


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

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December 5, 2014

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** December 10, 2014 Budget and Finance Committee Meeting

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**Department:**  
 Recreation and Parks Department (RPD)

### EXECUTIVE SUMMARY

#### Legislative Objectives

- The proposed ordinance (File 14-1147) would appropriate \$1,300,000 in PGA Tour reimbursements to RPD, including \$800,000 for maintenance and labor costs at Harding Park in preparation for the World Golf Championship–Cadillac Match Play that will be held at Harding Park from April 29, 2015 to May 3, 2015; and \$500,000 to replace revenues that will be lost while Harding Park is closed for use by the PGA Tour.
- The proposed resolution (File 14-1150) would approve the fourth amendment to the existing Master Tournament Agreement between the RPD and the PGA Tour to (1) amend the schedule of PGA Tour tournaments at Harding Park, (2) change the cancellation payments payable by the PGA Tour to the RPD in the event that certain tournaments are not held at Harding Park, (3) require the PGA Tour to reimburse the RPD for maintenance and labors costs by an amount of up to \$1,100,000 to \$1,375,000, depending on the event and (4) change the revenue-sharing thresholds under the Master Tournament Lease

#### Key Points

- In 2002, the Board of Supervisors approved a resolution approving a Master Tournament Agreement between the RPD and the Professional Golfers' Association Tour, Inc. (PGA Tour) for the PGA Tour to use Harding Park for PGA Tour Championship tournaments. Under the terms of the existing agreement, the PGA Tour was to hold a PGA Tour Championship Tournament at Harding Park three times over a nine-year period commencing on January 1, 2006.
- In March 2004, the Board of Supervisors has approved three amendments to the Master Tournament Agreement for the use of Harding Park. Each agreement revised the schedule of PGA Tour events and reimbursements to RPD. The third amendment to the Master Tournament Agreement, approved by the Board of Supervisors in May 2012 (a) revised the schedule of PGA Tour tournaments that the PGA Tour would host at Harding Park and (b) increased the number of PGA Tour events from six to seven and including two optional events for a potential total of nine events.
- Under the proposed fourth amendment, the PGA Tour would host two major golf tournaments at Harding Park in 2015 and in 2025 and would include two additional options, at the discretion of the PGA Tour, to host additional tournaments for a total of four optional PGA Tour events. Under the proposed fourth amendment, if the PGA Tour decided not to hold either of the two guaranteed events – the World Golf Championships/Cadillac Match Play in 2015 and Presidents Cup in 2015 - then the PGA Tour would have to make a cancellation payment to the RPD in the amount of \$1,000,000 per event.

**Fiscal Impact**

- Under the proposed resolution (File 14-1150), the RPD is to receive reimbursements from the PGA Tour for maintenance and labor costs and payment for lost revenues in an amount ranging from up to \$1,100,000 to \$1,375,000, depending on the event. In addition, RPD is to receive a percentage of PGA Tour event gross operating revenues over a certain threshold that varies by event.
- The proposed ordinance appropriates \$1,300,000 in Golf Fund monies to RPD, of which \$800,000 is to be reimbursed by the PGA Tour to the RPD for RPD's maintenance and labor costs and \$500,000 is to be reimbursed by the PGA Tour to RPD for lost revenues to host the World Golf Championships-Cadillac Match Play tournament in 2015.
- Under the proposed fourth amendment, the RPD is to be reimbursed up to \$1,100,000 payable by the PGA Tour for the RPD's labor and maintenance costs and for compensation for lost to host the 2015 World Golf Championships-Cadillac Match Play tournament.

**Policy Consideration**

- The Master Lease Agreement and proposed fourth amendment require the PGA Tour to reimburse the RPD for expenditures within 45 days of receiving invoices from the RPD. However, the Master Lease Agreement and proposed fourth amendment do not specify by when the RPD must submit such invoices. The Budget and Legislative Analyst's Office recommends amending the proposed fourth amendment to specify that such invoices should be submitted by the RPD to the PGA Tour no later than 60 days after any PGA Tour event.
- The RPD can receive a percentage of PGA Tour even gross operation revenues over a certain threshold depending on the event. However, the RPD has never received percentage revenues from PGA Tour's gross operating revenues for events at Harding Park. The RPD incurs ongoing costs to maintain Harding Park to meet PGA Tour standards, but does not receive revenues for PGA Tour events other than direct reimbursements for RPD costs and lost revenues. In addition, while the Golf Fund is responsible for Harding Park expenses, Golf Fund revenues are insufficient to maintain the City's golf courses, resulting in annual General Fund subsidies of \$4,961,627 in FY 2014-15 and \$4,784,499 in FY 2015-16.

**Recommendations**

- Amend the proposed resolution to require RPD to submit invoices to PGA Tour within 60 days of the PGA Tour event.
- The Budget and Legislative Analyst's Office considers approving the proposed fourth amendment and proposed supplemental appropriation to be a policy matter for the Board of Supervisors since the City only recovers the costs of maintaining Harding Park and a payment for lost revenues, and because the City has never received a portion of the PGA Tour event gross operating revenues.

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

City Charter Section 9.118(a) states that contracts entered into by a department, board or commission that will generate revenue in excess of \$1 million or any modification of that contract is subject to Board of Supervisors approval.

City Charter Section 9.105 states that the Board of Supervisors shall approve by ordinance all amendments to the Annual Appropriation Ordinance after the Controller certifies the availability of funds.

**Background****Harding Park Golf Course and the Golf Fund**

The Board of Supervisors approved the establishment of the Golf Fund (File 02-0197) in 2002. Under the Administrative Code, revenues from the Recreation and Park Department's (RPD) golf courses are deposited into the Golf Fund. The Golf Fund does not fully cover RPD's costs for operating and maintaining the golf courses, resulting in an annual General Fund subsidy to the Golf Fund.

When the Board of Supervisors approved establishing the Golf Fund, the Board also authorized spending \$16,627,627 in State Proposition 12 grant funds on the renovation of Harding Park Golf Course (Harding Park). Revenues from the Golf Fund are to be used to reimburse the Open Space Fund for use of the State Proposition 12 grant funds to renovate Harding Park. To date, the Golf Fund has reimbursed \$7,929,000 of the \$16,627,627 to the Open Space Fund.

**PGA Tour Master Tournament Agreement**

In 2002, the Board of Supervisors approved a resolution approving a Master Tournament Agreement between the RPD and the Professional Golfers' Association Tour, Inc. (PGA Tour) for the PGA Tour to use Harding Park for PGA Tour Championship tournaments. Under the terms of the existing agreement, the PGA Tour was to hold a PGA Tour Championship Tournament at Harding Park three times over a nine-year period commencing on January 1, 2006.

Under the original Master Tournament Agreement, the PGA Tour would reimburse RPD \$250,000 for maintenance costs incurred for each PGA Tour tournament. If RPD incurred maintenance costs in excess of \$250,000, the PGA Tour would reimburse RPD up to an additional \$130,000. The PGA Tour would also provide \$250,000 for golf course improvements. Therefore, the PGA Tour would pay the RPD between \$500,000 and \$630,000 per tournament, with \$250,000 allocated to Harding Park course improvements. In addition, the First Tee Program (a youth organization that promotes life skills through golf) would receive \$250,000 per tournament from the PGA Tour.

**First Amendment**

The Board of Supervisors approved the first amendment to the Master Tournament Agreement for the use of Harding Park in March 2004. Instead of the PGA Tour having three tournaments over nine years, the PGA Tour would host the PGA Tour Championship Tournament, the

American Express Championship Tournament or the NEC Invitational Tournament, and five approved PGA Tour tournaments over a 15-year period commencing in 2005.

### **Second Amendment**

In May 2007, the Board of Supervisors approved the second amendment to the Master Tournament Agreement, which increased the number of PGA Tour tournaments to be held at Harding Park from five to six, and changed which tournaments the PGA Tour would host at Harding Park.

#### **Between 2014 and 2020**

The second amendment also included optional events to be held at Harding Park at the option of the PGA Tour including either: (a) the Presidents Cup, (b) a PGA Tour Playoff event, (c) the Bridgestone Invitational<sup>1</sup>, (d) the Cadillac Championship<sup>2</sup> or, (e) the Accenture Match Play Championship<sup>3</sup>.

Under the second amendment, the PGA Tour would pay RPD an up-front facility fee equal to RPD's actual costs to host the PGA Tour tournaments up to \$1,000,000. Tournament costs include Harding Park maintenance costs and RPD's lost revenues from the closure of Harding Park during the tournaments. In addition to the up-front fee, the PGA Tour would pay the RPD 6.66 percent of gross operating revenues realized by the PGA Tour in excess of \$10,000,000.

### **Third Amendment**

In May 2012, the Board of Supervisors approved a third amendment to the Master Tournament Agreement that (a) revised the schedule of PGA Tour tournaments that the PGA Tour would host at Harding Park and (b) increased the number of PGA Tour events from six to seven and including two optional events for a potential total of nine events.

Table 1 below shows the previous and currently scheduled tournaments under the Master Tournament Agreement as agreed to under the first, second, and third amendments.

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<sup>1</sup> The Bridgestone Invitational is one of the annual World Golf Championships, a group of four annual events for male professional golfers.

<sup>2</sup> The Cadillac Championship is one of the annual World Golf Championships.

<sup>3</sup> The Accenture Match Play Championship is one of the annual World Golf Championships.

**Table 1: Previously Held and Currently Scheduled PGA Tour Golf Tournaments**

| Year      | Event   | Status  |
|-----------|---|---------|
| 2005      | American Express Championship   | Held    |
| 2009      | The Presidents Cup  | Held    |
| 2010      | Charles Schwab Championship   | Held    |
| 2011      | Charles Schwab Championship   | Held    |
| 2013      | Charles Schwab Championship   | Held    |
| 2015      | Charles Schwab Championship, Championship Tour Event, or \$500,000 cancellation payment   | Pending |
| 2016      | PGA Tour playoff event  | Pending |
| 2017-2019 | PGA Tour Option:<br><ul style="list-style-type: none"> <li>• PGA Tour playoff event</li> <li>• World Golf Championship</li> <li>• Presidents Cup</li> </ul> | Pending |
| 2021      | PGA Tour Option: Presidents Cup   | Pending |

If the PGA Tour did not host the Charles Schwab Championship or Championship Tour Event at Harding Park in 2015, as listed in Table a above, then the PGA Tour is required to pay the RPD \$500,000 as a cancellation fee. The PGA Tour did not host either event and has made a \$200,000 payment to date with \$300,000 outstanding and due by December 31, 2015.

**DETAILS OF PROPOSED LEGISLATION**

**File 14-1150**

The proposed resolution would approve the fourth amendment to the existing Master Tournament Agreement between the RPD and the PGA Tour to (1) amend the schedule of PGA Tour tournaments at Harding Park, (2) change the cancellation payments payable by the PGA Tour to the RPD in the event that certain tournaments are not held at Harding Park, (3) require the PGA Tour to reimburse the RPD for maintenance and labors costs by an amount of up to \$1,100,000 to \$1,375,000, depending on the event and (4) change the revenue-sharing thresholds under the Master Tournament Lease.

Under the proposed fourth amendment, the PGA Tour would host two major golf tournaments at Harding Park in 2015 and in 2025 and would include two additional options, at the discretion of the PGA Tour, to host additional tournaments for a total of four optional PGA Tour events.

The new schedule of tournaments would be as follows:

**2015 Guaranteed:** World Golf Championships – Cadillac Match Play.

**2016 – 2018 Option:** Up to three tournaments at the sole discretion of the PGA Tour.

**2021 – 2023 Option:** One additional tournament at the sole discretion of the PGA Tour.

**2025 Guaranteed:** Presidents Cup.

Under the proposed fourth amendment, if the PGA Tour decided not to hold either of the two guaranteed events – the World Golf Championships/Cadillac Match Play in 2015 and Presidents Cup in 2015 - then the PGA Tour would have to make a cancellation payment to the RPD in the amount of \$1,000,000 per event.

This schedule completely replaces the previous schedule that was authorized under the third amendment to the Master Tournament Lease. The third amendment included a mandatory cancellation payment of \$500,000, payable by the PGA Tour to the RPD by December 31, 2015, if the PGA Tour did not host either the Charles Schwab Tournament or a Championship Tour Event in 2015. Under the proposed fourth amendment, the cancellation payment owed to RPD for the Charles Schwab Tournament or Championship Tour Event that was to take place in 2015 would be reduced from \$500,000 to \$400,000 in recognition of the fact that the PGA Tour is hosting the World Golf Championships-Cadillac Match Play event at Harding Park in 2015. As discussed above, the PGA Tour has paid \$200,000 of that \$400,000 and will be required to pay the remaining \$200,000 by December 31, 2014, one year earlier than was required under the previously approved third amendment.

Under the proposed fourth amendment, the PGA Tour would (1) be required to host a total of two events at Harding Park including the World Golf Championship-Cadillac Match Play in 2015 and the Presidents Cup in 2025, and (2) would increase the number of optional events, at the sole discretion of the PGA Tour by two from two to four.

**File 14-1147:** The proposed ordinance would appropriate \$1,300,000 in PGA Tour reimbursements to RPD, including \$800,000 for maintenance and labor costs at Harding Park in preparation for the World Golf Championship–Cadillac Match Play that will be held at Harding Park from April 29, 2015 to May 3, 2015; and \$500,000 to replace revenues that will be lost while Harding Park is closed for use by the PGA Tour.

## FISCAL IMPACT

### **Proposed Fourth Amendment (File 14-1150)**

Under the proposed resolution (File 14-1150), the RPD is to receive reimbursements from the PGA Tour for maintenance and labor costs and payment for lost revenues in an amount ranging from up to \$1,100,000 to \$1,375,000, depending on the event, as shown in Table 2 below. In addition, RPD is to receive a percentage of PGA Tour event gross operating revenues over a certain threshold that varies by event, as shown in Table 2 below.



**Table 2: Payments Required To Be Paid By The PGA Tour Under the Proposed Fourth Amendment to the Master Tournament Lease**

|                       |                  |  |            |  |
|-----------------------|------------------|--|------------|--|
| 2015                  | Match Play Event | Reimbursement Up to \$1,100,000, payable by the PGA Tour to the RPD by no later than 45 days after receipt of invoices.  | <b>AND</b> | 6.66% of gross operating revenues greater than \$8,000,000   |
| 2016 -2018, 2021-2023 | Optional Events  | Reimbursement up to \$1,100,000 as adjusted for inflation from September 2013, payable by the PGA Tour to the RPD by no later than 45 days after receipt of invoices.  | <b>AND</b> | 6.66% of gross operating revenues greater than \$8M or \$10M depending on the event selected by the PGA Tour |
| 2025                  | Presidents Cup   | Reimbursement up to \$1,375,000, as adjusted for inflation from September 2013, payable by the PGA Tour to the RPD by no later than 45 days after receipt of invoices. | <b>OR</b>  | 9% of gross operating revenues, whichever is greater   |

Under the proposed fourth amendment, the RPD is to be reimbursed by the PGA Tour for the maintenance and labor costs and lost revenues to host each PGA Tour event at Harding Park up to a maximum reimbursement amount of \$1,100,000 to \$1,375,000, depending on the event and as shown in Table 2 above. According to Ms. Katie Petrucione, RPD Director of Finance and Administration, RPD does not anticipate that the Department’s costs and lost revenues for hosting each PGA Tour event will exceed the maximum reimbursement amount under proposed fourth amendment.

The proposed fourth amendment provides for the RPD to receive a percentage of the gross operating revenues realized by the PGA Tour at each event, as shown in Table 2 above. However, although the prior second amendment and existing third amendment provided for RPD to receive 6.66 percent of PGA’s gross operating revenues exceeding \$10 million for the four PGA events held between 2009 and 2013, the RPD has never received a percentage of gross operating revenues from a PGA Tour event.

**Supplemental Appropriation (File 14-1147)**

The proposed ordinance appropriates \$1,300,000 in Golf Fund monies to RPD, of which \$800,000 is to be reimbursed by the PGA Tour to the RPD for RPD’s maintenance and labor costs and \$500,000 is to be reimbursed by the PGA Tour to RPD for lost revenues to host the World Golf Championships-Cadillac Match Play tournament in 2015. Under the proposed fourth

amendment, the PGA Tour is to reimburse the RPD for their expenses up to \$1,100,000 as compensation for lost revenues and RPD labor and maintenance costs to host the 2015 World Golf Championships-Cadillac Match Play tournament. Table 3 shows sources and uses of funds.

**Table 3: Sources and Uses of Funds**

| <b>Sources of Funds</b>  |                    |
|--|--------------------|
| PGA Tour Reimbursement for Labor and Maintenance Costs and Lost Revenues | \$1,100,000        |
| PGA Tour Cancellation Fee  | 200,000            |
| <b>Total Sources</b>   | <b>\$1,300,000</b> |
| <b>Uses of Funds</b>   |                    |
| RPD Labor and Maintenance Costs  | \$800,000          |
| RPD Lost Revenues  | 500,000            |
| <b>Total Uses</b>  | <b>\$1,300,000</b> |

According to Ms. Petrucione, the RPD will expend Golf Fund monies to pay for RPD labor and maintenance costs. Such costs are to be reimbursed by the PGA Tour to the Golf Fund. According to the proposed ordinance, the Controller will record transfers between funds and adjust the accounting treatment of sources and uses appropriated in the proposed ordinance to reconcile the RPD's expenditures with reimbursements received from the PGA Tour.

According to Ms. Petrucione, the RPD has spent \$158,282 in FY 2014-15 of the \$800,000 allocated to maintenance and labor at Harding Park as shown in Table 4 below.

**Table 4: Expenditures for Maintenance and Labor at Harding Park June to November 2014**

|  |                  |
|--|------------------|
| Maintenance Employees Overtime Costs                             | \$79,953         |
| Maintenance Employees Fringe Benefits                            | 29,595           |
| Materials and Supplies   | 48,734           |
| <b>Subtotal, Expenditures Through November 15, 2014</b>          | <b>\$158,282</b> |
| Additional Maintenance Employees Overtime Costs                  | 331,125          |
| Additional Maintenance Fringe Benefits                           | 32,067           |
| Additional Materials and Supplies                                | 211,266          |
| Professional Service Contracts to Renovate the Driving Range     | 67,260           |
| <b>Subtotal, Estimated Additional Expenditures in FY 2014-15</b> | <b>\$641,718</b> |
| <b>Total Actual and Estimated Expenditures in FY 2014-15</b>     | <b>\$800,000</b> |

According to Ms. Petrucione, the \$500,000 reimbursement for lost revenues payable by the PGA Tour to the RPD would be deposited to the Golf Fund to pay for standard expenditures from the Golf Fund as included in the FY 2014-15 Annual Appropriations Ordinance as approved by the Board of Supervisors.

**POLICY CONSIDERATION****The fourth amendment does not set timelines for RPD to invoice PGA**

The Master Lease Agreement and proposed fourth amendment require the PGA Tour to reimburse the RPD for expenditures within 45 days of receiving invoices from the RPD. However, the Master Lease Agreement and proposed fourth amendment do not specify by when the RPD must submit such invoices. The Budget and Legislative Analyst's Office recommends amending the proposed fourth amendment to specify that such invoices should be submitted by the RPD to the PGA Tour no later than 60 days after any PGA Tour event.

**RPD has never received revenues from the PGA Tour**

Under the existing third amendment, the RPD was to be reimbursed for labor and maintenance costs and for lost revenues to host PGA Tour events at Harding Park. Under the proposed fourth amendment, RPD is to be reimbursed by the PGA Tour for the maintenance and labor costs and lost revenues to host each PGA event at Harding Park up to a maximum reimbursement amount of \$1,100,000 to \$1,375,000, depending on the event and as shown in Table 2 above. According to Ms. Petrucione, RPD does not anticipate that the Department's costs and lost revenues for hosting each PGA event will exceed the maximum reimbursement amount under proposed fourth amendment

As shown in Table 2 above the RPD can receive a percentage of PGA Tour even gross operation revenues over a certain threshold depending on the event. However, the RPD has never received percentage revenues from PGA Tour's gross operating revenues for events at Harding Park. The RPD incurs ongoing costs to maintain Harding Park to meet PGA Tour standards, but does not receive revenues for PGA Tour events other than direct reimbursements for RPD costs and lost revenues. In addition, while the Golf Fund is responsible for Harding Park expenses, Golf Fund revenues are insufficient to maintain the City's golf courses, resulting in annual General Fund subsidies of \$4,961,627 in FY 2014-15 and \$4,784,499 in FY 2015-16. The Budget and Legislative Analyst's Office considers approving the proposed fourth amendment and proposed supplemental appropriation to be a policy matter for the Board of Supervisors since the City only recovers the costs of maintaining Harding Park and a payment for lost revenues, and because the City has never received a portion of the PGA Tour event gross operating revenues.

**RECOMMENDATIONS**

1. Amend the proposed resolution to require RPD to submit invoices to PGA Tour within 60 days of the PGA Tour event.
2. Approval of the proposed resolution, as amended, and the proposed ordinance is a policy matter for the Board of Supervisors.

|  |   |
|--|---|
| <p><b>Item 3</b><br/><b>File 14-1159</b></p>   | <p><b>Department:</b><br/>Public Utilities Commission (PUC)</p> |
| <p><b>EXECUTIVE SUMMARY</b></p>  |   |
| <p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve PUC’s emergency public work related to the drought declaration under Administrative Code Section 6.60 to provide for additional needed expenditures for project costs not-to-exceed \$35,000,000.</li> <li>• This emergency public work consists of immediate work repair to Lower Cherry Aqueduct, Sunol Valley Water Treatment Plant, and the San Antonio Pump Station.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In accordance with Administrative Code Section 6.60, the Board of Supervisors previously approved two emergency public work contracts for capital projects to augment the PUC’s water supply in response to the drought.</li> <li>• On September 2, 2014 the Board of Supervisors approved an emergency public work contract between the Public Utilities Commission and Flatiron West, Inc. to perform work to repair the Lower Cherry Aqueduct (File 14-0586).</li> <li>• On July 29, 2014 the Board of Supervisors approved an emergency public work contract between the Public Utilities Commission and Monterey Mechanical to perform work to the Sunol Valley Water Treatment Plant and related infrastructure (File 14-0781).</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Total estimated project costs for the emergency public work are \$31,392,106, of which \$22,000,000 are allocated to the Lower Cherry Aqueduct repairs and \$9,392,106 are allocated to the Sunol Valley Treatment Plant Emergency Reliability Improvements. PUC estimates that total project costs will not exceed \$33,000,000.</li> <li>• The budget for the repairs to the Lower Cherry Aqueduct increased by \$3,900,000 or 22 percent, from the original budget of \$18,100,000 to the revised budget of \$22,000,000.</li> <li>• The budget for the Sunol Valley Treatment Facilities Emergency Reliability Improvements increased by \$879,106 or approximately 10 percent, from the original budget of \$8,513,000 to the revised budget of \$9,392,106.</li> <li>• The increases to the project budgets are within the scope of appropriations previously approved by the Board of Supervisors.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution to: (a) revise the preamble to state: “...with public works amounts not-to-exceed \$33,000,000”; (b) revise page 4, lines 6 and 24 to state that the public works amounts are not-to-exceed \$33,000,000; and (c) page 4, line 4 to state that the repairs to Sunol Valley Water Facilities are projected to total \$9,392,106 and not \$13,000,000.</li> <li>• Given that the Board of Supervisors previously approved the emergency contracts, delete the clause “Further Resolved, that within 30 days of related contracts being fully executed by all parties, the Public Utilities Commission shall provide the final contracts to the Clerk of the Board of Supervisors for inclusion in the official file.”</li> <li>• Approve the proposed resolution as amended.</li> </ul> |   |

**MANDATE STATEMENT****Mandate Statement**

According to Administrative Code Section 6.60, the Board of Supervisors may declare an emergency and may authorize any department head to perform any repair or other emergency work in any manner the Board determines to be in the best interests of the City. 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. If the estimated cost of the emergency work exceeds \$250,000, the department head shall obtain the approval of the Board of Supervisors.

**BACKGROUND****Background**

On February 10, 2014 the Mayor issued an Executive Directive to all City departments outlining initiatives to reduce water use. The Mayor specifically directed the Public Utilities Commission (PUC) to develop alternative sources of water supplies for both potable and non-potable uses.

According to the PUC, as of September 26, 2014 precipitation in the Hetch Hetchy system was 65 percent of its long-term average, below this average for the third year in a row. On February 21, 2014 the Vice President of the PUC issued a Declaration of Emergency due to drought conditions. The Declaration found that repairs to the Lower Cherry Aqueduct and Sunol Valley Water Treatment Plant were critical to ensuring the sustainability of the City's water supply, and authorized the Water Enterprise to procure construction and professional services to conduct these needed repairs.

**Previous Board of Supervisors' Approval of Emergency Work**

In accordance with Administrative Code Section 6.60, the Board of Supervisors previously approved two emergency public work contracts for capital projects to augment the PUC's water supply in response to the drought. On September 2, 2014 the Board of Supervisors approved an emergency public work contract between the Public Utilities Commission and Flatiron West, Inc. to perform work to repair the Lower Cherry Aqueduct (File 14-0586). On July 29, 2014 the Board of Supervisors approved an emergency public work contract between the Public Utilities Commission and Monterey Mechanical to perform work to the Sunol Valley Water Treatment Plant and related infrastructure (File 14-0781).

Pursuant to Administrative Code 6.60, PUC conducted a modified competitive process to select a construction manager/general contractor for the Lower Cherry Aqueduct project and Sunol Valley project. PUC awarded the Lower Cherry Aqueduct contract to Flatiron West, Inc. and the Sunol Valley Project to Monterey Mechanical after each company submitted a bid with the lowest cost proposal and highest bid evaluation score.

### Lower Cherry Aqueduct

The Lower Cherry Aqueduct was constructed to convey water from Cherry Creek in Tuolumne County to supplement the City's primary water supply from the Hetch Hetchy Reservoir during a drought year. The Lower Cherry Aqueduct is able to provide the City with 200,000 acre-feet of water<sup>1</sup> from Cherry Creek in Tuolumne County, California. Repairs to the Lower Cherry Aqueduct, which was damaged during the 2013 Rim Fire, began in April 2014 and are expected to be complete in January 2015.

### Sunol Valley Water Treatment Facilities Emergency Reliability Improvements

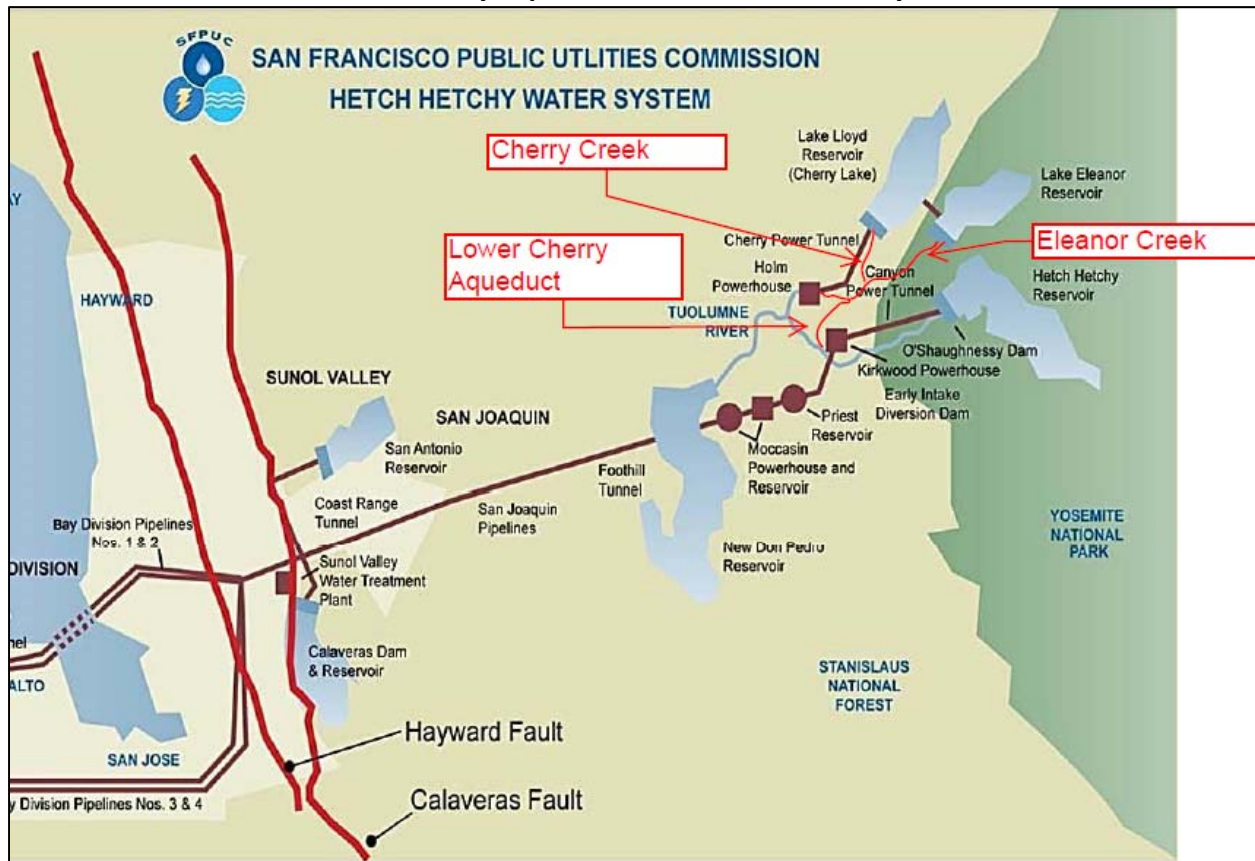
The Sunol Valley Water Treatment Plant Emergency Reliability Improvements cover three facilities in Alameda County: (1) the San Antonio Pump Station, (2) the Sunol Valley Chloramination Facility, and (3) the Sunol Valley Water Treatment Plant. The Water Enterprise Ten-Year Capital and Programmatic Plans for 2015 through 2024 contain repairs to the Treatment Plant during FY 2015-24. However, in response to the Declaration of Emergency, PUC determined that it was necessary to begin certain repairs immediately to enable the Treatment Plant to treat water from the Lower Cherry Aqueduct by Fall 2014 and therefore ensure the sustainability of the City's water supply. The repairs to the Sunol Valley Water Treatment Plant began in July 2014 and are expected to be completed in May 2015.

Exhibit 1 below shows a portion of the Hetch Hetchy Water System and the locations of the Lower Cherry Aqueduct and the Sunol Valley Treatment Plant.

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<sup>1</sup> One acre-foot of water is equivalent to 325,851 gallons of water.

**Exhibit 1: The Lower Cherry Aqueduct and the Sunol Valley Treatment Plant**



Source: PUC

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve PUC’s emergency public work related to the drought declaration under Administrative Code Section 6.60 to provide for additional needed expenditures for project costs not-to-exceed \$35,000,000. This emergency public work consists of immediate repair work to the Lower Cherry Aqueduct, Sunol Valley Water Treatment Plant, and the San Antonio Pump Station. As noted above, the Board of Supervisors previously approved the emergency public work contracts between PUC and Flatiron (File 14-0586) for Lower Cherry Aqueduct repairs, and PUC and Monterey Mechanical (File 14-0781) for emergency reliability improvements to the Sunol Valley Treatment Plant and San Antonio Reservoir facilities.

**FISCAL IMPACT**

Total estimated project costs for the emergency repair work are \$31,392,106, of which \$22,000,000 are allocated to the Lower Cherry Aqueduct repairs and \$9,392,106 are allocated to the Sunol Valley Treatment Plant Emergency Reliability Improvements.

### Lower Cherry Aqueduct Repairs

The budget for the repairs to the Lower Cherry Aqueduct increased by \$3,900,000 or 22 percent, from the original budget of \$18,100,000 to the revised budget of \$22,000,000, shown in Table 1 below. This increase is driven primarily by delays in acquiring environmental permits, additional permitting costs, and an unforeseen need to undergo a National Environmental Policy Act review. According to Ms. Tracy Cael, PUC Project Manager, because of the permit delays, additional costs for design and construction management services are needed to sequence project work in order to allow completion of maintenance and refurbishment work. The maintenance work was needed to allow repairs due to the damage caused by the Rim Fire in order to deliver water by the end of the year. The refurbishment work is a permanent improvement needed to provide reliable supplemental water to Hetch Hetchy in the event of drought condition. The refurbishment work consists of the installation of 84-inch pipe, replacement of sluice and slide gates, and refurbishing the dam.

**Table 1: Total Lower Cherry Aqueduct Project Budget**

| Project Phase                                       | Original Budget     | Revised Budget      | Percent Change in Budget | Percent Complete |
|---|---------------------|---------------------|--------------------------|------------------|
| Project Design (PUC Staff and Consultants)          | \$1,650,000         | \$2,383,000         | 44%                      | 85%              |
| Construction Management (PUC Staff)                 | \$1,500,000         | \$3,783,000         | 152%                     | 15%              |
| Planning and Permitting (PUC Staff and Consultants) | \$750,000           | \$1,434,000         | 91%                      | 65%              |
| Project Contingency (PUC Staff and Consultants)     | \$200,000           | \$400,000           | 100%                     | -                |
| Subtotal  | \$4,100,000         | \$8,000,000         | 95%                      | -                |
| Flatiron West, Inc. Contract                        | \$14,000,000        | \$14,000,000        | 0%                       | 15%              |
| <b>Project Total</b>                                | <b>\$18,100,000</b> | <b>\$22,000,000</b> | <b>22%</b>               | <b>25%</b>       |

Source: PUC

The Board of Supervisors appropriated \$18,100,000 in Hetch Hetchy revenues in June 2014 to fund the Lower Cherry Aqueduct repairs (File 14-0480). Additional funding of \$3,900,000 to fully fund the \$22,000,000 revised budget comes from Water Revenue Bonds previously appropriated by the Board of Supervisors to Water Infrastructure Projects, which include the Lower Cherry Aqueduct (Files 12-0430 and 13-0365).

### Sunol Valley Treatment Facilities Emergency Reliability Improvements

The budget for the Sunol Valley Treatment Facilities Emergency Reliability Improvements increased by \$879,106 or approximately 10 percent, from the original budget of \$8,513,000 to the revised budget of \$9,392,106, shown in Table 2 below. The revised budget of \$9,392,106 is \$3,607,894 less than the \$13,000,000 stated in the proposed resolution. According to Mr. Ravi Krishnaiah, PUC Assistant Regional Manager, changes to the Sunol Valley Treatment Facilities



Project budget stem from a more thorough understanding of the project’s needs as the project progressed. This includes repairs to electrical pumps that were not originally scoped within the project and repairs to electrical systems that had over 50 years of undocumented upgrades. Because the treatment plant is required to be in service during construction, the PUC must acquire temporary facilities, such as chemical feed systems, to maintain treatment operations. The project also requires additional engineering and design review to purchase long lead items such as electrical circuit breakers, pump motor soft starters, and relays.

**Table 2: Total Sunol Valley Treatment Facilities Project Budget**

| Project Phase                      | Original Budget | Revised Budget | Percent Change in Budget | Percent Complete |
|------------------------------------|-----------------|----------------|--------------------------|------------------|
| Design and Engineering (PUC Staff) | \$718,000       | \$1,892,106    | 164%                     | 90%              |
| PUC Staff                          | \$2,658,000     | \$800,000      | -70%                     | 15%              |
| Subtotal                           | \$3,376,000     | \$2,692,106    | -20%                     |                  |
| Monterey Mechanical Contract       | \$5,137,000     | \$6,700,000    | 30%                      | 15%              |
| Project Total                      | \$8,513,000     | \$9,392,106    | 10%                      | 15%              |

Source: PUC

As noted above, the Sunol Valley Treatment Facilities Emergency Reliability Improvements were included in the Water Enterprise Ten-Year Capital and Programmatic Plans for 2015 through 2024; and PUC determined that it was necessary to begin certain repairs immediately to enable the Treatment Plant to treat water from the Lower Cherry Aqueduct by Fall 2014. Funds for the Sunol Valley Treatment Facilities Emergency Reliability Improvements were previously appropriated by the Board of Supervisors in June 2014 (File 14-0479). Funding sources include proceeds from Water Revenue bonds, Bay Area Water Supply and Conversation Agency pre-payment bonds, water revenues and water capacity fees for PUC’s Water Enterprise’s Capital Improvement Program.

### Summary

The proposed resolution approves PUC’s emergency public repair work related to the drought declaration under Administrative Code Section 6.60. As shown in Table 3 below, the total budget for both emergency projects is \$31,392,106, with a contingency of \$1,607,894, resulting in a total budget of \$33,000,000 instead of the requested not-to-exceed amount of \$35,000,000. According to PUC staff, a contingency of \$1,607,894 is sufficient to cover unanticipated increases in project costs. The preamble to the proposed legislation, which states: “Resolution approving emergency public work...with contract amounts not to exceed \$35,000,000” should be revised to state “...with public works amounts not-to-exceed \$33,000,000.”

**Table 3: Total Project Budgets**

| <b>Item</b>                                      | <b>Amount</b>        |
|--|----------------------|
| Lower Cherry Aqueduct                            | \$ 22,000,000        |
| <u>Sunol Valley Treatment Facilities Project</u> | <u>\$ 9,392,106</u>  |
| Projects Subtotal                                | \$ 31,392,106        |
| <u>Contingency</u>                               | <u>\$ 1,607,894</u>  |
| <b>Total Budget</b>                              | <b>\$ 33,000,000</b> |

Source: PUC

The resolution should be further amended on page 4, lines 6 and 24 to correctly state that the public works amounts are not-to-exceed \$33,000,000 rather than \$35,000,000; and on page 4, line 4 to correctly state that the repairs to Sunol Valley Water Facilities are projected to total \$9,392,106 rather than \$13,000,000.

Also, the clause “Further Resolved, that within 30 days of related contracts being fully executed by all parties, the Public Utilities Commission shall provide the final contracts to the Clerk of the Board of Supervisors for inclusion in the official file” should be deleted because the PUC does not intend to enter into any new contracts. The PUC’s existing contracts with Flatiron and Monterey Mechanical were previously approved by prior Board of Supervisors resolutions, as noted above.

## RECOMMENDATIONS

1. Amend the proposed resolution to: (a) revise the preamble to state: “...with public works amounts not-to-exceed \$33,000,000” and not \$35,000,000; (b) revise page 4, lines 6 and 24 to correctly state that the public works amounts are not-to-exceed \$33,000,000; and (c) page 4, line 4 to correctly state that the repairs to Sunol Valley Water Facilities are projected to total \$9,392,106 and not \$13,000,000.
2. Given that the Board of Supervisors previously approved the emergency contracts, delete the clause “Further Resolved, that within 30 days of related contracts being fully executed by all parties, the Public Utilities Commission shall provide the final contracts to the Clerk of the Board of Supervisors for inclusion in the official file.”
3. Approve the proposed resolution as amended.

|  |   |
|--|---|
| <b>Items 4 and 5<br/>Files 14-1181 &amp; 14-1188</b>   | <b>Department:</b><br>Office of the Assessor-Recorder (OAR) |
| <b>EXECUTIVE SUMMARY</b>   |   |
| <b>Legislative Objectives</b>  |   |
| <ul style="list-style-type: none"> <li>• The proposed resolution (File 14-1188) authorizes the Assessor-Recorder's Office (Assessor) to accept and expend a Program grant from the State-County Assessor's Partnership Agreement Program (SCAPA) in the amount of \$1,285,000 from October 15, 2014, to June 30, 2017. The grant requires one-to-one matching funds.</li> <li>• The proposed ordinance (File 14-1181) amends the FY 2014-15 Annual Salary Ordinance (ASO) and creates two Class 4261 Real Property Appraiser positions, two Class 4214 Office Specialist positions, and one Class 4215 Senior Office Specialist position.</li> </ul>   |   |
| <b>Key Points</b>  |   |
| <ul style="list-style-type: none"> <li>• The Assessor has a backlog of 7,900 potentially assessable new construction permits as of July 1, 2014. The Assessor applied for a grant from the State-County Assessor's Partnership Agreement Program (the Program) on September 15, 2014, and was awarded \$1,285,000 in total grant funding to be spent over a three-year period. The grant will be used specifically to hire five new positions to assess and enroll newly constructed property and in-progress new construction valuations, in an effort to reduce the existing backlog.</li> <li>• The Assessor must spend matching funds of \$1,285,000 as a condition of receiving the Program Grant. The Department of Building Inspection will provide these matching funds through a work order to pay for four new property appraisers approved by the Board of Supervisors in the Assessor's FY 2014-15 budget.</li> <li>• The Assessor estimates that the addition of the grant funded members will allow it to reduce its new construction backlog by at least 1,000 cases in FY 2014-15 and by 1,500 in both FY 2015-16 and FY 2016-17, compared to the prior year's backlog.</li> </ul> |   |
| <b>Fiscal Impact</b>   |   |
| <ul style="list-style-type: none"> <li>• The Assessor will expend a total of \$2,570,000 in Program grant and matching funds over a three-year period, from FY 2014-15 to FY 2016-17.</li> <li>• \$600,000 will be spent in FY 2014-15, \$920,000 will be spent in FY 2015-16, and \$1,050,000 will be spent in FY 2016-17.</li> </ul>   |   |
| <b>Recommendations</b>   |   |
| <ul style="list-style-type: none"> <li>• Amend the proposed ordinance (File 14-1181) to require designation in the City's budget system of the five positions funded by the state grant (two Class 4261 Real Property Appraiser positions, two Class 4214 Office Specialist positions, and one Class 4215 Senior Office Specialist position) as Grant-Funded to be terminated when the state grant terminates.</li> <li>• Approve the proposed resolution, and the proposed ordinance, as amended.</li> </ul>  |   |

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

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

Administrative Code Section 10.04 specifies that a salary ordinance identifying the number and rates of compensation for positions created is subject to approval by the Board of Supervisors.

**Background**

The Assessor-Recorder's Office (Assessor) screens an estimated 25,000 building inspection permits annually as part of its new construction assessment workload. In a typical year, 5,000 of those permits become new cases to assess for property value. San Francisco's level of new construction is growing based on the high volume of real estate development activity and an improved economy. The Assessor had a backlog of 7,900 potentially assessable new construction permits as of July 1, 2014.

The California State Legislature and Governor have established the State-County Assessor's Partnership Agreement Program to enhance local property assessment efforts. The Program will begin on a three-year pilot basis and be administered by the Department of Finance (Finance). Program funds are to be used to supplement, not supplant, existing funding. The City and County are required to provide one-to-one matching funds as a condition of receiving the grant from Finance.

The Assessor applied for State grant funds on September 15, 2014, and was awarded \$1,285,000 in total grant funding to be expended over the three-year period. The goal for the funds is to reduce the backlog of new construction assessments. The grant will be used specifically to hire additional staff that will assess and enroll newly constructed property and in-progress new construction valuations.

In FY 2013-14, the existing staff of the Assessor-Recorder's Office enrolled approximately \$1.2 billion in property assessments of newly constructed and in-progress new construction for residential and commercial properties as of the lien date.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution (File 14-1188) authorizes the Assessor to accept and expend a State grant from the State-County Assessor's Partnership Agreement Program in the amount of \$1,285,000 over the period of October 15, 2014, to June 30, 2017 to pay for five new staff positions to reduce the backlog of new construction assessments. The grant requires the expenditure of one-to-one matching funds of \$1,285,000 by the City. Therefore, the total to be expended by the Assessor is \$2,570,000.

The proposed ordinance (File 14-1181) amends FY 2014-15 Annual Salary Ordinance (ASO) to create a total of five new positions to be paid for by the proposed State grant, including:

- Two Class 4261 Real Property Appraiser positions;
- Two Class 4214 Office Specialist positions; and
- One Class 4215 Senior Office Specialist position.

The five positions listed above will be paid for by the proposed state grant. The two Real Property Appraisers will assess and enroll newly constructed property and in-progress new construction valuations as of the lien date.<sup>1</sup> The two Office Specialists will support the appraisal work by photographing and documenting new construction properties and entering essential property characteristics into the property tax assessment database system. These efforts will help the Real Property Appraisers to work more efficiently in reducing the backlog of new construction cases. The Senior Office Specialist will expedite parcel splits and other parcel management work to allow for the reassessment of newly constructed condominium units, as units are sold, rather than at a later time. A parcel split occurs when a newly purchased property is split into two separate parcels to accommodate the new owner.

In addition to the State grant funds for the five positions described above, the City will also provide \$1,285,000 in required matching funds that will be used to hire four additional staff:

- Two Class 4265 Senior Real Property Appraisers; and
- Two Class 4261 Real Property Appraisers.

These four positions will be responsible for assessing and enrolling newly constructed property and in-progress new construction valuations for commercial and residential property as of the lien date. The Board of Supervisors approved these four new positions in the Assessor's FY 2014-15 budget, which will be funded by the Department of Building Inspection through a work order with the Assessor.

The Assessor estimates that the addition of the grant-funded staff members will allow the Assessor's Office to reduce its new construction backlog of an estimated 7,900 cases by at least 1,000 cases in FY 2014-15 and by 1,500 in both FY 2015-16 and FY 2016-17.

## **FISCAL IMPACT**

The Assessor will spend \$2,570,000 in FY 2014-15 to FY 2016-17. All of the grant funds and matching funds will be used to cover the salaries and benefits for the nine newly created staff positions. \$600,000 will be spent in FY 2014-15, \$920,000 will be spent in FY 2015-16, and \$1,050,000 will be spent in FY 2016-17, as shown in Table 1 below.

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<sup>1</sup> The lien date is the time when taxes for any fiscal year become a lien on property; and the time as of which property is valued for tax purposes. The lien date for California property is January 1.

**Table 1: Program Grant and Matching Funds Expenditure Schedule <sup>2</sup>**

|   | <b>FY 2014-15<br/>(January 2015<br/>through June<br/>2015)</b> | <b>FY 2014-15</b> | <b>FY 2015-16</b>  | <b>Total</b>       |
|---|--|-------------------|--------------------|--------------------|
| <b>State Grant</b>                                      |  |                   |                    |                    |
| Permanent Salaries - Misc.                              | \$217,000  | \$365,000         | \$378,000          | \$960,000          |
| Mandatory Fringe Benefits                               | 83,000   | 95,000            | 147,000            | 325,000            |
| <i>Subtotal (State Grant)</i>                           | <i>\$300,000</i>   | <i>\$460,000</i>  | <i>\$525,000</i>   | <i>\$1,285,000</i> |
| <b>Department of Building<br/>Inspection Work Order</b> |  |                   |                    |                    |
| Permanent Salaries - Misc.                              | \$215,000  | \$325,000         | \$372,500          | \$912,500          |
| Mandatory Fringe Benefits                               | 85,000   | 135,000           | 152,500            | 372,500            |
| <i>Subtotal (Matching Funds)</i>                        | <i>\$300,000</i>   | <i>\$460,000</i>  | <i>\$525,000</i>   | <i>\$1,285,000</i> |
| <b>Total</b>  | <b>\$600,000</b>   | <b>\$920,000</b>  | <b>\$1,050,000</b> | <b>\$2,570,000</b> |

Source: Assessor-Recorder's Office

According to Mr. Edward McCaffrey, the Assessor's Director of Communications and External Affairs, the source of the matching funds will be non-General Fund monies obtained through a work order with the Department of Building Inspection (DBI). The four positions to be funded by the DBI work-order were previously approved by the Board of Supervisors in FY 2014-15. According to Ms. Taras Madison, DBI Budget Manager, the matching funds are appropriated in the FY 2014-15 and 2015-16 budgets, and DBI intends to ask for appropriation of these funds in the FY 2016-17 budget.

The Budget and Legislative Analyst recommends amending the proposed ordinance (File 14-1181) to require designation of the five positions funded by the State grant (two Class 4261 Real Property Appraiser positions, two Class 4214 Office Specialist positions, and one Class 4215 Senior Office Specialist position) as Grant-Funded to be terminated when the Program grant terminates. The four positions that will be funded with the City-required matching funds were approved during the FY 14-15 budget process by the Board of Supervisors.

Based on an analysis of the dollar value of properties enrolled in FY 2013-14, the Assessor anticipates that the new five staff funded through the state grant will enroll the following amounts in each fiscal year during the three-year pilot program, through assessing newly constructed and in-progress new construction residential and commercial properties:

- FY 2014-15: \$155 million;
- FY 2015-16: \$180 million; and
- FY 2016-17: \$180 million.

<sup>2</sup> Although the DBI work order funds four positions and the grant funds five positions, the DBI work order positions are higher classifications, resulting in higher salary and fringe benefit costs per position.

**RECOMMENDATIONS**

1. Amend the proposed ordinance (File 14-1181) to require designation in the City's budget system of the five positions funded by the State grant (two Class 4261 Real Property Appraiser positions, two Class 4214 Office Specialist positions, and one Class 4215 Senior Office Specialist position) as Grant-Funded to be terminated when the state grant terminates.
2. Approve the proposed resolution (File 14-1188), and the proposed ordinance (File 14-1181), as amended.

**Item 6**  
**File 14-1229**

**Department:**  
**Mayor's Office of Housing and Community Development**

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed legislation would authorize the Mayor's Office of Housing and Community Development (MOHCD) to allocate \$500,000 from the South of Market (SOMA) Community Stabilization Fund. This allocation includes: 1) \$400,000 to United Playaz as a down payment for the purchase of 1038 Howard Street; and 2) \$100,000 to West Bay Pilipino Multi-Service Corporation to develop and implement a program to connect SOMA youth to quality college preparatory services.

### Key Points

- Under the City's Planning Code, developers constructing new residential development in the Rincon Hill Downtown Residential District pay development impact fees (South of Market Community Stabilization Fee) of \$10.95 per square foot. Fee revenues are deposited into the SOMA Community Stabilization Fund to be used for housing and economic and workforce development. MOHCD administers the SOMA Community Stabilization Fund, and the Community Stabilization Fund Community Advisory Committee advises on the use of fees allocated to the SOMA Community Stabilization Fund revenues, subject to Board of Supervisors approval.
- United Playaz and West Bay Pilipino Multi-Service Corporation were the only two respondents to a competitive Request for Proposals process and were recommended for funding by the SOMA Community Stabilization Fund Community Advisory Committee.

### Fiscal Impact

- The SOMA Community Stabilization Fund currently has an available fund balance of \$10,305,576. The available balance will be reduced to \$9,805,576, should the Board of Supervisors approve the proposed grant expenditures totaling \$500,000 to United Playaz and West Bay Pilipino Multi-Service Corporation.

### Policy Consideration

- The purchase of 1038 Howard Street by United Playaz commits the organization to debt payments on the loan for the property over 20 years. MOHCD considers United Playaz, which has existed since 1994, to be a financially viable organization that is able to comply with the terms of the loan.
- According to MOHCD, the City has no liability for loans obtained by United Playaz. However, because the City, through the SOMA Community Stabilization Fund, is providing the down payment for the purchase of 1038 Howard Street by United Playaz, MOHCD will require United Playaz to replace the initial \$400,000 allocation plus a proportional share of appreciation in the value of 1038 Howard Street as part of the agreement between MOHCD and United Playaz.

### Recommendations

- Amend the proposed resolution to state that (1) the City has no liability for the loan between United Playaz and John Hammond; and (2) United Playaz will be required to reimburse the City for the initial \$400,000 allocation plus a proportional share of appreciation in the value of 1038 Howard Street from proceeds from the sale of the property, including sale of the property due to default or foreclosure of loans secured by the property.
- Approve the proposed resolution as amended.



## MANDATE STATEMENT

In accordance with Planning Code Section 418.7, all monies in the South of Market Area (SOMA) Community Stabilization Fund are to be spent in order to address the effects of destabilization on residents and businesses in SOMA due to new residential development in the Rincon Hill Area, subject to conditions specified in the Planning Code. In accordance with Section 418.7(c) of the Planning Code, the SOMA Community Stabilization Fund expenditures are administered by the Mayor's Office of Housing and Community Development (MOHCD), subject to approval by resolution of the Board of Supervisors. In approving expenditures from the Fund, (a) MOHCD and the Board of Supervisors shall consider any comments from the SOMA Community Stabilization Fund Community Advisory Committee, the public, and any relevant City departments or offices, and (b) the Board of Supervisors shall determine the relative impact from the development in the Rincon Hill Plan Area and shall insure that the expenditures are consistent with mitigating the impacts from the development.

## BACKGROUND

The Board of Supervisors approved a new Section 318 in the City's Planning Code in 2005, which among other provisions, (a) established the Rincon Hill Downtown Residential District<sup>1</sup>, (b) created a Rincon Hill Community Improvement Fund, (c) imposed a South of Market Area (SOMA) Community Stabilization Fee of \$14 per square foot (subsequently amended down to \$10.95 per square foot by the Board of Supervisors under Ordinance 270-10) on developers who build new residential development within the Rincon Hill Downtown Residential District, (d) created the SOMA Community Stabilization Fund, and (e) established a SOMA Community Stabilization Fund Community Advisory Committee (CAC) to advise the MOHCD and the Board of Supervisors on the uses of the SOMA Community Stabilization Fund (Ordinance 217-05).

In accordance with Section 418.7 of the Planning Code, monies in the SOMA Community Stabilization Fund are to be used to address the effects of destabilization on residents and businesses in SOMA due to new residential development in the Rincon Hill Area. Under the Planning Code, the SOMA Community Stabilization Fund is to be used for housing, and economic and workforce development.

The Board of Supervisors approved a resolution in 2008 (Resolution 0216-08) (a) approving the SOMA Community Stabilization Fund Strategic Plan, (b) authorizing MOHCD to administer the SOMA Community Stabilization Fund in accordance with this Strategic Plan, and (c) authorizing MOHCD to work with the SOMA Stabilization Fund Community Advisory Committee to issue Requests for Proposals (RFPs) for non-profit agencies to provide services addressing the effects of destabilization on residents and businesses in SOMA, consistent with the Community Stabilization Fund Strategic Plan. The SOMA Stabilization Fund Community Advisory Committee revised the Community Stabilization Fund Strategic Plan in 2011 to articulate four goals, which include:

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<sup>1</sup> The Rincon Hill Downtown Residential District is the area bounded by Folsom Street, The Embarcadero, Bryant Street, and Essex Street.

- 1) Strengthen community cohesion
- 2) Support economic and workforce development for low-income residents and businesses that serve the SOMA community
- 3) Increase access to perpetually affordable housing opportunities for existing SOMA residents
- 4) Improve the infrastructure and physical environment

#### Request for Proposals (RFP) Process

MOHCD issued a new RFP on August 8, 2014 to fund services to be provided by non-profit agencies in SOMA. MOHCD distributed the RFP on their e-mail list and social media channels, and posted the RFP on their website and at the Library. The RFP announced funding for three program areas: (1) Acquisition of a Community Facility; (2) Development Strategy and Consulting Services; and (3) College Preparatory Service Connection and Capacity Building. The deadline to submit proposals was September 3, 2014.

Four non-profit agencies attended the bidder's conference and only two submitted proposals in response to the RFP. United Playaz applied for the Acquisition of a Community Facility program and West Bay Pilipino Multi-Service Corporation applied for the College Preparatory Service Connection and Capacity Building Program. MOHCD did not receive a proposal for the Development Strategy and Consulting Services program area. The proposals were reviewed by an MOHCD staff member and a member of the SOMA Community Advisory Committee who then made recommendations to the full Community Advisory Committee to award funding to United Playaz and West Bay Pilipino Multi-Service Corporation. The Committee unanimously voted to approve both recommended proposals.

#### **DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would authorize MOHCD to expend \$500,000 from the SOMA Community Stabilization Fund. These funds will be allocated as follows:

- 1) \$400,000 to United Playaz to serve as the down payment to acquire a community-serving facility in SOMA that provides programs and activities that support youth development citywide.
- 2) \$100,000 to West Bay Pilipino Multi-Service Corporation to develop and implement a program to connect SOMA youth to quality college preparatory services.

#### United Playaz Allocation

The proposed \$400,000 allocation from the SOMA Community Stabilization Fund will allow United Playaz, a non-profit organization providing violence prevention and youth development services, will be used as a down payment to purchase their headquarters at 1038 Howard Street, which they currently rent. The building's appraised value was determined to be \$1,475,000 by Carneghi-Blum & Partners, a real estate appraisal and consulting firm.

United Playaz entered into a purchase and sale agreement in January 2014 with the property owner, Mr. John Hammond, trustee of the John M. Hammond Living Trust, to purchase 1038

Howard Street for a purchase price of \$1,400,000. United Playaz would spend the \$400,000 SOMA Community Stabilization Fund allocated towards the down payment. The balance of \$1,000,000 would be carried as a loan by the seller at an annual interest rate of 5.25 percent per year.

The loan would be amortized over 20 years, with total principal and interest payments of \$1,617,226. The seller would carry the loan for 10 years, at which time United Playaz would be required to refinance the loan. The loan balance to be refinanced at the end of 10 years would be approximately \$628,050.

The purchase and sale agreement has a \$250,000 penalty for prepayment of the loan. Therefore, if United Playaz were to pre-pay the loan for any reason before the end of ten years, United Playaz would owe the outstanding principal balance at the time of prepayment plus the \$250,000 prepayment penalty.

MOHCD will allocate the \$400,000 SOMA Community Stabilization funds to United Playaz to be expended for the down payment at the close of escrow on January 14, 2015. United Playaz will make monthly principal and interest payments of \$6,738 to the seller, which is \$738 more than United Playaz's existing rent for 1038 Howard Street of \$6000. Polaris Pacific, a real estate marketing firm located at 850 7<sup>th</sup> Street, will pledge \$900 per month for ten years beginning in February 2015 to support the difference between what United Playaz currently pays in rent and what the projected mortgage payments will be.<sup>2</sup>

The SOMA Community Stabilization Fund allocation requires \$400,000 in matching funds. United Playaz submitted documentation to MOHCD showing \$405,567 in pledged donations. According to Ms. Claudine Del Rosario, SOMA Community Stabilization Fund Director, these funds will be used to establish capital and operating reserves and pay other program costs.

#### West Bay Pilipino Multi-Service Corporation Allocation

West Bay Pilipino Multi-Service Corporation is a non-profit organization whose services include youth mentorship programs, family service case management and breast cancer support. According to its proposal, the proposed \$100,000 allocation from the SOMA Community Stabilization Fund will support its College Preparatory Program and establish a partnership with the non-profit organization Bayview Association for Youth's 100% College Preparatory Program. The proposed activities will serve 25 youth, grades 8-12, by providing academic tutoring, individualized case management and academic planning, test preparation, counseling sessions, and training for parents related to financial planning for college and providing academic support to children. The term of this grant allocation is two years. Table 1 below shows the budget for the proposed grant from the SOMA Community Stabilization Fund.

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<sup>2</sup> August 31, 2014 letter from Chris Foley, Partner, Polaris Pacific to SOMA Community Advisory Committee members.

**Table 1: West Bay Pilipino Multi-Service Corporation Grant Budget**

| <b>Budget Item</b>     | <b>Amount</b>    |
|------------------------|------------------|
| Salaries and Wages     | \$40,180         |
| Fringe Benefits        | 6,770            |
| Contractual Services   | 30,000           |
| Travel and Conferences | 2,500            |
| Supplies and Utilities | 9,400            |
| Indirect               | 11,150           |
| <b>Total</b>           | <b>\$100,000</b> |

**FISCAL IMPACT**

The SOMA Community Stabilization Fund has received \$16,778,718 in South of Market Area Community Stabilization fees and interest on deposits from FY 2005-06 through October 31, 2014 as shown in Table 2 below.

**Table 2: Revenues Deposited to the SOMA Community Stabilization Fund (Through October 31, 2014)**

| <b>Fiscal Year</b> | <b>Revenue from Fees</b> | <b>Transfers from Community Improvement Funds</b> | <b>Total Revenue</b> |
|--------------------|--------------------------|---|----------------------|
| FY 2005-2006       | \$98,471                 | \$0   | \$98,471             |
| FY 2006-2007       | 0                        | 203,292   | 203,292              |
| FY 2007-2008       | 0                        | 0   | 0                    |
| FY 2008-2009       | 67,324                   | 0   | 67,324               |
| FY 2009-2010       | 4,962,933                | 350,000   | 5,312,933            |
| FY 2010-2011       | 2,807,128                | 589,626   | 3,396,754            |
| FY 2011-2012*      | (81,761)                 | 0   | (81,761)             |
| FY 2012-2013       | 185,874                  | 0   | 185,874              |
| FY 2013-2014       | 1,899,067                | 0   | 1,899,067            |
| FY 2014-2015       | 5,376,158                | 0   | 5,376,158            |
| <b>Subtotal</b>    | <b>\$15,315,194</b>      | <b>\$1,142,918</b>                                | <b>\$16,458,112</b>  |
| Interest Earnings  |                          |   | \$320,606            |
| <b>Total</b>       |                          |   | <b>\$16,778,718</b>  |

\* Negative revenue is return of fees collected erroneously in the prior fiscal year for 333 Harrison project.

Source: Mayor's Office of Housing and Community Development

\$6,473,142 in SOMA Community Stabilization Fund monies have been expended as of November 25, 2014, as previously authorized by the Board of Supervisors, and as shown in Table 3 below. These expenditures include costs incurred by MOHCD and the City Attorney's Office to administer the SOMA Community Stabilization Fund.

**Table 3: Expenditures in SOMA Community Stabilization Fund  
(Through October 31, 2014)**

| Year         | Salaries and Benefits** | Inclusionary Housing Study | Grant Expenditures | Total Expenditures |
|--------------|-------------------------|----------------------------|--------------------|--------------------|
| FY 2006-2007 | \$45,614                | \$40,000                   | \$0                | \$85,614           |
| FY 2007-2008 | 82,452                  | 110,000                    | 0                  | 192,452            |
| FY 2008-2009 | 185,596                 | 0                          | 0                  | 185,596            |
| FY 2009-2010 | 102,090                 | 0                          | 0                  | 102,090            |
| FY 2010-2011 | 135,719                 | 0                          | 3,613,462          | 3,749,181          |
| FY 2011-2012 | 160,709                 | 0                          | 404,411            | 565,120            |
| FY 2012-2013 | 149,770                 | 0                          | 606,621            | 756,391            |
| FY 2013-2014 | 128,946                 | 0                          | 306,553            | 435,499            |
| FY 2014-2015 | 41,656                  | 0                          | 359,543            | 401,199            |
| <b>Total</b> | <b>\$1,032,552</b>      | <b>\$150,000</b>           | <b>\$5,290,590</b> | <b>\$6,473,142</b> |

\*\* Includes MOHCD administrative costs, advertising for public hearing, and City Attorney's Office costs.

Source: Mayor's Office of Housing and Community Development

The SOMA Community Stabilization Fund currently has an available fund balance of \$10,305,576, as shown in Table 4 below. The available balance will be reduced to \$9,805,576, should the Board of Supervisors approve the proposed allocation totaling \$500,000 to United Playaz and West Bay Pilipino Multi-Service Corporation.

**Table 4: Projected SOMA Community Stabilization Fund Balance**

|  | Amount             |
|--|--------------------|
| Revenues FY 2005-2015 from Table 2       | \$16,778,718       |
| Expenditures FY 2005-2015 from Table 3   | (6,473,142)        |
| <b>Subtotal - Available Fund Balance</b> | <b>10,305,576</b>  |
| Proposed grant allocations               | (500,000)          |
| <b>Total</b>                             | <b>\$9,805,576</b> |

## POLICY CONSIDERATION

The purchase and sale agreement between United Playaz and John Hammond commits United Playaz to debt payments for 1038 Howard Street for up to 20 years. According to Ms. Del Rosario, MOHCD considers United Playaz, which has existed since 1994, to be a financially viable organization that is able to comply with the terms of the loan for 1038 Howard Street.

MOHCD has not yet entered into an agreement covering the terms of the \$400,000 allocation to pay the down payment on the purchase of 1038 Howard Street. MOHCD plans to enter into a 30-year agreement with United Playaz, which will include a deed of trust and declaration of

restrictions.<sup>3</sup> Ms. Del Rosario says the City has no liability for the loan between United Playaz and John Hammond. However, because the City, through the SOMA Community Stabilization Fund, is providing the down payment for the purchase of 1038 Howard Street by United Playaz, MOHCD will require that United Playaz replace the initial \$400,000 allocation plus a proportional share of appreciation in the value of 1038 Howard Street as part of the agreement between MOHCD and United Playaz.

The proposed resolution should be amended to state that (1) the City has no liability for the loan between United Playaz and John Hammond; and (2) United Playaz will be required to replace the initial \$400,000 allocation plus a proportional share of appreciation in the value of 1038 Howard Street from proceeds from the sale of the 1038 Howard Street, including sale of the property due to default or foreclosure of loans secured by the property.

### RECOMMENDATIONS

1. Amend the proposed resolution to state that (1) the City has no liability for the loan between United Playaz and Mr. John Hammond owner of 1038 Howard Street; and (2) United Playaz will be required to reimburse the City for the initial \$400,000 allocation plus a proportional share of appreciation in the value of 1038 Howard Street from proceeds from the sale of the property, including sale of the property due to default or foreclosure of loans secured by the property.
2. Approve the proposed resolution as amended.

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<sup>3</sup> A deed of trust is a security instrument conveying the legal title to real property as security for the repayment of a loan. A declaration of restriction is recorded with the deed, setting out restrictions on the property.

|   |   |
|---|---|
| <b>Item 13</b><br><b>File 14-1224</b>   | <b>Department:</b><br>Municipal Transportation Agency (MTA) |
| <b>EXECUTIVE SUMMARY</b>  |   |
| <p style="text-align: center;"><b>Legislative Objectives</b></p> <p>The proposed resolution would approve a new procurement contract between the San Francisco Municipal Transportation Agency (MTA) and New Flyer, Inc. (New Flyer) for 61 new 60-foot long buses with options, at the sole discretion of the MTA, to (1) procure up to 163 additional 60-foot long buses and (2) procure up to 200 additional 40-foot long buses.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The MTA currently operates 323 buses that are 40-feet long and 124 buses that are 60-foot long for a total of 447 buses that were purchased at various times and from various vendors with 279 of these 447 buses, or 62.4 percent of the total bus fleet, projected to reach the end of their useful life in 2014 or 2015.</li> <li>• The MTA Transit Fleet Management Plan from March 2014 states that, by the end of calendar year 2020, the MTA anticipates procuring 424 new or replacement 40-foot and 60-foot buses including: (1) 124 replacement 60-foot long buses, (2) 200 replacement 40-foot long buses, and (3) 100 new 60-foot long buses.</li> <li>• The MTA issued a competitive Request for Proposals (RFP) in January 2014 to procure buses that are 30-feet, 40-feet, and 60-foot long. New Flyer was the only company to submit a proposal, which included 35-foot long buses rather than 30-foot long buses.</li> <li>• The MTA decided to issue a separate competitive RFP at a future date for the 30-foot long buses and determined that the New Flyer proposal was responsive for the 40-foot long and 60-foot long procurement.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The proposed procurement contract would have a total cost of \$78,885,625 comprised of \$68,258,536 for the 61 new 60-foot long buses including spare arts, special tools and training, with another \$10,628,089 for sales tax and support costs.</li> <li>• Under the proposed the procurement contract, the base price per bus increases annually by the Produce Price Index (PPI) for transportation manufacturing. Therefore, future costs of procuring additional buses under the options included in the proposed procurement contract are not known at this time.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul> |   |

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

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

**Background**

The San Francisco Municipal Transportation Agency (MTA) currently operates 323 buses that are 40-feet long and 124 buses that are 60-feet long for a total of 447 buses that were purchased at various times and from various vendors as shown in Table 1 below.

**Table 1: MTA Bus Fleet By Manufacturer And Size**

| <b>Manufacturer</b>            | <b>Bus Length</b> | <b>Number of Buses in 2014</b> | <b>Year Purchased</b> | <b>End of Useful Life Year<sup>1</sup></b> |
|--------------------------------|-------------------|--------------------------------|-----------------------|--|
| Neoplan                        | 40-Feet           | 8                              | 2002                  | 2014                                       |
| Neoplan                        | 40-Feet           | 67                             | 2003                  | 2015                                       |
| Neoplan                        | 40-Feet           | 80                             | 2002                  | 2014                                       |
| Orion                          | 40-Feet           | 56                             | 2007                  | 2019                                       |
| New Flyer                      | 40-Feet           | 62                             | 2013                  | 2025                                       |
| New Flyer                      | 40-Feet           | 50                             | 2014                  | 2026                                       |
| <b>Subtotal, 40-Foot Buses</b> |                   | <b>323</b>                     |                       |  |
| Neoplan                        | 60-Feet           | 26                             | 2002                  | 2014                                       |
| Neoplan                        | 60-Feet           | 98                             | 2003                  | 2015                                       |
| <b>Subtotal, 60-Foot Buses</b> |                   | <b>124</b>                     |                       |  |
| <b>Total Bus Fleet</b>         |                   | <b>447</b>                     |                       |  |

279 of 447 buses, or 62.4 percent of the total bus fleet, are projected to reach the end of their useful life in 2014 or 2015. The MTA replaced 112 Neoplan 40-foot long buses with New Flyer 40-foot buses in 2013 and 2014 as previously approved by the Board of Supervisors in October 2012 (File 12-0908, File 12-1070) and in October 2013 (File 13-0977).

According to the MTA Transit Fleet Management Plan from March 2014, by the end of calendar year 2020, the MTA anticipates procuring 424 new or replacement 40-foot and 60-foot buses: (1) 124 replacement 60-foot long buses, (2) 200 replacement 40-foot long buses, and (3) 100 new 60-foot long buses. The Transit Fleet Management Plan provides for 536 40-foot and 60-foot buses, including 112 buses purchased in 2013 and 2014, and 424 buses to be purchased under the proposed agreement with New Flyer, including the purchase options. This is an increase of 89 buses compared to the current fleet of 447 40-foot and 60-foot buses. According to the Transit Fleet Management Plan, the MTA estimates that increasing the overall number of

<sup>1</sup> The end of useful life term for buses is determined by the Metropolitan Transportation Commission (MTC) and is set at 12 years.



buses as well as increasing the number of 60-foot buses will provide sufficient buses to handle future increased ridership in the most efficient way possible.

The MTA issued a competitive Request for Proposals (RFP) in January 2014 to procure buses that are 30-feet, 40-feet, and 60-feet long. New Flyer of America, Inc. (New Flyer) was the only company to submit a proposal, which included 35-foot long buses rather than 30-foot long buses. According to Mr. Elson Hao, MTA Principal Engineer, after reviewing the plans and specifications for the 35-foot long buses, the MTA decided that those buses would not be an appropriate replacement for the 30-foot long buses in the City and that the MTA would issue a separate RFP for 30-foot long buses at a later date. However, the New Flyer proposal was responsive for the 60-foot long buses and included options to procure the 40-foot long buses.

The Federal Transportation Agency requires the MTA to survey vendors to determine if the RFP was overly restrictive when only one manufacturer provides a proposal. According to Mr. Hao, the survey revealed that the MTA RFP was not overly restrictive and that other manufacturers did not submit proposals because of either scheduling conflicts or because they could not produce the type of buses that the MTA was requesting.<sup>2</sup>

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new procurement contract between the MTA and New Flyer for 61 new 60-foot long buses based on a competitive RFP process. As noted above, New Flyer was the only company to submit a proposal to the MTA for this procurement. The contract is for an amount not-to-exceed \$68,257,536.

Under the terms of the procurement contract, the MTA would receive a base amount of 61, 60-foot long buses with annual options for the purchase of additional 40-foot long and 60-foot long buses. The subject procurement contract includes schedules and prices for two different types of buses including the parallel propulsion system and the series propulsion system<sup>3</sup>, which is less expensive. According to Mr. Hao, the MTA is initially procuring parallel propulsion system buses because they are more reliable and because the series propulsion system is new in the 60-foot long buses. Depending on the experience of other jurisdictions that bought the 60-foot long series propulsion system buses, the MTA may procure series propulsion system buses under the various options included in the subject procurement contract.

Table 2 below shows the base number of buses and City options.

<sup>2</sup> Documents provided by the MTA to the Federal Transportation Agency show that the MTA published the RFP on the SFGate website. Additionally, the documents show that two manufacturers other than New Flyer attended the pre-proposal conference on this specific procurement including Nova Bus and Proterra, Inc. Additionally, Mr. Hao states that he sent the RFP to: the Gillig Corporation; Champion Bus, Inc.; and El Dorado National, which are all major national bus manufacturers.

<sup>3</sup> In a parallel hybrid bus, the combustion engine and the electric motor are connected directly to the drive shaft. The electric motor is designed to assist the engine during stop and go traffic while at highway speeds. These, however, are powered solely by the internal combustion engine. A series propulsion system bus is exclusively propelled by the electric motor; the internal combustion engine is connected to an electric generator that converts energy produced by the internal combustion engine into electric power.

**Table 2: Base Contract Of 61 Buses Plus Options At The Sole Discretion Of The City**

|              | 40-Foot<br>Long Buses | 60-Foot<br>Long Buses | Total      |
|--------------|-----------------------|-----------------------|------------|
| Base Amount  | -                     | 61                    | 61         |
| 2015 Option  | 48                    | 50                    | 98         |
| 2016 Option  | 41                    | 48                    | 89         |
| 2017 Option  | 30                    | -                     | 30         |
| 2018 Option  | 36                    | 35                    | 71         |
| 2019 Option  | 45                    | 30                    | 75         |
| <b>Total</b> | <b>200</b>            | <b>224</b>            | <b>424</b> |

Under the terms of the proposed procurement contract, the MTA may procure up to 363 optional buses, for a total of 424 buses. Under the terms of the proposed procurement contract, the per unit price for the vehicles exercised in the options would increase annually by inflation as calculated through the Producer Price Index (PPI) for transportation manufacturing.

### FISCAL IMPACT

The proposed resolution would approve a procurement contract between the MTA and New Flyer for an amount not-to-exceed \$68,257,536 for the base amount of buses and the associated costs and includes options to increase the number of buses each year through 2019.

Table 3 below shows that the total cost to procure 61 new 60-foot long buses is \$78,885,625.

**Table 3: Summary of Contract and Associated Costs**

| Expenditure Item                          | Total Price         |
|---|---------------------|
| 61 Buses (\$1,041,443 Per Bus)            | \$63,528,008        |
| Spare Parts                               | 1,891,719           |
| Special Tools                             | 1,497,529           |
| Training                                  | 1,340,280           |
| <b>Subtotal, Contract</b>                 | <b>\$68,257,536</b> |
| Sales Tax                                 | 5,875,932           |
| Warranty Support                          | 274,039             |
| Project Support                           | 3,478,118           |
| Consultant Support and Vehicle Inspection | 1,000,000           |
| <b>Subtotal, Associated Costs</b>         | <b>\$10,628,089</b> |
| <b>Grand Total</b>                        | <b>\$78,885,625</b> |

As noted above, the MTA had to provide supplemental documentation to the Federal Transportation Agency as evidence that the RFP was not overly restrictive. Such justification includes a comparison of the price per vehicle. The MTA provided the Federal Transportation Agency with two recent procurements from jurisdictions in Springfield, IL and Nashville, TN where the buses were delivered in 2013 and where the price per New Flyer 60-foot long parallel

propulsion system bus (after including an extended warranty and 2.85 percent annual inflation) was similar to the price per bus in the proposed MTA procurement contract. Table 4 below shows the comparison of prices per bus.

**Table 4: Recent and Proposed New Flyer Bus Procurement Bus Prices**

| <b>Procurement</b>              | <b>Price Per Bus</b> |
|---------------------------------|----------------------|
| Springfield, IL (2013 Delivery) | \$1,061,515          |
| Nashville, TN (2013 Delivery)   | 1,020,212            |
| <b>Average</b>                  | <b>\$1,040,864</b>   |
| <b>MTA Procurement</b>          | <b>\$1,041,443</b>   |
| <b>MTA Compared to Average</b>  | <b>100.06%</b>       |

According to Mr. Hao, the MTA will use Federal and State funds, as appropriated by the Board of Supervisors, to pay for the related contract costs including the associated tax and support costs. Table 5 below shows the funding sources and amounts.

**Table 5: Sources of Funds**

| <b>Fund Source</b>                           | <b>Amount</b>       |
|--|---------------------|
| Federal Urbanized Area Formula Program Funds | \$49,533,531        |
| Federal Ladders to Opportunities Grant Funds | 9,000,000           |
| State Infrastructure Bond Proceeds           | 8,000,000           |
| Proposition K Sales Tax Funds                | 12,352,094          |
| <b>Total Sources</b>                         | <b>\$78,885,625</b> |

According to Mr. Hao, the \$9,000,000 in federal Ladders to Opportunities Grant Funds was awarded to the MTA after the MTA Board and Board of Supervisors approved the MTA Capital Budget. However, according to Mr. Hao, the additional funds are less than five percent of the MTA Capital Budget and within the MTA authority to expend without a supplemental appropriation.

**RECOMMENDATION**

Approve the proposed resolution.

|  |  |
|--|--|
| <b>Items 14 and 17</b><br><b>Files 14-1213 and 14-1214</b>   | <b>Department:</b><br>Controller's Office (Controller) |
| <b>EXECUTIVE SUMMARY</b>   |  |
| <p><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• <b>File 14-1213:</b> The proposed resolution would (a) authorize the issuance of one or more series of City and County of San Francisco General Obligation (GO) Refunding Bonds in an amount not to exceed \$430,000,000; (b) approve the form of and authorizing the distribution of a Preliminary Official Statement relating to the issuance the GO Refunding Bonds; (c) authorize the preparation, execution, and delivery of a final Official Statement; and (d) ratify the approvals and terms and conditions set forth in the 2011 Resolution setting guidelines for issuance of GO Refunding Bonds (File 11-1010).</li> <li>• <b>File 14-1214:</b> The proposed ordinance would appropriate \$430,000,000 of one or more series of GO Refunding Bond proceeds and placing all of these funds on Controller's Reserve pending the sale of the GO Refunding Bond Proceeds in one or more series.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• On November 11, 2011 the Board of Supervisors approved a resolution (File 11-1010, "the 2011 Resolution") authorizing the issuance of not-to-exceed \$1,355,991,219 of GO Refunding Bonds and the specific parameters for those GO Refunding Bonds issuance(s).</li> <li>• The proposed resolution (File 14-1213) would authorize (1) the Director of Public Finance to issue one or more series of GO Refunding Bonds subject to the requirements of the 2011 Resolution; and (2) the Controller and the City Attorney to make changes to the Preliminary and Final Official Statements (a) "as may be necessary or advisable," (b) to reflect the most recent City budgeting and financial information, and (c) that are consistent with the 2011 Resolution.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The Office of Public Finance currently estimates a savings of \$56,754,246 in debt service as a result of issuing the GO Refunding Bonds in the proposed legislation.</li> <li>• Section 9.106 of the City Charter limits the amount of GO Bonds the City can have outstanding at any given time to 3 percent of the total assessed value of property in the City. According to Ms. Nadia Sesay, Director of the Controller's Office of Public Finance, as of November 1, 2014, General Obligation bonds totaling \$2.09 billion remain outstanding, constituting 1.15 percent of the net assessed value of the property in the City. According to Ms. Sesay, if the Board of Supervisors approves the issuance of the Refunding Bonds, the debt ratio would decrease by 0.02 percent to 1.13 percent of net assessed value.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution (File 14-1213).</li> <li>• Amend the proposed ordinance (File 14-1214) on line 2 of page 3 to state \$430,000,000 rather than \$430,080,000 specified in the proposed ordinance, which is a typographical error, and approve the proposed ordinance (File 14-1214) as amended.</li> </ul> |  |

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

Section 9.106 of the City's Charter provides that the Board of Supervisors is authorized to approve the issuance and sale of any General Obligation Refunding Bonds in accordance with State law and local procedures adopted by ordinance without voter approval if the Refunding Bonds result in net debt service savings to the City and County on a present value basis.

**Background**

General Obligation (GO) Bonds are secured by a pledge to levy Property Taxes in an amount necessary to fully pay the debt service. According to the Controller's Office of Public Finance document, "Debt Policy of the City and County of San Francisco", the City generally issues GO Bonds to finance the acquisition, improvement, and/or construction of real property, including libraries, hospitals, parks, public safety facilities, cultural facilities, and educational facilities.

GO Refunding Bonds are issued to achieve debt service savings for the City by redeeming previously issued higher interest rate GO Bonds and issuing new lower interest rate GO Refunding Bonds. According to the City's Debt Policy, GO Refunding Bond issuances must produce minimum net debt service savings of at least three percent, when compared to the debt service costs of the original GO Bonds.

**Section 9.106 of the City Charter Imposes a Debt Limit on GO Bonds**

Section 9.106 of the City Charter limits the amount of GO Bonds the City can have outstanding at any given time to 3 percent of the total assessed value of property in the City. According to Ms. Nadia Sesay, Director of the Controller's Office of Public Finance, as of November 1, 2014, General Obligation bonds totaling \$2.09 billion remain outstanding, constituting 1.15 percent of the net assessed value of the property in the City. According to Ms. Sesay, if the Board of Supervisors approves the issuance of the Refunding Bonds, the debt ratio would decrease by 0.02 percent to 1.13 percent of net assessed value.

**The Board of Supervisors Previously Approved the Issuance of GO Refunding Bonds**

On November 11, 2011 the Board of Supervisors approved a resolution (File 11-1010, "the 2011 Resolution") authorizing the issuance "from time to time" of not-to-exceed \$1,355,991,219 of GO Refunding Bonds and the specific parameters for those GO Refunding Bonds issuance(s), including (a) approving the form and terms, (b) authorizing the execution, authentication and registration, (c) approving the form and authorizing the execution and delivery of escrow agreements, (d) approving and directing the Property Tax levy for repayments, (e) approving procedures for competitive or negotiated sales including approving forms of Official Notice of Sale and Notice of Intention to Sell, (f) authorizing the selection of underwriters and the execution and delivery of Bond purchase agreements, (g) approving the form and authorizing the execution and delivery of continuing disclosure certificates, and (h) authorizing the costs of issuance. Under the 2011 Resolution, the Board of Supervisors retained the authority to approve the Preliminary Official Statements and Official Statements for each issuance authorized under the proposed resolution.

The 2011 Resolution also authorized the Director of Public Finance to determine (a) which series (or maturities within any series) of prior GO Bonds would be refunded, and (b) the sale dates, interest rates, maturity dates, redemption dates and the terms of any redemption of GO Bonds for a principal amount not-to-exceed \$1,355,991,219.

In addition, the 2011 Resolution authorized the specific initial issuance (initial series) of \$411,480,000 in GO Refunding Bonds, including authorizing the distribution of the Preliminary Official Statement and the execution, delivery and distribution of the Official Statement.

Based on a recommendation by the Budget and Legislative Analyst, the Budget and Finance Committee amended the resolution to incorporate a 5-year time limit to the Controller's authorization to issue such GO Refunding Bonds.

The 2011 Resolution imposed the following terms and conditions on the sale of future GO Refunding Bonds:

1. Total present value of the aggregated debt service to maturity on each GO Refunding Bond shall not exceed the total present value of the aggregated debt service to maturity on the prior GO Bonds to be refunded;
2. GO Refunding Bonds must achieve a minimum three percent net present value savings<sup>1</sup>, including costs of issuance;
3. True interest cost of the GO Refunding Bonds must not exceed 12 percent;
4. GO Refunding Bonds must not have a final maturity date later than the maturity date of the GO Bonds to be refunded;
5. Cost of issuance must not exceed two percent and the underwriter's discount<sup>2</sup> must not exceed one percent of the principal amount of the GO Refunding Bonds.

## DETAILS OF PROPOSED LEGISLATION

**File 14-1213:** The proposed resolution would (a) authorize the issuance of one or more series of City and County of San Francisco GO Refunding Bonds in an amount not to exceed \$430,000,000; (b) approve the form of and authorizing the distribution of a Preliminary Official Statement relating to the issuance the GO Refunding Bonds, (c) authorize the preparation, execution, and delivery of a final Official Statement; and (d) ratify the approvals and terms and conditions set forth in the 2011 Resolution (File 11-1010).

**File 14-1214:** The proposed ordinance would appropriate \$430,000,000 of one or more series of GO Refunding Bond proceeds and placing all of these funds on Controller's Reserve pending the sale of the GO Refunding Bond Proceeds in one or more series.

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<sup>1</sup> Savings is defined as the difference between the present value of the aggregated debt service to maturity of the GO Refunding Bonds and the bonds to be refunded.

<sup>2</sup> The underwriter's discount is the difference between the purchase price paid to the issuer for a new issue and the sum of the prices at which the bonds are initially offered to the investing public by the underwriter.

### **The GO Refunding Bonds Will Meet the Conditions Set Forth in the 2011 Legislation**

As stated above, the 2011 Resolution authorizing the issuance of GO Refunding Bonds imposed several conditions on the sale of GO Bonds. According to Mr. Anthony Ababon, Bond Associate at the Office of Public Finance:

1. The total present value of the debt service to maturity of the proposed GO Refunding Bonds will not exceed that total present value of the debt service of the GO Bonds to be refunded, as required by the 2011 Resolution.
2. The proposed GO Refunding Bonds are currently expected to achieve a 12.64 percent of debt savings, greater than the 3 percent required by the 2011 Resolution.<sup>3</sup>
3. The true cost of the interest rate is anticipated to be 2.59 percent, less than the 12 percent required by the 2011 Resolution.<sup>4</sup>
4. The refunding bonds will maintain the same final maturity as the bonds that will be refunded, as required by the 2011 Resolution.<sup>5</sup>
5. The cost of issuing the GO Refunding bonds will be less than the 2 percent of the GO Refunding Bonds principal and the underwriter's discount will be less than 1 percent of the GO Refunding Bonds principal, as required by the 2011 Resolution.

If the proposed resolution (File 14-1213) is approved, it would acknowledge that the GO Refunding Bonds satisfy the requirements of the 2011 Resolution previously approved by the Board of Supervisors and authorize the Director of Public Finance to issue one or more series of GO Refunding Bonds subject to the requirements of the 2011 Resolution.

### **The GO Refunding Bonds May to be Used to Refund Multiple Series of GO Bonds**

According to Mr. Ababon, the following GO Bonds and GO Refunding Bonds may be refunded using the proceeds from the GO Refunding Bonds in the proposed legislation:

- 2006-R1
- 2006-R2
- 2008A
- 2008B
- 2008-R1
- 2008-R3
- 2009A
- 2010E

The set of bonds that is ultimately refunded will depend on the bond market conditions at the time of issuing the GO Refunding Bonds in the proposed legislation and the extent to which the refunding transaction meets the criteria imposed by the 2011 Resolution.

<sup>3</sup> According to Mr. Ababon, the actual savings will depend on bond market conditions at the time of issuance. Nonetheless, Mr. Ababon states that the savings from the refunding transaction will be at least 3 percent.

<sup>4</sup> According to Mr. Ababon, the true interest cost at the time of issuance may be different, depending on conditions of the bond market. Nonetheless, Mr. Ababon expects the true interest rate cost to remain below the 12 percent limit imposed by the 2011 Resolution.

<sup>5</sup> The last maturity date of the bonds to be refunded is in 2035.

**The Proposed Resolution Authorizes the Preliminary Official Statement and Authorizes the Execution, Delivery, and Distribution of the Official Statement for the GO Refunding Bonds**

The proposed resolution would approve the form and authorize the distribution of the Preliminary Official Statement and authorize the execution, delivery and distribution of the Official Statement for an issuance of a series of \$430,000,000 in GO Refunding Bonds. The proposed resolution would further authorize the Controller and the City Attorney to make changes to the Preliminary and Final Official Statements (a) “as may be necessary or advisable,” (b) to reflect the most recent City budgeting and financial information, and (c) that are consistent with the 2011 Resolution.

**The Refunding Bonds Are Expected to be Issued on or around February 2015**

According to Ms. Sesay, the proposed GO Refunding Bonds would be issued on or around February 2015 to refund approximately \$398,390,000 in outstanding GO Bonds and GO Refunding Bonds. However, Ms. Sesay notes that the actual amount of this initial issuance of GO Refunding Bonds may be revised based on market conditions up to the day of the sale.

According to Ms. Sesay, the Office of Public Finance expects to issue GO Refunding bonds at a par amount of \$361,525,000 with an expected premium of \$66,562,358, as shown in Table 1 below. The actual proceeds, cost of issuance, and underwriters discount may be different and will depend on bond market conditions at the time of issuance. Therefore the Office of Public Finance is requesting under File 14-1213 a not-to-exceed amount of \$430,000,000.

**Table 1: Sources and Uses of GO Refunding Bonds**

| <b>Sources of bond funding</b>        | <b>Amount</b>        |
|---------------------------------------|----------------------|
| Par                                   | \$361,525,000        |
| Premium                               | 66,562,358           |
| <b>Total</b>                          | <b>\$428,087,358</b> |
| <br>                                  |                      |
| <b>Use of bonds</b>                   | <b>Amount</b>        |
| Refunding Escrow Deposit <sup>6</sup> | \$425,778,914        |
| Cost of Issuance                      | 500,819              |
| Underwriters Discount                 | 1,807,625            |
| <b>Total</b>                          | <b>\$428,087,358</b> |

Source: Office of Public Finance

**FISCAL IMPACT**

According to Mr. Ababon, the Office of Public Finance currently estimates a savings of \$56,754,246 in debt service as a result of issuing the GO Refunding Bonds in the proposed legislation. The average interest rate of the bonds expected to be refunded is 4.85 percent and

<sup>6</sup> The Refunding Escrow Deposit line item includes \$398,390,000 in principal and \$27,388,914 in interest expense accrued prior to the refunding of the bonds, totaling \$425,778,914.



the anticipated true interest rate cost<sup>7</sup> of the proposed GO Refunding Bonds is 2.59 percent, resulting in a 2.26 percent average interest rate savings.

The timeline of the debt service savings is shown in Table 2 below. The actual debt service savings will depend on bond market conditions at the time of issuing the GO Refunding Bonds.

**Table 2: Estimated Debt Service Savings**

| <u>FY Ending</u> | <u>Prior Debt Service</u> | <u>Refunding Debt Service</u> | <u>Gross Savings</u> |
|------------------|---------------------------|-------------------------------|----------------------|
| 6/15/2015        | \$ 22,887,335             | \$ 21,911,476                 | \$ 975,859           |
| 6/15/2016        | \$ 49,331,595             | \$ 46,544,500                 | \$ 2,787,095         |
| 6/15/2017        | \$ 36,433,020             | \$ 33,642,000                 | \$ 2,791,020         |
| 6/15/2018        | \$ 32,628,950             | \$ 29,841,500                 | \$ 2,787,450         |
| 6/15/2019        | \$ 32,646,400             | \$ 29,856,500                 | \$ 2,789,900         |
| 6/15/2020        | \$ 31,383,800             | \$ 28,593,500                 | \$ 2,790,300         |
| 6/15/2021        | \$ 28,476,313             | \$ 25,689,500                 | \$ 2,786,813         |
| 6/15/2022        | \$ 37,351,388             | \$ 34,562,750                 | \$ 2,788,638         |
| 6/15/2023        | \$ 37,354,031             | \$ 34,564,750                 | \$ 2,789,281         |
| 6/15/2024        | \$ 37,352,506             | \$ 34,565,250                 | \$ 2,787,256         |
| 6/15/2025        | \$ 37,366,638             | \$ 34,576,500                 | \$ 2,790,138         |
| 6/15/2026        | \$ 37,376,219             | \$ 34,585,000                 | \$ 2,791,219         |
| 6/15/2027        | \$ 37,399,538             | \$ 34,612,750                 | \$ 2,786,788         |
| 6/15/2028        | \$ 37,412,213             | \$ 34,625,500                 | \$ 2,786,713         |
| 6/15/2029        | \$ 31,789,888             | \$ 29,000,500                 | \$ 2,789,388         |
| 6/15/2030        | \$ 22,157,388             | \$ 19,366,000                 | \$ 2,791,388         |
| 6/15/2031        | \$ 5,596,500              | \$ 2,807,750                  | \$ 2,788,750         |
| 6/15/2032        | \$ 5,597,250              | \$ 2,807,750                  | \$ 2,789,500         |
| 6/15/2033        | \$ 5,597,000              | \$ 2,807,250                  | \$ 2,789,750         |
| 6/15/2034        | \$ 5,595,250              | \$ 2,806,000                  | \$ 2,789,250         |
| <u>6/15/2035</u> | <u>\$ 5,596,500</u>       | <u>\$ 2,808,750</u>           | <u>\$ 2,787,750</u>  |
| <b>Total</b>     | <b>\$ 577,329,722</b>     | <b>\$ 520,575,476</b>         | <b>\$ 56,754,246</b> |

Source: Office of Public Finance

## RECOMMENDATIONS

1. Approve the proposed resolution (File 14-1213).
2. Amend the proposed ordinance (File 14-1214) on line 2 of page 3 to state \$430,000,000 rather than \$430,080,000 specified in the proposed ordinance, which is a typographical error, and approve the proposed ordinance (File 14-1214) as amended.

<sup>7</sup> "True interest costs" includes all the costs of taking out a loan, including finance charges, discount point and prepaid interest.

|   |   |
|---|---|
| <p><b>Items 15 &amp; 16</b><br/><b>Files 14-1211 and 14-1212</b></p>  | <p><b>Department:</b><br/>Public Utilities Commission (PUC)</p> |
| <p><b>EXECUTIVE SUMMARY</b></p>   |   |
| <p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution (File 14-1212) authorizes the San Francisco Public Utilities Commission (SFPUC) to accept and expend a grant in the amount of \$1,400,000 from the California Department of Water Resources for the Regional Groundwater Storage and Recovery Project Phase 1A – South Westside Groundwater Basin, Northern San Mateo County.</li> <li>• The proposed ordinance (File 14-1211) de-appropriates \$1,400,000 in existing Water System Improvement Program Regional Groundwater &amp; Recovery Project budgets approved by an existing ordinance (311-08) and re-appropriates the funds to the Water System Program Bond/Commercial Paper expense.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Association of Bay Area Governments (ABAG) applied for a Proposition 84 Integrated Regional Water Management Program Grant from the State of California, Department of Water Resources (DWR). The Department of Water Resources awarded ABAG a grant of \$20,000,000, and required that an estimated \$14,428,997 in agency matching funds be committed.</li> <li>• ABAG will disburse the funds to the SFPUC for implementation of the Regional Groundwater Storage and Recovery Project Phase 1A – South Westside Basin, Northern San Mateo County, on a reimbursement basis.</li> <li>• Under Phase 1A of the Project, five groundwater wells will be constructed in Daly City, Colma and South San Francisco. Work in Phase 1A consists of well drilling (to approximately 550 to 750 feet deep), construction, development and pump testing.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The estimated cost of Phase 1A for the purpose of the grant agreement between the SFPUC and DWR is \$3,452,261, of which \$1,400,000 will be provided through grant funding from the Department of Water Resources.</li> <li>• The estimated cost-share for the SFPUC for the project is \$2,022,261. Funds for the cost-share will come from the Water System Improvement Program Project CUW30103.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <p>Approve the proposed resolution and ordinance.</p> |   |

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

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

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

**Background**

On behalf of numerous local public agencies, including the San Francisco Public Utilities Commission (SFPUC), the Association of Bay Area Governments (ABAG) applied for a Proposition 84 Integrated Regional Water Management Program Grant from the State of California, Department of Water Resources (DWR). The purpose of the grant is to help fund the implementation and operation of 19 local, subregional and regional water conservation, water recycling, ecosystem restoration, green infrastructure, and flood management-watershed projects to be carried out by the participating agencies.

The State Department of Water Resources (DWR) awarded ABAG a grant of \$20,000,000, and required that an estimated \$14,428,997 in agency matching funds be committed. Grant funds will be disbursed by DWR to ABAG, the fiscal agent of the grant, on a reimbursement basis.

Under a grant agreement between ABAG and the SFPUC, ABAG will disburse the funds to the SFPUC for implementation of the Regional Groundwater Storage and Recovery Project Phase 1A – South Westside Basin, Northern San Mateo County, also on a reimbursement basis. Under Phase 1A of the Project, five groundwater wells will be constructed in Daly City, Colma and South San Francisco. Work in Phase 1A consists of well drilling (to approximately 550 to 750 feet deep), construction, development and pump testing.

The Regional Groundwater Storage and Recovery Project is part of the SFPUC's Water System Improvement Program (WSIP). The goal of the program is to develop local groundwater supply for use during drought conditions. When completed and operational, the Project will store up to 60,500 acre-feet of water in the South Westside Groundwater Basin, a capacity that would provide approximately 7.5 years of dry-year supply.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution (File 14-1212) authorizes the San Francisco Public Utilities Commission (SFPUC) to accept and expend a grant in the amount of \$1,400,000 from the California Department of Water Resources for the Regional Groundwater Storage and Recovery Project Phase 1A – South Westside Groundwater Basin, Northern San Mateo County.

The proposed ordinance (File 14-1211) de-appropriates \$1,400,000 in existing Water System Improvement Program Regional Groundwater Storage and Recovery Project funds previously appropriated by the Board of Supervisors, and re-appropriates the funds to the Water System

Improvement Program Bond/Commercial Paper expense. SFPUC deposits bond and commercial paper proceeds and other unused WSIP funds into the WSIP Bond/Commercial Paper expense prior to re-appropriation of these funds to WSIP projects.

## FISCAL IMPACT

The Regional Groundwater Storage and Recovery Project budget is \$113,580,000, as shown in the table below, and is funded by Water Revenue Bonds, previously appropriated by the Board of Supervisors.

**Table: Regional Groundwater Storage and Recovery Project Budget**

| Project Phase  | Approved Budget      | Expended as of October 2014 | Balance             |
|--|----------------------|-----------------------------|---------------------|
| Project Management   | \$6,757,119          | \$3,407,448                 | \$3,149,671         |
| Planning   | 2,031,881            | 2,031,881                   | 0                   |
| Environmental Review   | 4,755,000            | 3,895,262                   | 735,738             |
| Right-of-Way   | 2,118,000            | 838,405                     | 1,279,595           |
| Design   | 10,852,000           | 9,832,280                   | 1,343,720           |
| Bid and Award  | 373,000              | 10,866                      | 362,134             |
| Construction Management  | 11,324,000           | 500,785                     | 10,823,215          |
| Environmental Mitigation   | 732,196              | 4,438                       | 727,758             |
| Subtotal, Project Planning, Design, Management, Environmental, Other | \$38,943,196         | \$20,521,365                | \$18,421,831        |
| Prior Construction (Completed)                                       | 4,388,804            | 4,393,854                   | (5,050)             |
| Construction 13 Wells (Includes 10% Contingency) <sup>1</sup>        | 57,156,000           | 0                           | 57,156,000          |
| Construction 2 Wells (Includes 10% Contingency) <sup>2</sup>         | 8,382,000            | 0                           | 8,382,000           |
| Other Construction   | 4,710,000            | 0                           | 4,710,000           |
| Subtotal, Construction   | \$74,636,804         | \$4,393,854                 | \$70,242,950        |
| <b>Total</b>   | <b>\$113,580,000</b> | <b>\$24,915,219</b>         | <b>\$88,664,781</b> |

Source: PUC

<sup>1</sup> Located in Daly City, Colma, San Bruno, South San Francisco, and Millbrae

<sup>2</sup> Located in or near Golden Gate National Cemetery

The proposed \$1,400,000 State Department of Water Resources grant will free up existing water revenue bond proceeds previously appropriated by the Board of Supervisors for Regional Groundwater Storage and Recovery Project funds, which will be re-appropriated to the Water System Improvement Program Bond/Commercial Paper expense. According to Mr. Carlos Jacobo of the PUC, before the re-appropriated funds can be expended on another project, the Board of Supervisors will need to approve a supplemental appropriation.

The proposed \$1,400,000 grant requires matching funds of \$2,022,261. These matching funds of water revenue bonds were previously appropriated by the Board of Supervisors and are included in the Regional Groundwater Storage and Recovery Project budget, as shown in the table above.

Phase 1A of the Regional Groundwater Storage and Recovery Project is expected to be completed by July 31, 2016. The duration of the agreement will terminate when the SFPUC's obligations under the Agreement have been fully satisfied, no later than December 31, 2018.

**RECOMMENDATION**

Approve the proposed resolution and ordinance.

|  |   |
|--|---|
| <b>Item 18</b><br><b>File 14-1162</b>  | <b>Department:</b><br>Public Utilities Commission (PUC) |
| <b>EXECUTIVE SUMMARY</b>   |   |
| <b>Legislative Objectives</b>  |   |
| <ul style="list-style-type: none"> <li>• The proposed resolution would (1) authorize Master License Agreements between the City and ExteNet Systems, LLC (ExteNet) and GTE Mobilnet of California, LP (Verizon), and any related street light pole licenses necessary to effectuate the Master License Agreements; and (2) authorize the General Manager of the San Francisco Public Utilities Commission (SFPUC) to enter into any modifications to the Master License Agreements, in consultation with the City Attorney, which do not materially increase the obligations of liabilities of the SFPUC or the City.</li> </ul>   |   |
| <b>Key Points</b>  |   |
| <ul style="list-style-type: none"> <li>• SFPUC owns and maintains approximately 16,800 street light poles in San Francisco. The Commission approved the use of Master License Agreements with telecommunications companies in October 2014, authorizing a program to license existing SFPUC street light poles to private companies to install Distributed Antenna Systems for wireless communications.</li> <li>• The proposed resolution would approve Master License Agreements with two companies – ExteNet Systems, LLC (ExteNet) and GTE Mobilnet of California, LP (Verizon). Each Master License Agreement is for 12 years; SFPUC will enter into licenses with each company for specific street light pole locations to install Distributed Antenna Systems equipment. Each license would have an annual fee of \$4,000 in the first year, increasing by 4 percent per year.</li> </ul> |   |
| <b>Fiscal Impact</b>   |   |
| <ul style="list-style-type: none"> <li>• SFPUC estimates revenues from ExteNet and Verizon of up to \$220,000 for installation of DAS equipment on street light poles in the first year of the Master License Agreement, as shown in Table 2 below. Estimated revenues to SFPUC from ExteNet and Verizon over the 12-year term of the Master License Agreements range from \$10,059,481 for 200 street light poles to \$14,465,260 for 270 street light poles.</li> </ul>  |   |
| <b>Policy Consideration</b>  |   |
| <ul style="list-style-type: none"> <li>• The Board of Supervisors approved an ordinance in October 2014 amending the Administrative Code, implementing Section 98.2 to provide a Street Light Use Policy but did not address the use of street lights for private commercial uses. Because the Board of Supervisors does not have a policy on the use of city street lights for private commercial uses, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy consideration for the Board of Supervisors</li> </ul>   |   |
| <b>Recommendation</b>  |   |
| <ul style="list-style-type: none"> <li>• Approval of the proposed resolution is a policy consideration for the Board of Supervisors.</li> </ul>  |   |

## MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board or commission that will generate revenue in excess of \$1 million or any modification of that contract is subject to Board of Supervisors approval.

## BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) owns and maintains approximately 16,800 street light poles in San Francisco. In April 2012, the SFPUC adopted the San Francisco Street Light Pole Use Policy (Policy) which identifies priorities for alternative uses of street light poles and grants the General Manager of the SFPUC the authority to issue licenses for alternative uses of street light poles by city agencies, neighborhood associations and community business districts.

The SFPUC has been approached by private companies that have sought access to the SFPUC street light poles for installation of Distributed Antenna Systems (DAS). A DAS installation consists of multiple low-power antennas that are connected by fiber-optic lines to the carrier's hubs. DAS facilities distribute wireless network coverage, providing for more efficient management of wireless cellular telephone and data capacity in heavily trafficked areas.

The SFPUC now seeks to execute Master License Agreements with private companies to provide for outdoor DAS installations through use of its street light poles to generate revenue for the SFPUC's programs and services. The Public Utilities Commission approved a resolution on October 28, 2014, authorizing a program to license existing SFPUC street light poles to private companies for outdoor DAS use. The street light poles would continue to be operated by the SFPUC to provide street lighting.

In August of 2014, SFPUC conducted a series of meetings with telecommunications companies that were interested in providing DAS. Based on those discussions, the SFPUC developed the Master License Agreement approved by the SFPUC Commission. SFPUC later published a public notice in the newspaper and on its website to notify telecommunication companies of the street light pole licensing opportunity. According to Ms. Mary Tienken, Project Manager at SFPUC, the large supply of street light poles will allow participation by any wireless telecommunication carrier using licensed spectrum, and therefore, it was unnecessary and impractical to undergo a formal Request for Proposals (RFP) process. According to Ms. Tienken, SFPUC expects that all qualified applicants will be approved for access to SFPUC's street light poles to install Distributed Antenna Systems. To date, two companies – ExteNet Systems, LLC (ExteNet) and GTE Mobilnet of California, LP (Verizon) have requested to enter into Master License Agreements with PUC for DAS installation on SFPUC's street light poles. Others have expressed interest, but have not yet signed a Master License Agreement.

**DETAILS OF PROPOSED LEGISLATION**

Through the proposed resolution, the Board of Supervisors would (1) authorize Master License Agreements between the City and ExteNet Systems, LLC (ExteNet) and GTE Mobilnet of California, LP (Verizon), and any related street light pole licenses necessary to effectuate the Master License Agreements; and (2) authorize the General Manager of SFPUC to enter into any modifications<sup>1</sup> to the Master License Agreements, in consultation with the City Attorney, which do not materially increase the obligations of liabilities of the SFPUC or the City.

Master License Agreement and street light pole license

The proposed resolution would authorize two Master License Agreements between PUC and ExteNet and Verizon respectively, which establish the fees, charges, procedures and conditions in which SFPUC may grant permission to ExteNet and Verizon to install DAS equipment on specific street light poles. Prior to installation of DAS equipment, ExteNet and Verizon must apply for a street light pole license, which authorizes the specific street light pole location and any specific site constraints for that pole. Each street light pole license will constitute an amendment to the Master License Agreement, and will not be subject to future approval by the Board of Supervisors.

Table 1 below shows the key terms of the Master License Agreement.

**Table 1: Key Terms of the Master License Agreement**

|  |  |
|--|--|
| Permitted Use  | Installation, operation and maintenance of Equipment on the License Area specified in each pole license.                             |
| Term   | 12 years after effective date  |
| Pole license Application Deadline                                | 10 years after effective date  |
| Master License Application Fee to be paid by ExteNet and Verizon | \$7,500 (one time)   |
| Pole license Fees to be paid by ExteNet and Verizon              | Pole license Fee - \$4,000 (per pole per year)<br>Administration Fee - \$900 (one time)<br>Service Connection Fee - \$440 (one time) |
| Pole license Fee Adjustments                                     | Pole license Fees will escalate by 4% on January 1 each year   |

<sup>1</sup>According to Ms. Tienken, such modifications may include adjustments to technical elements related to installation of DAS.



### Licensee Selection of Poles

According to Ms. Tienken, licensees will select the street light poles for installation of their DAS equipment to meet their service coverage requirements, subject to SFPUC's approval requirements under the Master License Agreement. The SFPUC will not determine the geographic distribution of DAS equipment installation on their street light poles. Rather, licensees will select the location based on their service coverage needs. Ms. Tienken further states that the two licensees have expressed interest in installing DAS in the northeast and South of Market areas of San Francisco. SFPUC will review pole license applications to ensure adherence to SFPUC's municipal interests, as noted below, but not for geographic preference within San Francisco.

### Description of Infrastructure and Installation

The proposed DAS equipment consists of a shielded antenna mounted on top of a street light pole, along with a radio enclosure attached to the street light pole at a height of 18 feet above the sidewalk. The Master License Agreement provides a streamlined procedure for use of standard steel tapered poles. It prohibits DAS equipment on concrete poles and "historic" poles as defined in the SF Public Works Code.

The exhibit below illustrates the installation of the DAS equipment by ExteNet or Verizon on a street light pole.

**Exhibit: Installation of DAS Equipment on Street Light Pole**



exienet  
SYSTEMS  
6/25/14

PUC8 / Steel Pole  
San Francisco, CA

Applied Imagination 510 914-0500

**SFPUC Rights to Poles**

According to the Agreement, the SFPUC retains possession and control of all SFPUC poles for SFPUC operations. The SFPUC will maintain and repair SFPUC poles as needed, at any time. Licensees are liable for any damage to SFPUC poles. The SFPUC may terminate a pole license for street light pole(s) and require removal of the DAS equipment if the SFPUC determines that continued use of the street light pole for DAS interferes with the SFPUC’s street light operations.

In approving a pole license, SFPUC may consider any matter affecting its municipal obligations and interests. SFPUC staff engineers will review the pole license applications and conduct site visits with Licensees to determine feasibility of use for each pole location to adhere to SFPUC interests. Examples of these interests may include:

- 1) The resulting total load on the SFPUC pole;
- 2) The impact of the installation on street lighting operations;

- 3) Whether in the equipment would create a hazardous or unsafe condition;
- 4) Aesthetic concerns, particularly for historic or decorative poles;
- 5) Cumulative level of emissions in the vicinity of the pole.

#### Coordination with other City agencies

The SFPUC, in consultation with the Department of Public Health (DPH) will require that each DAS installation fully comply with Federal Communications Commission requirements for human exposure to radio frequency emissions. The SFPUC will also consult with the Planning Department to limit the aesthetic impacts of the proposed DAS installation.

Prior to approval of the pole license, licensees must demonstrate compliance with regulatory approvals from the Department of Public Works (DPW). DPW will review Wireless Telecommunications Service Facility Site Permit applications and issue a Wireless Telecommunications Service Facility Site Permit, under Article 25 of the San Francisco Public Works Code, which sets limits on the number, size, and type of antennas that can be installed on street light poles. Additionally, Article 25 requires that DPW and the Planning Department consider the aesthetic impacts of a proposed pole installation, and that the Department of Public Health (DPH) confirms that the proposed pole is in compliance with the Public Health Compliance Standard. Compliance with regulations is performed by the licensee and SFPUC does not have a role in coordinating approvals from DPW, DPH and the Planning Department, although SFPUC will confirm that all regulatory approval have been granted prior to issuing a pole use license.

#### Municipal Use of Fiber-Optic Cable

According to the Agreements, ExteNet and Verizon will grant to the City a license to use four strands of any fiber-optic cable that the licensee owns at each licensed SFPUC pole. Licensee agrees that upon the expiration or termination of this Agreement, licensee will grant to the City, by quitclaim or sale, any fiber strands that the City uses or desires to use.

### **FISCAL IMPACT**

The SFPUC set the first year license fee at \$4,000 per street light pole, which was determined to be fair market value based on research conducted by SFPUC staff on similar DAS agreements across the United States. SFPUC also contacted cities in the Bay Area and a wireless communications trade association to find data on rental rates.

SFPUC estimates revenues from ExteNet and Verizon of up to \$220,000 for installation of DAS equipment on street light poles in the first year of the Master License Agreement, as shown in Table 2 below. Estimated revenues to SFPUC from ExteNet and Verizon over the 12-year term of the Master License Agreements range from \$10,059,481 for 200 street light poles to \$14,465,260 for 270 street light poles.

**Table 2: Estimated Street Light Pole License Fee Revenue  
Paid by ExteNet and Verizon to SFPUC**

|              | Annual License Fee | Low Estimate    |         |       | Total Revenue       | High Estimate   |         |       | Total Revenue       |
|--------------|--------------------|-----------------|---------|-------|---------------------|-----------------|---------|-------|---------------------|
|              |                    | Number of Poles |         |       |                     | Number of Poles |         |       |                     |
|              |                    | ExteNet         | Verizon | Total |                     | ExteNet         | Verizon | Total |                     |
| Year 1       | 4,000              | 0               | 0       | 0     | \$0                 | 30              | 25      | 55    | \$220,000           |
| Year 2       | 4,160              | 30              | 50      | 80    | 320,000             | 90              | 100     | 190   | 760,000             |
| Year 3       | 4,326              | 90              | 50      | 140   | 582,400             | 170             | 100     | 270   | 1,123,200           |
| Year 4       | 4,499              | 150             | 50      | 200   | 865,280             | 170             | 100     | 270   | 1,168,128           |
| Year 5       | 4,679              | 150             | 50      | 200   | 899,891             | 170             | 100     | 270   | 1,214,853           |
| Year 6       | 4,867              | 150             | 50      | 200   | 935,887             | 170             | 100     | 270   | 1,263,447           |
| Year 7       | 5,061              | 150             | 50      | 200   | 973,322             | 170             | 100     | 270   | 1,313,985           |
| Year 8       | 5,264              | 150             | 50      | 200   | 1,012,255           | 170             | 100     | 270   | 1,366,545           |
| Year 9       | 5,474              | 150             | 50      | 200   | 1,052,745           | 170             | 100     | 270   | 1,421,206           |
| Year 10      | 5,693              | 150             | 50      | 200   | 1,094,855           | 170             | 100     | 270   | 1,478,055           |
| Year 11      | 5,921              | 150             | 50      | 200   | 1,138,649           | 170             | 100     | 270   | 1,537,177           |
| Year 12      | 6,158              | 150             | 50      | 200   | 1,184,195           | 170             | 100     | 270   | 1,598,664           |
| <b>Total</b> |                    |                 |         |       | <b>\$10,059,481</b> |                 |         |       | <b>\$14,465,260</b> |

Source: SFPUC

The licensees will also pay a one-time application of \$7,500, administration fee of \$900, and a service connection fee of \$400, totaling \$8,800 per applicant, as noted in Table 1 above.

Also, as noted above, the licensee will install four fiber strands from the electric service connection point to the street light pole for City use, expanding the City’s fiber network. The SFPUC has not estimated the value to the City for these additional fiber strands.

**POLICY CONSIDERATION**

The Board of Supervisors approved an ordinance in October 2014 amending the Administrative Code, implementing Section 98.2 to provide a Street Light Use Policy but did not address the use of street lights for private commercial uses. Because the Board of Supervisors does not have a policy on the use of city street lights for private commercial uses, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy consideration for the Board of Supervisors.

**RECOMMENDATION**

Approval of the proposed resolution is a policy consideration for the Board of Supervisors.