101,000	26%	20,101,000	26%
Permanent Loan Tranche 1 (net of fees)		0%	34,308,000	45%
TOTAL	**$76,501,000**	**100%**	**$75,809,000**	100%

Source: Orton Development, Inc. and the Port of San Francisco

Following is a brief description of the sources of funds.

Orton Development, Inc. Equity: Per the Term Sheet, Orton can commit up to $14 million in equity. Orton receives equity on its costs of 14%, so it is advantageous to the Port to use lower cost financing when possible. The current financing plan includes $5.25 million in Orton equity during construction, and an additional $700K between 2017 and 2019 to fund the deferred portion of transit impact fees. Orton equity will be repaid through a combination of operating cash flow and permanent financing.

Federal Historic Preservation Tax Credits: Historic tax credits will equal 20% of qualified historic rehabilitation expenses of approximately $68.5 million, resulting in an estimated $13.7 million in historic preservation tax credit equity.[2] A bank bridge loan is anticipated to be used as temporary construction financing until the tax credit equity is in place.

Port/Grant Contribution: Per the term sheet, the Port is committing a $1.5 million capital contribution for interim shoring of the Union Ironworks Machine Shop (Building 113) for the project and an additional $250,000 in grant funds from the California Cultural Equity Endowment, for a total of $1.75 million. The Port equity, including the associated return on equity, will be repaid from the Project revenues after the developer's return on equity and equity has been repaid.

Bank Loan: A $35 million bank construction loan at 4.5% interest over 30 years will fund 46 percent of project costs, and has been committed by Comerica Bank. The underwriting assumptions are consistent with a preliminary, non-binding commitment letter provided by Comerica and reviewed by Keyser Marston Associates, retained by the Port to assess the financial projections of the proposed development. Comerica will require that a certain level of pre-leasing be completed prior to funding the loan.

Seismic Safety Loan Program (SSLP): The developer is applying for a loan from the City's Unreinforced Masonry Building Seismic Safety Loan Program (SSLP), which is administered through the Mayor's Office of Housing and Community Development (MOHCD). SSLP loans are estimated to total up to $20.1 million for the Project, based on the loan-to-value (LTV) ratio and debt service coverage test per the underwriting criteria. Orton currently assumes that the SSLP will remain in place for a total of eight years after which it will be repaid with permanent take-out financing.

The interest rate on these loans is assumed to be 7.5%, which is much lower than the 14% return on the developer equity. The Seismic Safety Loan proceeds will be used to fund the majority of the seismic upgrade costs for Buildings 113/114 and 104, the former Union Ironworks Machine Shop and office building respectively. The total seismic upgrade costs are currently estimated at $26 million. The Board of Supervisors will review and approve the use of the SSLP and the required bond indebtedness in Items 14-0728 and 14-0727. More information about these approvals is included in the "Policy Consideration" section below.

Permanent Loan Tranche: Once the project is complete and stabilized, Orton will take out the bank construction loan with permanent financing. Orton is proposing to utilize a 30-year industrial revenue bond for permanent take out financing with two tranches, at 4.5% interest. Orton does not yet have a commitment for the proposed industrial revenue bond take out financing, but anticipates that a Letter of Credit will be provided by Comerica Bank for it.

[2] Tax credits are sold to equity investors, who invest funds in the project in exchange for federal tax credits.

Uses of Project Funds

Table 4 below detail the uses of project funds. The Project's development costs can be broken down into the following main categories: 1) hard costs including construction costs estimated to be $180 per square foot, by Orton's contractor, Nibbi Brothers General Contractors; 2) soft costs including planning design, permitting, legal and other soft costs; and 3) financing costs and impact fees.

Table 4: Uses of Project Funds

Hard Costs	
Off-Site Improvements/Utilities	$ 533,234
Demo/Hazmat Abatement	2,132,936
Construction Costs	45,448,486
General Conditions	3,083,555
Tenant Improvements/Allowance	1,225,201
Hard Cost Contingency	2,621,171
Cost Escalation	1,100,892
Total Hard Costs	$56,145,475
Soft Costs	
Preconstruction Costs	$561,455
Architect Fees	1,544,001
Engineering and Consultants	982,546
Miscellaneous Consultants	280,727
Consultant Coordination	94,745
Printing/Reimbursable Expenses	280,727
Testing/Special Inspections	280,727
Permits & Fees	579,316
Insurance during construction	350,704
Legal and accounting	561,455
Developer costs	561,455
Marketing and leasing commissions	3,881,104
Property taxes during construction	323,130
Port Transaction Costs	700,000
Soft cost contingency	1,519,464
Total Soft Costs	$11,801,556
Financing Costs & Impact Fees	
Financing Costs Bank and Bridge Loans	$3,526,412
Financing Costs Seismic Safety Loan	1,894,457
Impact Fees	1,679,011
Guarantee Fee	750,469
Total Financing Costs and Impact Fees	$19,651,905
Total Development Costs	**$76,497,000***

Source: Orton Development, Inc.
* Rounded to $76,500,000

As detailed in the Term Sheet, if project costs are higher than estimated due to unforeseen conditions prior to the start of construction, Orton can:

(1) Remove buildings other than buildings #113 and 114 from the project;

(2) Increase the equity investment to more than $14 million with the Port's approval;

(3) Renegotiate the agreement; or

(4) Terminate the agreement.

If project costs are higher than estimated due to unforeseen conditions after the start of the construction, Orton can:

(1) Increase the equity investment to more than $14 million with the Port's approval; and

(2) Delay the start date of base rent payments to the Port.

FISCAL IMPACT

Currently, the Port does not receive rent from the six buildings that comprise the 20th Street Historic Buildings Project, which require significant rehabilitation. In order to finance rehabilitation of the 20th Street Historic Buildings and other Pier 70 properties that the Port cannot finance by itself, the 2010 Pier 70 Master Plan proposed private developer rehabilitation of Pier 70 properties.

Under the proposed Term Sheet, the Port is required to pay $1.75 million in capital and grant funds toward the costs to seismically rehabilitate building #113. The Term Sheet does not require other Port or City expenditures.

Upon entering into the 66-year ground lease, and lease disposition and development agreement (LDDA) with the Port, Orton would pay the costs of rehabilitating the 20th Street Historic Buildings; market the completed office, restaurant and light industrial properties to tenants; and operate and maintain the properties as the master tenant. Orton would receive all rental and other operating revenues from the 20th Street Historic Buildings.

The developer is projecting total gross rental income from the Project at $5.97 million per year. This equates to an average of $25 per square foot of net leasable area. Higher rents of $34 per square foot are projected for the office and restaurant space and lower rents of $16 to $21 per square foot are projected for the light industrial space.

According to the developer, demand for office and industrial space similar to that being proposed for the 20th Street Historic Buildings is strong. Orton has received interest from prospective tenants for the space, and a large, nearby Industrial Complex with industrial and commercial space is fully occupied.

Estimated Rent to the Port

Under the proposed Term Sheet, the Port would receive rent from Orton only after Orton's investment in the project is repaid.

- Base Rent: The Lease requires minimum base rent payable to the Port of $240,000 per year no later than 20 years after Lease execution (projected to be in 2034).

- Participation Rent: The Port will receive 50% participation rent of annual net revenues[3] after Orton has been fully repaid on their equity investment. The Port would receive rent equal to the greater of the base rent or the 50% participation rent.

The Port staff and Orton developed a pro-forma analysis to evaluate the financial performance and cash flow of the proposed 20th Street Historic Building project, based on expected rents and other operating revenues, financing costs, and financial provisions in the proposed Term Sheet.

According to the pro-forma analysis, under the base case scenario, Port equity repayment and participation rent will commence in 2022. Port equity and the associated return on equity will amount to $298,000 annually for ten years and the Port's Participation Rent is estimated at $122,000 in 2024, rising to $665,000 in 2034. The net present value discounted at 6% of all Port revenue including Port equity and the associated return on equity, and base and participation rent payable to the Port is estimated at $17,000,000 for the 66 year term of the Lease, which is $1,300,000 more than was estimated when the Board of Supervisors endorsed the Term Sheet in 2012.

In recognition of the fact that the Project's development economics may vary, the developer has produced three sensitivity analyses to account for changes in the Project timing and costs.

- *Sensitivity A: Delayed Phasing*. The first phase of the Project must include Buildings 113, 114, 115, and 116 (the industrial buildings on the south side of 20th Street) but not buildings 101, 102, and 104 on the north side of 20th. Since the base case pro forma and underwriting is based on the entire Project being built in one phase, this scenario results in a delay in Project revenues. The results of this sensitivity are that the Port's rent would be delayed by eight years (to 2030) and total rent would be an estimated 10% less than currently projected Port revenue over the life of the Project.

- *Sensitivity B: 15% Higher Cost*. This sensitivity tests the impacts of a 15% increase in construction costs, or a roughly $11 million increase. Barring other sources of funds that might be identified, this change would require the developer to contribute about $9 million more equity and $2 million in historic preservation tax credit financing to complete the Project. Since the Port's participation rent is calculated after the developer has achieved its equity return, in this scenario the Port's rent would be delayed by 10 years (2034) and total rent would be about 40% less than currently projected rent of $17,000,000 over the life of the Project. Per the Term Sheet, the Port's base rent would begin no later than Year 20 of the Lease regardless of whether Developer has received its equity return.

- *Sensitivity C: 15% Lower Rents*. In this scenario gross rental income is assumed to be 15% lower than projected. The results of this scenario would be that the Port's rent would be delayed by 10 years (2034) and total rent would be approximately 60% less than currently projected over the life of the Project.

[3] Annual net revenues include rental and other income, less operating expenses.

According to Mr. Jonathan Stern, Assistant Deputy Director of Waterfront Development Projects, the likelihood of either Sensitivity Analysis A or C occurring is low. The Developer intends to pre-lease the project as soon as the transaction documents are executed. The Project would have to experience serious delays or the overall San Francisco market would have to reverse dramatically and severely for these scenarios to occur, which Mr. Stern views as unlikely.

Sensitivity Analysis B is a risk, as market construction costs are currently high, and hard costs could be higher as a result. However, Mr. Stern emphasizes that the pro forma analysis is conservative on rental income, as it does not assume that the newly created mezzanine space is leased. The factors driving hard costs should also make the rental spaces more leasable, and should therefore counteract any potential increase in construction costs.

POLICY CONSIDERATIONS

Seismic Safety Loan Program

For the project to proceed as planned, it is concurrently being requested that the Board of Supervisors appropriate up to $24,000,000 of City and County General Obligation Bonds for the Seismic Safety Loan Program in the Mayor's Office of Housing and Community Development (MOHCD) in FY 2014-2015 (Item 14-0728). The Board of Supervisors is also being requested to approve a Resolution authorizing and directing the sale of the bonds (Item 14-0727). As noted in Table 3 above, it is anticipated that $20.1 million from the Seismic Safety Loan Program will be contributed towards the Project, and will comprise 26% of total Project financing. Files 14-0727 and 14-0728 are calendared for the July 19, 2014 Budget and Finance Committee meeting.

Infrastructure Financing District (IFD)

State law authorizes the establishment of a Port Infrastructure Financing District (IFD) to finance public improvement projects along the San Francisco waterfront. The Port IFD may finance the same types of improvement projects that are financed by non-Port IFDs (open space, parks, and street improvements), as well as projects specific to the Port, including removal of bay fill, storm water management facilities, shoreline restoration, and maritime facility improvements. Increased property tax revenues (the tax increment) may be redirected from the General Fund to the Port IFD in order to finance public improvements, subject to Board of Supervisors approval.

In 2013 the Board of Supervisors approved a resolution of intention (Item 13-0264) to 1) establish the Port IFD consisting of eight project areas; and 2) direct the Port Executive Director to prepare a financing plan, which is subject to Board of Supervisors approval. Port staff, assisted by a team of consultants from Keyser Marston Associates (KMA), is currently preparing an infrastructure financing plan (IFP), which will be the foundation of an IFD to be formed pursuant to State and local IFD legislation to fund a portion of public infrastructure improvements supporting the rehabilitation of the historic buildings at Pier 70 related to this lease. The IFP is expected to fund a portion of the following eligible improvements:

- Pier 70 Public Realm
  - Upgrade traffic signal at 20th and Illinois Streets;
  - Temporary pedestrian access along Georgia, Michigan, and Louisiana Streets;
  - Repair of sidewalk along 20th and Illinois Streets;
  - Street lighting and ADA access ramps on each of the streets above;
  - Shoring and repair of Building 105 (to allow safe access to 20th Street south sidewalk to Louisiana Street); and
- Remediation/Replacement of BAE shipyard electrical equipment (currently in Building 102).
- Shoreline sediment remediation
- Crane Cove Park – Phase 2

The Project is expected to generate an estimated $450,000 annually in property taxes.

Some of the improvements listed above need to be in place when the Port opens and before significant tax increment is generated. The Port and the developer anticipate contributing a total of $580,185 in FY 2016-17 to pay for improvements, including temporary pedestrian access along Georgia, Michigan and Louisiana Streets, as well as the repair of the sidewalk along 20th and Illinois Streets. These funds will be repaid from IFD funds generated after the Project opens. The Port anticipates submitting the infrastructure financing plan (IFD) to the Board of Supervisors for approval in the fall of 2014.

CONCLUSION

In 2012, the Budget and Legislative Analyst made a finding of fiscal feasibility for the proposed 20th Street Historic Buildings Project to rehabilitate six historic buildings at 20th Street that are part of Pier 70 and recommended that the Board of Supervisors endorse the Term Sheet for the Project. Since that time, the total estimated cost of the Project has increased by $18 million, from $58.5 million to $76.5 million. The net present value of the anticipated rent due to the Port over the 66-year lease term has also increased, from $15.7 million to $17.0 million.

Other changes made to the Term Sheet since the Board of Supervisors endorsement in 2012 include that the Port will contribute $1.75 million total to the Project, which is an increase of $250,000 and is due to the receipt of a California Cultural Equity Endowment grant. $1.5 million of the Port’s contribution, including a return on the Port’s equity, will be repaid over ten years in equal installments. The Port will also be responsible for upgrades to adjacent streets and sidewalks to accommodate the Project, which the Port proposes to finance through formation of an infrastructure financing district. Lastly, parking for the Project will be provided as part of an area parking strategy on sites to be determined and the Port, not the developer, will receive the parking income from off-premises parking.

The developer has produced three sensitivity analyses to examine how the total revenue due to the Port would change in the case of 1) delayed phasing, 2) higher costs, and 3) lower rents.

According to Mr. Stern, the likelihood of Sensitivity Analysis 1 or 3 occurring is low, given plans to pre-lease the rental spaces as soon as the transaction documents are executed, and given the current strength of the rental market.

The most likely of the three Sensitivity Analyses is that construction costs will be higher than anticipated. Under this scenario, construction costs will be 15% higher than currently planned, requiring approximately an additional $9 million contribution from the Developer and $2 million from other sources. As a result of this additional contribution, the payment of rent to the Port will be delayed by ten years, and the estimated net present value of rent paid to the Port over the life of the Project will be $10,200,000 or 40% of the estimated net present value of rent of $17,000,000 under the base scenario.

Mr. Stern notes that, however, that even if construction costs are higher than anticipated, the pro forma utilizes a conservative estimate for rent, which does not include rental income for the mezzanine space. If construction costs are higher, they may be mitigated by high demand for space, and the rental income generated by the mezzanine space.

RECOMMENDATION

Approve the proposed resolution.

Item 10 File 14-0408	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would amend prior Board of Supervisors Resolution No 265-13 to revise the scope of work for an emergency contract from six to five digesters at the Southeast Water Pollution Control Plant (SEP), and increase the sole source contract with Monterey Mechanical Company to a not to exceed $14,535,427.

Key Points

- The SEP, located at 750 Phelps Street in Bayview-Hunters Point, is a critical part of the PUC's wastewater treatment system, handling two-thirds of the City's wastewater treatment. The SEP originally contained ten digesters, which are large storage tanks that are used to break down organic materials in the wastewater. However, one digester was destroyed in 1997, leaving only nine digesters. The SEP requires at least eight digesters for the plant to fully handle the City's wastewater treatment needs.
- On November 26, 2012, the PUC authorized an emergency declaration to repair Digester #2 at the SEP at an estimated cost of $1,000,000. These repairs were completed in March of 2013 by the Monterey Mechanical Company under a sole-source contract for a total of $1,335,427, $335,427 or 34% more than the $1,000,000 initially estimated.
- On March 11, 2013, the PUC issued another emergency declaration, to repair Digesters #4, #6, #7, #8, and #10 at the SEP, as well as two biosolids (human waste) storage cake bins. Again, the Monterey Mechanical Company was awarded a contract by the PUC on a sole-source basis to perform these emergency repairs for a not to exceed $9,000,000.

Fiscal Impact

- Although originally estimated at $9,000,000 for five digesters and two cake bins, the PUC is now estimating the cost to repair only four digesters (Digesters 8, 4, 6 and 7) and two cake bins to be $13,131,379, which the PUC is rounding to a not to exceed $13,200,000. In addition, the PUC is now estimating the cost to reconstruct Digester #10 to be approximately $6 million. The PUC's total original estimate of $9 million has increased to a total current estimated cost of $19.2 million, an increase of $10.2 million or 113%.
- The significant cost increases are because of unexpected (1) hazardous lead and asbestos, (2) excessive grit in the digesters that required removal, (3) extensive corrosion and (4) design changes to replace the digester covers which required extensive structural modifications that were not included in the original repair estimates.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

In accordance with Administrative Code Section 6.60, an emergency contract awarded by a City department that exceeds $250,000 requires approval by the Board of Supervisors. Administrative Code provisions also authorize department heads responsible for such emergency work to award and proceed with emergency contracts, which are not subject to the City's regular competitive bidding procedures. The Administrative Code defines an emergency as a sudden, unforeseeable and unexpected occurrence or a discovery of a condition involving a clear and imminent danger, demanding immediate action to prevent or mitigate loss or damage to, life, health, property or essential public services.

Background

Southeast Water Pollution Control Plant (SEP)

The Southeast Water Pollution Control Plant (SEP), located at 750 Phelps Street in Bayview-Hunters Point, is a critical part of the Public Utilities Commission's (PUC) wastewater treatment system, as the SEP handles approximately two-thirds of the City's wastewater, before being released into the Bay.

According to the San Francisco Sewer System Master Plan issued by the PUC in 2010, the SEP was constructed in 1951, significantly upgraded in 1982, but has now outlived its operational usefulness and is in critical need of replacement. The solids handling portion of the plant is slated to be replaced under the PUC's proposed Biosolids Digester Facilities Project (BDFP), which is anticipated to commence in 2018 and to be in-service by 2022, at an estimated cost of $1.2 billion. In July 2013, the Board of Supervisors approved a ten-year not-to-exceed $80,000,000 agreement with Brown and Caldwell, Inc. to plan and engineer the construction of the BDFP (File 13-0589). Similar to the current SEP, the new BDFP will take wastewater and human waste and break it down into its least harmful components. Solid waste will be separated, with "grit" being disposed of in a landfill and organic waste converted into fertilizer for commercial use. Gases that arise from breaking down the organic waste will be captured and used to power about one-half of the facility's energy needs.

The SEP originally contained ten digesters, which are large storage tanks that are used to break down organic materials in the wastewater and then remove the bacteria that may pose a health risk to the public. However, Digester #5 was destroyed during a roof collapse in 1997, and has never been replaced, such that the PUC can only operate nine digesters at the SEP. Mr. Tommy Moala, Assistant General Manager of the PUC's Wastewater Enterprise previously advised that the SEP requires at least eight digesters for the plant to fully handle the City's wastewater treatment needs.

Emergency Repairs to Digester #2

On November 26, 2012, engineers noticed that the roof of Digester #2 was corroded and that sludge[1] had accumulated, causing significant structural damage. Digester #2 was shut down and placed out-of-service in order to prevent the entire structure from collapsing. On November 27, 2012, the President of the PUC authorized an emergency declaration to repair the roof of Digester #2 at the SEP.

The emergency repairs to Digester #2 were initially estimated by the PUC to cost $1,000,000. An emergency contract was awarded to Monterey Mechanical Company on a sole-source basis because this firm was already on-site repairing other corrosion damage at the SEP. The repairs began on November 28, 2012 and were completed in March of 2013. The repairs to Digester #2 cost a total of $1,335,427, $335,427 or 34% more than the $1,000,000 initially estimated.

Emergency Repairs to Five Digesters and Two Cake Bins

On March 11, 2013, the President of the PUC issued another emergency declaration, this time to repair Digesters #4, #6, #7, #8, and #10 at the SEP, as well as two biosolids (human waste) storage cake bins, which are large structures that hold dry waste until the dry waste can be picked up and used for fertilizer and other commercial uses.

According to the PUC, these five digesters and two storage bins were “on the verge of catastrophic failure” due to severe corrosion and the SEP was at risk of non-compliance with State and Federal health and environmental regulations as a result of these corrosions. According to the updated declaration of emergency memo dated April 14, 2014, the PUC again awarded a sole source contract to the Monterey Mechanical Company to complete immediate repairs to four digesters and two storage cake bins, because (a) of the company’s familiarity with the digesters and cake bins at the SEP, and (b) that the Company had recently completed successful repairs to Digester #2. On April 9, 2013, the Monterey Mechanical Company began such emergency repairs under a not-to-exceed $9,000,000 contract.

On August 2, 2013, the Board of Supervisors approved a resolution to cover these two PUC emergency declarations at the SEP, including the (a) $1,335,427 emergency contract repairs to Digester #2, and (b) estimated $9,000,000 repairs to the five additional digesters (Digesters #4, #6, #7, #8, and #10) and two cake bins, under a sole source contract with the Monterey Mechanical Company for a total of six digesters and two cake bins for a not to exceed $10,335,427(File 13-0497; Resolution # 265-13).

[1] Sludge refers to the semi-solid waste that must be treated and decontaminated before leaving the plant. Digesters act as a settling tank where sludge is exposed to bacteria and slowly broken down into less harmful parts, which are either landfilled or converted into fertilizer.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would amend Resolution No. 265-13 to revise the scope of the work for the emergency repair contract from six to five digesters at the Southeast Water Pollution Control Plant and increase the sole source contract previously awarded to Monterey Mechanical Company by $4,200,000 from $10,335,427 to a not to exceed $14,535,427. This resolution would also remove Digester #10 from the contract with Monterey Mechanical Company in order for the work to be competitively bid.

FISCAL IMPACTS

The PUC originally estimated the cost to repair five digesters and two biosolids storage cake bins would total $9,000,000. The PUC is now estimating the cost to repair only four digesters (Digesters 4, 6, 7 and 8) and two cake bins to be $13,131,379, which the PUC is rounding to a not to exceed $13,200,000, excluding Digester #10, as summarized in Table 1 below.

Table 1: PUC's Original Estimated Costs Compared to Current Estimated Costs

	Original Estimate	Current Estimate	Increased Cost	% Increase over Original Estimate
Digester 8	$1,050,000	$1,940,521	$890,521	85%
Digester 4	1,800,000	3,018,000	1,218,000	68%
Digester 6	1,800,000	2,915,020	1,115,020	62%
Digester 7	1,800,000	3,660,650	1,860,650	100%
Cake Bins 3 & 4	750,000	1,597,188	847,188	130%
Subtotal (rounded)	**$7,200,000**	**$13,131,379 $13,200,000**	**$5,931,379**	**82%**
Digester 10	**1,800,000**	**6,000,000**	**4,200,000**	**233%**
Total	**$9,000,000**	**$19,200,000**	**$10,200,000**	**113%**

In addition, as shown in Table 1 above, the PUC is now estimating the cost to reconstruct Digester #10 to be approximately $6 million instead of the original estimated $1,800,000. The PUC's total original estimate of $9 million has therefore increased to a total current estimated cost of $19.2 million, an increase of $10.2 million or 113%.

According to Mr. Jignes Desai, Project Manager at the PUC, the significantly increased cost for Digester #10 is because the PUC will redesign and develop a new pump mix system, including a fixed digester cover instead of the current floating cover for Digester #10, to prevent grit from accumulating in the digester. Mr. Desai advises that the PUC plans to complete the design for the new fixed cover system and related pump mixing system by January 2015. The PUC then anticipates advertising for competitive bidding to complete the required construction and repairs in February 2015. All of the construction, including the mechanical, electrical and structural modifications, is anticipated to be completed by December of 2016. Therefore, the PUC is requesting that the Digester #10 scope of work be excluded from Resolution 265-13 and competitively bid the complete reconstruction of Digester #10.

According to Mr. Desai, the significant cost increases over the original estimated costs are because during the course of the emergency repairs, the PUC staff and contractors encountered unexpected issues pertaining to (1) hazardous lead and asbestos, (2) excessive grit in the digesters that required removal[2], (3) extensive corrosion and (4) design changes to replace the digester covers which required extensive structural modifications, that were not anticipated or included in the original repair estimates.

Table 2 below summarizes the requested amended sole source contract with Monterey Mechanical Company for a not to exceed $14,335,427 and shows the additional estimated $6,000,000 cost for Digester 10, which will result in a total cost of $20,335,427 to complete these repairs to the SEP.

Table 2: Summary of Amended Sole Source Contract and Total Revised Costs

Emergency Repairs to SEP Digesters and Cake Bins	**Cost**
Revised Total Cost for Digester #2	$1,335,427
Revised Cost for 4 digesters and 2 cake bins (rounded)	13,200,000
Total Requested Amended Sole Source Contract	**$14,335,427**
Additional Estimated Cost for Digester 10	6,000,000
Revised Total Costs	$20,335,427

Table 3 below shows the timing of the actual expenditures incurred to date and projected to complete the repairs for four of the five digesters (excluding Digester #10) and two cake bins.

Table 3: Actual and Projected Expenditure Schedule for 4 Digesters and 2 Cake Bin Repairs

	April 2013 - Sept 2013	**Oct 2013 - Mar 2014**	**April 2013 - Sept 2014**	**Oct 2014 - Mar 2015**	**April 2015 - Sept 2015**	**Total**
Digester 8	$1,899,057	$41,454				$1,940,051
Digester 4		2,587,106	$430,894			3,018,000
Cake Bins 3 & 4	129,885	1,130,542	226,761	110,000		1,597,188
Subtotal						**$6,555,239**
Digester 6		185,750	146,896	$2,484,374	$98,000	2,915,020
Digester 7		1,457,170	1,489,988	713,492		3,660,650
Subtotal						**$6,575,670**
Total	**$2,028,942**	**$5,402,022**	**$2,294,539**	**$3,307,866**	**$98,000**	**$13,131,369**

Mr. Desai advises that repairs to Digesters #8 and #4 and Cake Bins 3 and 4 have been completed by the Monterey Mechanical Company at a subtotal cost of $6,555,239; these two digesters and two cake bins have been placed back into full service. In addition, PUC advises

[2] Based on past digester repair experience, the PUC assumed removal of 400 tons of grit per digester at $396 per ton. However, Digester #8 had 1,800 tons of grit, Digester #4 had 1,080 tons of grit and Digester #7 had 875 tons of grit. Grit removal in Digesters #6 and #10 has not yet begun.

that they have paid Monterey Mechanical Company an additional $2,074,761 for repairs to Digesters #6 and #7, for total expenditures to date of $8,630,000. As noted above, the total current contract with Monterey Mechanical Company is for a not to exceed $9 million. Therefore, the PUC cannot complete the repairs to Digesters #6 and #7 and pay their contractor, without increased authorization for the sole source contract with Monterey Mechanical Company, which is the subject of the proposed resolution.

In summary, the requested increase in the total emergency sole source contracts with Monterey Mechanical Company would be from the existing not to exceed $10,335,427 to the proposed not to exceed $14,535,427, an increase of $4,200,000 or 40.6%. Specifically the cost increase for the 5 digesters and two cake bins would be from the original estimated $9,000,000 to $13,200,000, an increase of $4,200,000 or 46.7%. In addition, the request would remove Digester #10 from the Resolution 265-13 which is estimated to cost approximately an additional $6,000,000, which would be separately competitively bid by the PUC.

RECOMMENDATION

Approve the proposed resolution.

Item 11 File 14-0608	Department: San Francisco Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would authorize the General Manager of the Public Utilities Commission to execute the fourth amendment to a contract with URS Corporation for professional engineering services, increasing the length of the agreement by up to two years and nine months until May 24, 2019, and increasing the cumulative contract amount by $4,500,000 from $24,000,000 to $28,500,000

Key Points

- The Calaveras Dam Replacement Project is a 16-year, $718,000,000 project to replace the existing dam at the Calaveras Reservoir for seismic safety. Construction is currently in the third year of a seven-year construction timeline.
- URS Corporation has provided professional engineering services for this project since September 11, 2003, including the planning and design phases of the dam as well as the current construction phase. The Public Utilities Commission (PUC) would like to retain URS Corporation as the Engineer of Record through the remainder of the construction and close-out phases.
- The proposed resolution would allow URS Corporation to remain on contract through May 24, 2019, at which point the PUC expects the project to be completed. The PUC does not expect to have to extend the contract further, barring any unexpected site conditions that would impact the construction timeline.

Fiscal Impact

- The proposed extension would increase the allowable contract amount by $4,500,000 from $24,000,000 to $28,500,000.
- This contract is funded by Water Revenue Bonds as part of the $4.765 billion Water System Improvement Program. If approved, the $28,500,000 cost of the URS Corporation contract would make up 0.6 percent of the total allowable bond issuance amount.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT/BACKGROUND

Mandate Statement

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that either (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 Calaveras Dam Replacement Project is the largest project of the $4.765 billion Public Utilities Commission (PUC) Water System Improvement Program to repair, replace, and seismically upgrade the Hetch Hetchy Regional Water System. This 16-year project will cost a total of $718,000,000 and will replace the current dam at Calaveras Reservoir in the Sunol Valley.

According to the PUC, the current dam at Calaveras Reservoir is 89 years old and lies within 1,500 feet of the active Calaveras Earthquake Fault. In 2001, PUC lowered water levels in the reservoir to less than 40 percent of normal operating capacity in response to seismic concerns. The new dam currently under construction is directly downstream of the existing dam, and would address seismic concerns as well as return the reservoir to its historical storage capacity of 96,850 acre-feet (31 billion gallons). The reservoir provides approximately half of the Hetch Hetchy Regional Water System's local Bay Area water storage, which the PUC states is critical for supplying water during times of drought and when Sierra Nevada water is not available.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the fourth amendment in the amount of $4,500,000 to an existing contract between the Public Utilities Commission and URS Corporation to provide engineering services for the Calaveras Dam Replacement Project.

PUC entered into the original contract with URS Corporation to provide professional engineering services for the Calaveras Dam Replacement Project in September 2003 following a competitive solicitation process. The original contract was for $4 million and a term of 48 months, and therefore, was not subject to Board of Supervisors approval. The PUC subsequently entered into three contract amendments, resulting in the existing total authorized not-to-exceed contract amount of $24,000,000, as shown in Table 1 below.

Table 1: Original Contract Agreement and Contract Amendments

Contract Amendment	Board of Supervisors Approval	Term (months)	Expiration	Increased Amount of Contract Amendment	Total Contract Amount	URS Corporation Duties
Original	N/A	48	9/10/2007	-	$4,000,000	Conceptual engineering, including repair or replacement alternatives, conceptual designs, cost estimates, project schedules, and selection of preferred alternatives.
1	File 05-1361	24	9/10/2009	$8,000,000	$12,000,000	Conceptual engineering and design, detailed design, final design, design services during construction, start-up, and commissioning.
2	File 08-0363	No Change	9/10/2009	$1,900,000	$13,900,000	Additional final design, environmental services, and permitting support services.
3	File 09-0637	84	9/10/2016	$10,100,000	$24,000,000	Additional design, environmental and permitting support services needed prior to construction, and engineering support during construction, start-up, and commissioning of the project.
4	Proposed	33	5/24/2019	$4,500,000	$28,500,000	Engineering support during construction, start-up, and commissioning of the project through completion.

According to the PUC, it is typical for an engineering and design consultant to remain on a large and complex project like the Calaveras Dam for a long duration. As described below, there have been significant unforeseen site conditions that have expanded the scope of the Calaveras Dam replacement project. In order to maintain continuity of engineering and design services over the entire course of design and construction, the PUC would like to retain URS for the remainder of the construction and close-out phases.

Construction on the dam began in August 2011 with an original projected completion date of July 2015. According to the PUC, unexpected geologic features were found during construction that required additional design and construction to ensure the long-term stability of the slope of the left abutment area. These changes increased costs and extended the project timeline. The Board of Supervisors approved the sale and appropriation of $90,000,000 of Water

Revenue Bonds in June 2014 (Files 14-0484 and 14-0479) for the Calaveras Dam Project, increasing the project budget from $620,000,000 to $710,000,000. The PUC states that an additional $8,000,000 will be allocated from existing and future appropriation for a total project budget of $718,000,000. The final construction completion date has been moved back by three years from the prior date of July 2015 to November 2018. As of May 2014, construction was approximately 60% complete. Following completion of construction, there is a close-out phase that includes testing and re-filling of the reservoir, with the entire project expected to be completed in mid-2019.

The proposed fourth contract amendment would allow URS Corporation to remain the Engineer-of-Record for the Calaveras Dam Replacement Project through final construction and close-out phases of the project. According to the PUC, URS Corporation's engineering support over the remainder of the contract will include reviewing submittals, responding to Requests for Information and California Division of Safety of Dam (DSOD) requests, revising drawings and specifications to address project issues that arise during construction, attending construction meetings at the site, and providing assistance during start-up and commissioning of the project.

FISCAL IMPACT

The proposed fourth amendment to the contract with URS Corporation would allow the total contract amount to increase by $4,500,000 or 18.8 percent from $24,000,000 to $28,500,000. As shown in Table 2 below, the PUC has spent $22,732,518 on the contract to date and owes $222,567 in retained payments, totaling $22,955,085. According to the PUC, the balance of $1,044,915 from the existing authorized amount of $24,000,000 ($24,000,000 less $22,955,085) is the total amount billed or to be billed by URS Corporation to the PUC from February 2014 through July 2014 but which PUC has not yet paid.

Table 2: Contract Payments to URS Corporation for Engineering Services on the Calaveras Dam Replacement Project

Year	Total Paid	Retention Owed*	To-Be Billed through July 2014	Total
2003	$0	$0	$0	$0
2004	$2,690,653	$0	$0	$2,690,653
2005	$665,508	$0	$0	$665,508
2006	$3,383,531	$0	$0	$3,383,531
2007	$3,379,389	$0	$0	$3,379,389
2008	$2,508,837	$0	$0	$2,508,837
2009	$1,375,293	$0	$0	$1,375,293
2010	$2,758,123	$0	$0	$2,758,123
2011	$1,881,908	$0	$0	$1,881,908
2012	$1,576,119	$0	$0	$1,576,119
2013	$1,531,707	$163,951	$0	$1,695,658
2014†	$981,451	$58,616	$1,044,915	$2,084,982
Total	$22,732,518	$222,567	$1,044,915	$24,000,000

*Retention is a percentage of payment on task orders that is retained until SFPUC deems the work is completed satisfactorily.

†For 2014, SFPUC paid URS Corporation up through Jan 31, 2014 reporting period. The delay in payment was caused by URS Corporation delay in sending invoice to SFPUC.

The proposed fourth contract amendment of $4,500,000 covers approximately 40% of remaining construction followed by the close-out phase, which includes monitoring the re-fill of the dam to operating capacity, preparing testing plans, and completing final record drawings. The budget of $4,500,000 is shown in Table 3 below.

Table 3: Budget for Fourth Amendment

	Expenditures July 2014 to November 2013
Construction Support	
Project Management	$350,000
Meetings	340,000
Review of Documents	650,000
Respirator Fit Testing and Medical Exams	30,000
Engineering and Design Support	1,100,000
Other Support Services	450,000
Surface Geologic Mapping and Inspections	750,000
Review of Grouting, Tie-backs and Rock Reinforcement	180,000
Technical Support for Change Orders	300,000
Quality Review	50,000
Construction Support Subtotal	$4,200,000
Project Completion	
Review of Monitoring Data	$50,000
Testing Plan	75,000
Complete and Check As-Built Document	75,000
Technical Support for Claim Settlement	100,000
Project Completion Subtotal	$300,000
Total	**$4,500,000**

RECOMMENDATION

Approve the proposed resolution.

Item 12 File 14-0726	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed ordinance would (a) de-appropriate $23,000,000, which include $11,000,000 from the Biosolids/Digester Project, $10,000,000 from Treasure Island Capital Improvements, and $2,000,000 from the Wastewater Enterprise Interim Capital Improvement Project (CIP) – Sewer Replacement, and (b) re-appropriate $23,000,000 to the North Shore Force Main Project. The North Shore Force Main Project will provide an auxiliary force main consisting of the installation of 3,000 feet of pipe which will serve as a redundant line to prevent future service interruptions.

Key Points

- The North Shore Force Main is a 36-inch diameter sewer pipe that carries approximately 20% of the City's sewer flow from the North Shore Drainage Basin in the northeast portion of San Francisco to the Southeast Water Pollution Control Plant for wastewater treatment. On March 20, 2012, the North Shore Force Main failed, causing sewage to flow onto the roadway surface requiring the North Shore Force Main to be operated at a substantially reduced capacity. The North Shore Force Main Project will provide an auxiliary sewer force main for a portion of the North Shore Force Main and will allow the existing North Shore Force Main to return to operation at full capacity.
- The requested supplemental appropriation will increase the North Shore Force Main Project budget by $23,000,000 or 55%, from $41,860,800 to $64,860,800. Construction contract costs of $45,087,100 comprise approximately 70% of the total Project budget.
- $2,700,000 of the requested $23,000,000 in the proposed supplemental appropriation will be used to redesign the underground sewer lines to avoid existing PG&E facilities. PUC was unable to reach agreement with PG&E on reimbursement for these costs.

Fiscal Impact

- The source of funds for the Project includes de-appropriating $23,000,000 from (1) Southeast Plant Biosolids Digester Facilities Project, (2) Treasure Island Capital Improvements, and (3) Wastewater Enterprise Interim Capital Improvement Project, and re-appropriating $23,000,000 to the North Shore Force Main Project.
- Of the $23,000,000, $8,470,000 will be placed on Controller's Reserve pending PUC and Board of Supervisors adoption of CEQA findings and Controller's certification of funds availability.

Recommendations

- Amend the proposed resolution to request PUC to report back to the Board of Supervisors on the status of efforts regarding recovery from PG&E of $2,700,000 in costs to redesign sewer lines to avoid existing PG&E facilities.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

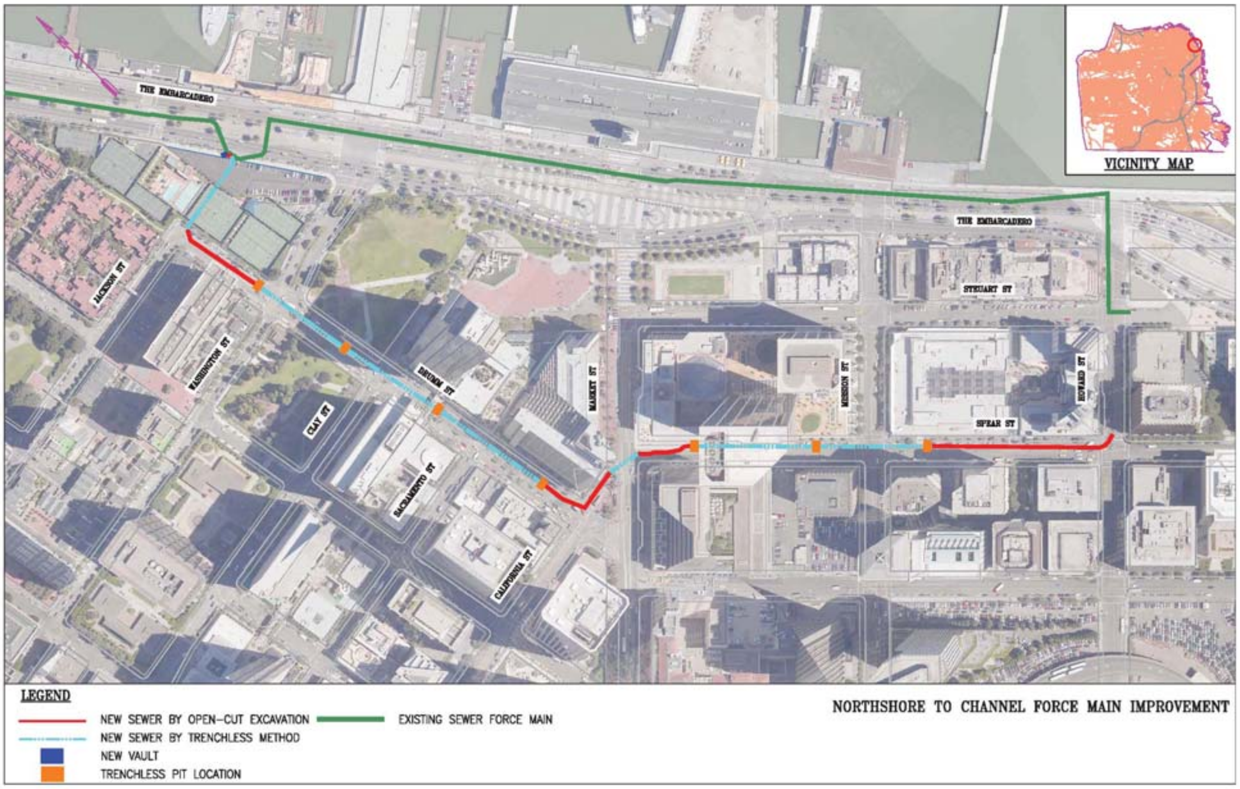
Charter Section 9.105 provides that amendments to the Annual Appropriation Ordinance, as finally adopted, may be initiated by the Mayor or a member of the Board of Supervisors and adopted in the same manner as other ordinances. No amendment to the appropriations ordinance may be adopted unless the Controller certifies availability of funds.

BACKGROUND

San Francisco has three major force mains:[1] North Shore, Channel, and Westside. The North Shore Force Main is a 36-inch diameter sewer pipe that carries approximately 20% of the City's sewer flow from the North Shore Drainage Basin in the northeast portion of San Francisco to the Southeast Water Pollution Control Plant for wastewater treatment. The North Shore Force Main ends at the intersection of Stuart and Howard Streets and is 7,700 feet long. None of the three major force mains currently have redundancies.[2] Thus, if any force main is taken out of service for an extended period of time, untreated sewage could overflow into the San Francisco Bay. Figure 1 below provides a map of the project area.

[1] A Force Main is a pressurized main pipe that can carry water, sewage, and other materials.
[2] Prior to the subject emergency, PUC initiated a new capital project to provide redundancy to the North Shore Force Main. On April 24, 2012, the PUC approved the award of a $15,488,000 contract to KJ Woods Construction, Inc. to build a redundant force main to the North Shore Force Main, which is expected to be completed at the end of 2013 or early 2014. After the redundant force main is completed, flow can be diverted to the new force main and the existing force main can be taken out of service for complete inspections and repairs.

Figure 1: Map of North Shore Force Main Project Area



Failure of North Shore Force Main

On March 20, 2012, the North Shore Force Main failed due to corrosion and joint separation,[3] causing sewage to flow onto the roadway surface near The Embarcadero and Mission Street intersection and requiring the North Shore Force Main to be operated at a substantially reduced capacity. Emergency repairs of the existing North Shore Force Main have been completed under separate emergency contracts. The North Shore Force Main Project (the Project) was initiated because of these failures and will provide an auxiliary sewer force main for a portion of the North Shore Force Main and will allow the existing North Shore Force Main to return to operation at full capacity.

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[3] Pipes are installed in sections and joined together. For example, a pipeline that is 1,000-feet long is made up of 50-foot pieces. Each 50-foot piece is joined together at "joint" locations. Joint separations are separations at the joints between each section of pipe, which would allow the material inside the pipe to leak out.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (a) de-appropriate $23,000,000, which include $11,000,000 from the Biosolids/Digester Project, $10,000,000 from Treasure Island Capital Improvements, and $2,000,000 from the Wastewater Enterprise Interim Capital Improvement Project (CIP) – Sewer Replacement, and (b) re-appropriate $23,000,000 to the North Shore Force Main Project. The North Shore Force Main Project will provide an auxiliary force main consisting of the installation of 3,000 feet of pipe which will serve as a redundant line to prevent future service interruptions.

North Shore Force Main Project Budget

The requested supplemental appropriation will increase the North Shore Force Main Project budget by $23,000,000 or 55 percent, from $41,860,800 to $64,860,800, as shown in Table 1 below.

Table 1: North Shore Force Main Project Budget

	Existing Budget	Proposed Supplemental Appropriation	Total Budget
Public Utilities Commission (PUC) [1]	$3,300,000	$2,073,700	$5,373,700
Department of Public Works (DPW)[2]	3,700,000	2,400,000	6,100,000
Other City Staff and Consultants [3]	2,500,000	5,800,000	8,300,000
City and Consultants Subtotal	9,500,000	10,273,700	19,773,700
Construction	32,360,800	12,726,300	45,087,100
Total	**$41,860,800**	**$23,000,000**	**$64,860,800**

Source: PUC

[1] PUC costs include project management, project controls, contract administration and formation, commissioning and oversight of compliance with California Environmental Quality Act (CEQA) requirements.

[2] DPW costs include design development, design support during construction and construction management.

[3] Other City and consultant costs include San Francisco Municipal Transportation Agency (SFMTA) costs for rerouting transit and consultant costs for underground storage tank removal and construction monitoring.

<u>Construction Contract</u>

Construction contract costs of $45,087,100 comprise approximately 70% of the total Project budget of $64,860,880. PUC awarded a construction contract to KJ Woods Construction to construct the Project through a competitive bid process. The scope of the work for the contract includes (1) installation of a valve-vault in the Embarcadero sidewalk and roadway; (2)

construction of approximately 3,000 feet of new sewer force main; (3) replacement or relocation of approximately 2,070 feet of water mains along the project alignment; and (4) pavement and curb ramp renovation.

The increase of $12,726,300 from the existing the construction contract budget is for:

- Construction changes due to design modifications required to address unforeseen site conditions, including removal of abandoned timber piles, utility duct banks, abandoned reinforced concrete slabs, pile foundations and footings;
- Additional cost for removal and disposal of seven abandoned underground storage tanks and remediation of contaminated soil;
- Construction changes due to design modifications to reroute sewer lines around existing Pacific Gas and Electric (PG&E) underground facilities (see below); and
- Construction changes to avoid existing public and private utilities not previously identified.

Redesigning of Underground Sewer Lines to Avoid PG&E Facilities

The North Shore Force Main is located in close proximity to some underground facilities owned by Pacific Gas & Electric Company (PG&E). When the Board of Supervisors approved the prior supplemental appropriation for the North Shore Force Main Project in March 2013 (File 13-0367), PUC anticipated entering into a reimbursement agreement with PG&E for $2,700,000 to pay for PUC costs of redesigning the underground sewer lines to avoid existing PG&E facilities.[4] According to the May 27, 2014 staff report to the Public Utilities Commission, PG&E has refused to sign a reimbursement agreement with the City to pay the $2,700,000. According to the staff report, in order to prevent further project delays, the PUC is requesting $2,700,000 in the proposed supplemental appropriation and is working with the City Attorney's Office to pursue all remedies against PG&E. The requested $2,700,000 in the proposed supplemental appropriation would be allocated to the $45,087,100 construction contract, which includes $2,100,000 to PUC and $600,000 to DPW.

Environmental Review

On March 21, 2012 the Planning Department adopted a Mitigated Negative Declaration (MND) for the Project. On April 24, 2012 per Resolution No. 12-0065 the PUC adopted the MND, California Environmental Quality Act (CEQA) findings and a Mitigation Monitoring and Reporting Program as required by CEQA and approved the Project and the award of Construction Contract No. WW-483RR in the amount of $15,488,000.

Subsequently the Planning Department reviewed project modifications, evaluated and compared the potential environmental effects of the proposed modifications to the impacts identified in the MND, and determined that the proposed modifications would not result in any new significant environmental impacts or substantial increases in the severity of previously

[4] According to the March 12, 2013 staff report to the Public Utilities Commission, the redesign from an open-cut to a trenchless pipe installation would increase PUC staff and construction contract costs by $2,700,000.

identified environmental effects and would not require any new mitigation measures. The proposed work to be conducted under the supplemental appropriation would not require further environmental review by the Planning Department.

FISCAL IMPACT

Table 2 below shows the proposed de-appropriation and re-appropriation of $23,000,000 for the North Shore Force Main Project.

Table 2: Proposed Sources and Uses for the North Shore Force Main Project

Source of Funds	**De-appropriation**
Southeast Plant Biosolids Digester Facilities Project	$11,000,000
Treasure Island Project	10,000,000
Wastewater Enterprise Interim Capital Improvement Project (CIP)	2,000,000
Total De-appropriation	$23,000,000
Uses of Funds	**Re-appropriation**
PUC	$2,073,700
Department of Public Works	2,400,000
Other City Staff and Consultants	5,800,000
City and Consultants Subtotal	10,273,700
KJ Woods Construction Contract	12,726,300
Total Re-appropriation	$23,000,000

Source: PUC

Status of projects being de-appropriated

- Southeast Plant Biosolids Digester Facilities Project

This project includes the planning, design, construction of new digestion and solids handling processes, which would replace the existing aged failing systems at the Southeast Wastewater Treatment Plant. Funds for this project are unencumbered funds that will be requested in future years to maintain the overall approved budget.

- Treasure Island Project

The objective of this project is to improve the reliability of the existing collection system and treatment facility at Treasure Island. The project is currently on hold and has unencumbered funds available to re-appropriate to the North Shore Force Main Project. The re-appropriated funds will be requested in future budget requests to maintain overall approved budget.

- Wastewater Interim CIP

This project addresses immediate wastewater needs in the areas of flood control, odor control, and aging facilities. Funds from the Wastewater Enterprise Interim CIP are unused balances from projects that completed construction. Therefore, these funds can be reallocated for other project needs and will not require further appropriations to complete the project.

Funds to be Placed on Controller's Reserve

Of the $23,000,000 in funds being re-appropriated for the subject contract, $8,470,000 is being placed on Controller's Reserve. Release of these funds are subject to (1) the PUC and the Board of Supervisors adoption of CEQA findings for the project, following review of completed project-related environmental analysis pursuant to CEQA, the State CEQA Guidelines and Chapter 31 of the Administrative Code, and (2) the Controller's certification of funds availability, including proceeds of indebtedness including Commercial Paper capacity.

RECOMMENDATIONS

1. Amend the proposed resolution to request PUC to report back to the Board of Supervisors on the status of efforts regarding recovery from PG&E of $2,700,000 in costs to redesign sewer lines to avoid existing PG&E facilities.
2. Approve the proposed resolution as amended.

Item 14 **File 14-0773**	**Department:** Department of Emergency Management (DEM)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend the Annual Appropriation Ordinance for FY 2013-14 to de-appropriate $147,976 in surplus budget authority and to re-appropriate $147,976 to overtime to pay for overtime costs related to a new Computer Aided Dispatch system and higher than anticipated call volumes at the Department of Emergency Management.

Key Points

- Starting in FY 2011-12, the Department of Emergency Management (DEM) began to upgrade its Computer Aided Dispatch (CAD) system, which tracks information pertaining to 9-1-1 calls in the City.
- In April 2014, the Board of Supervisors approved a supplemental appropriation that allowed the DEM to re-appropriate surplus salary budget authority and surplus work-order encumbrances to overtime in order to pay for end-user training on the new CAD system.
- In May, the DEM incurred additional unanticipated overtime costs due to (1) slower call times when the new CAD system was installed and (2) a higher than anticipated call volume in May.

Fiscal Impact

- The proposed ordinance would allow the DEM to de-appropriate $147,976 in surplus budget authority and to re-appropriate $147,976 to overtime. Based on actual overtime costs incurred through June 30, 2014, the Budget and Legislative Analyst's Office recommends reducing the requested supplemental appropriation by $71,734 from $147,976 to $76,242.

Recommendations

- Amend the proposed ordinance to reduce the requested supplemental appropriation by $71,734, from $147,976 to $76,242.
- Approved the proposed ordinance as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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.

City Administrative Code Section 3.17(a) states that the Annual Appropriation Ordinance must contain a separate appropriation for overtime within the operating budgets for the: Airport, Department of Emergency Management, Fire Department, Police Department, Department of Public Health, Public Utilities Commission, Department of Public Works, Recreation and Park, and the Sheriff's Department.

City Administrative Code Section 3.17(b) states that any supplemental appropriations to the overtime appropriation in the operating budgets of the departments listed in Section 3.17(a) shall be subject to approval by the Board of Supervisors after the Controller certifies the availability of funds.

Background

The Department of Emergency Management (DEM) Computer Aided Dispatch (CAD) system tracks and stores information pertaining to 9-1-1 calls. The original system was installed in 2000 and the contract vendor will cease to service the system after March 2015. In order to maintain a functional CAD system, the DEM upgraded the CAD system starting in FY 2011-12 and concluding in FY 2013-14.[1]

During the upgrading process and during the migration from the previous iteration of the CAD system, the Department paid overtime to existing communications dispatchers in order to provide training on the new CAD system while maintaining required minimum staffing levels in the 9-1-1 dispatch center. In April 2014, the Board of Supervisors approved a supplemental appropriation that authorized the DEM to re-allocate surplus salary and work-order funds to overtime in the amount of $420,993 in order to pay for the additional needed overtime.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Annual Appropriation Ordinance for FY 2013-14 to de-appropriate $147,976 in salary surplus and closed-out work order encumbrances and re-appropriate $147,976 for budgeted overtime related to the new CAD system and higher than anticipated 9-1-1 call volumes.

Computer Aided Dispatch System

According to Mr. William Lee, DEM Deputy Director for Administration and Support, the DEM began mandatory end-user trainings, prior to switching over to the upgraded CAD system, in

[1] The Board of Supervisors approved expenditures for the CAD system upgrade in the Annual Appropriation Ordinances for FY 2011-12, FY 2012-13, and FY 2013-14 based on a recommendation by the Committee on Information Technology.

February 2014 and which concluded in April 2014, a total of three months. Communication dispatcher training time was paid for on an overtime basis since the DEM has mandatory minimum staffing requirements for communication dispatchers and, therefore, could not provide staff training on the new CAD system during regularly-scheduled work time. In addition, 10 communication dispatcher-trainees graduated in mid-May 2014, which activated a three-month period, from approximately mid-May 2014 to approximately mid-August 2014, where the new graduates are paired with permanent staff to monitor call intake. During the three-month period, the Department uses overtime to provide sufficient permanent staff to meet minimum staffing requirements.

On May 7, 2014, the Department migrated from the previous iteration of the CAD system to the updated system. According to Mr. Lee, even with end-user trainings, there was a learning period during and shortly after the new CAD system was installed where call response times were longer than anticipated. The Department used overtime to provide for additional staff in order to reduce the call response time for 9-1-1 calls.

Higher than Anticipated Call Volumes

According to Mr. Lee, a portion of the additional overtime costs is related to higher than anticipated call volumes in May 2014, which increased by 12.9 percent over the previous year as shown in Table 1 below.

Table 1: Annual Change in 9-1-1 Call Volume*

	FY 2012-13	FY 2011-14	Change
July	92,858	97,317	4.8%
August	94,803	103,225	8.9%
September	89,711	103,649	15.5%
October	99,338	101,283	2.0%
November	89,949	90,280	0.4%
December	88,250	91,262	3.4%
January	90,136	94,026	4.3%
February	79,216	84,972	7.3%
March	88,388	97,938	10.8%
April	89,316	95,990	7.5%
May	91,972	103,808	12.9%
June	93,157	101,690	9.2%
Total	1,087,094	1,165,440	7.2%

** Includes emergency and non-emergency calls.*

According to Mr. Lee, when the Department submitted its April supplemental appropriation request, the Department did not include any assumption of call volume increases in the remaining year. Because of the unanticipated increase in call volume in May and June, the Department has insufficient overtime funds in FY 2013-14 and requires an additional supplemental appropriation for overtime. Further, the Department expended more overtime related to training for the upgraded CAD system than originally anticipated.

FISCAL IMPACT

Based on actual overtime expenditures incurred through June 30, 2014, overtime expenditures in FY 2013-14 are $1,607,305, or $76,242 more than the previously approved overtime budget of $1,531,063. Therefore, the Budget and Legislative Analyst's Office recommends reducing the requested supplemental appropriation for overtime by $71,734, from $147,976 to $76,242, as shown in Table 2 below.

Table 2: Estimated Need and Sources of Funds for Supplemental Overtime Appropriation

Total Estimated Overtime Expenditures for FY 2013-14	$1,607,305
Previously Approved Budget for Overtime Expenditures in FY 2013-14	1,531,063
Additional Needed Amount as Recommended by the Budget and Legislative Analyst's Office	**$76,242**

RECOMMENDATIONS

1. Amend the proposed ordinance to reduce the requested appropriation by $71,734, from $147,976 to $76,242.

2. Approved the proposed ordinance as amended.

Item 15 File 14-0772	Department: Fire Department (Fire)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend the FY 2013-14 Annual Appropriation Ordinance to re-appropriate surplus budget authority in order to pay for overtime costs.

Key Points

- The FY 2013-14 Fire Department budget assumed that 30 staff would retire during the fiscal year and that the Department would have to use overtime in order to maintain service standard throughout the City. The actual number of retirements in FY 2013-14 was 43, 13 more than had been estimated. Consequently, the Fire Department used more overtime than was initially budgeted to maintain service standards.
- In April 2014, the Board of Supervisors approved a supplemental appropriation to overtime for uniform staff at the Airport. Since April, the Fire Department assigned additional staff to the Airport but the number of staff was insufficient to avoid additional overtime costs related to retirements and vacancies.

Fiscal Impact

- The proposed ordinance would amend the FY 2013-14 Annual Appropriation Ordinance to de-appropriate $677,587 comprised of $520,165 from the General Fund appropriations and $157,422 in Airport Fund appropriations and would re-appropriate these funds for overtime.
- Based on its analysis of overtime incurred through June 24, 2014, the Budget and Legislative Analyst's Office recommends reducing the requested supplemental appropriation by $24,304 from $677,587 to $653,283.

Recommendations

- Amend the proposed ordinance to reduce the requested supplemental appropriation by $24,304.
- Approve the proposed ordinance as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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.

City Administrative Code Section 3.17(a) states that the Annual Appropriation Ordinance must contain a separate appropriation for overtime within the operating budgets for the: Airport, Department of Emergency Management, Fire Department, Police Department, Department of Public Health, Public Utilities Commission, Department of Public Works, Recreation and Park, and the Sheriff's Department.

City Administrative Code Section 3.17(b) states that any supplemental appropriations to the overtime appropriation in the operating budgets of the departments listed in Section 3.17(a) shall be approved by the Board of Supervisors after the Controller certifies the availability of funds.

Background

In April 2014, the Board of Supervisors approved a supplemental appropriation (File 14-0377), re-allocating $1,712,732 in the Fire Department's operating budget funded by the Airport Fund in order to pay for additional overtime needed for uniform staff at the Airport.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Annual Appropriation Ordinance for FY 2013-14 to re-appropriate $677,587 in the Fire Department's operating budget to overtime, of which $520,165 is General Fund and $157,422 is Airport Fund.

General Fund Overtime

The Fire Department's FY 2013-14 budget assumed that 30 firefighters would be retiring in FY 2013-14 and that the Department would need to use some portion of overtime to backfill the vacancies and to meet mandatory staffing levels as these employees separated from the Department. The amount of overtime needed to meet the staffing levels would depend on the number of retirements and the number of recruits graduating from the fire academy.

According to Mr. Mark Corso, Fire Department Chief Financial Officer, the Department estimated 30 employees would retire based on the age of the firefighters and the date of initial employment. However, the actual number of retirements in FY 2013-14 was 43, 13 more than had been estimated.

Additionally, the Fire Department anticipated that 84 recruits would graduate from the fire academy in FY 2013-14. These recruits would be able to offset a portion of the anticipated retirements and staffing needs in the Department as they graduated from the academy. The actual number of graduates in FY 2013-14 was 82, or 2 less than anticipated. As a result, there were not enough new and existing Department staff to meet service standards.

Airport Fund Overtime

At the time the Board of Supervisors approved the April 2014 supplemental appropriation request for overtime at the Airport, there were 81 Fire Department personnel assigned to the Airport. The majority (73) were assigned to 24-hour shifts to provide fire suppression and emergency medical services (EMS). The remaining (8) were assigned to non-suppression roles, which include a regular 40-hour work week.

After the Asiana Airlines crash at the Airport in July 2013, the Airport increased the mandatory minimum staffing requirements for fire suppression and EMS at the Airport from 23.00 full-time equivalent positions (FTEs) to 24.00 FTEs that must be filled 24 hours per day.

Since April 2014, the Fire Department has increased the number of FTEs for fire suppression and EMS but did not assign sufficient personnel to keep up with retirements and vacancies. Consequently, the Fire Department used overtime to meet service standards.

According to Mr. Corso, the pool of eligible Fire Department staff that can work at the Airport in FY 2014-15 will increase as staff undergo training to meet required certifications, which should allow the Fire Department to provide service at the Airport within its currently budgeted authority and which should prevent the Fire Department from having to submit another supplemental appropriation request for overtime at the Airport in FY 2014-15.

FISCAL IMPACT

The proposed ordinance would de-appropriate $677,587 from permanent salaries and re-appropriate these funds to overtime. Based on its analysis of overtime incurred through June 24, 2014, the Budget and Legislative Analyst's Office recommends reducing the requested supplemental appropriation for the General Fund overtime and the Airport Fund overtime as shown in the Table below.

Table: Estimated Need and Sources of Funds for Supplemental Overtime Appropriation

	General Fund	Airport Fund	Total
Accrued Expenditures as of June 24, 2014	$35,846,615	$4,165,388	$40,012,003
Estimated Overtime Expenditures for June 25-30, 2014	2,140,737	$294,317	2,435,054
Total Estimated Overtime Expenditures for FY 2013-14	**$37,987,352**	**$4,459,705**	**$42,447,057**
Previously Approved Budget for Overtime Expenditures in FY 2013-14	37,474,648	4,319,126	41,793,774
Additional Needed Amount as Recommended by the Budget and Legislative Analyst's Office	**$512,704**	**$140,579**	**$653,283**

Therefore, the Budget and Legislative Analyst's Office recommends reducing the requested supplemental appropriation by $24,304 from $677,587 to $653,283, as shown in the Table above, which includes a General Fund reduction of $7,461 and an Airport Fund reduction of $16,843.

RECOMMENDATIONS

1. Amend the proposed ordinance to reduce the requested supplemental appropriation by $24,304 from $677,587 to $653, 283, which includes a General Fund reduction of $7,461 and an Airport Fund reduction of $16,843.

2. Approve the proposed ordinance as amended.