Comm	nittee	Item	No.	10	
Board	Item	No	_2	5	

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee:	Budget and Finance Committee	Date: October 27, 2010
Board of Su	pervisors Meeting	Date
Cmte Boa	rd	
	Motion Resolution Ordinance Legislative Digest Budget Analyst Report Legislative Analyst Report Ethics Form 126 Introduction Form (for hearings) Department/Agency Cover Letter MOU Grant Information Form Grant Budget Subcontract Budget Contract/Agreement Award Letter Application Public Correspondence	and/or Report
OTHER	(Use back side if additional space	e is needed)
		ate: October 22, 2010 ate: /১/ 28//১

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

1 2	[Appropriating \$85,000,000 and the Public Utilities Comn	nission for FY2010-20)11]	· · · · · · · · · · · · · · · · · · ·	abilo Mone
3	Ordinance appropriating	\$85,000,000 of the	2010 Serie	s 1 Earthquake	Safety and
4	Emergency Response Gen				
5	Department of Public Wo	rks and \$8,396,929	to the Pub	lic Utilities Comr	nission, for
6	necessary repairs and seis	smic improvements	in order to	better prepare Sa	n Francisco
7	for a major earthquake or I	natural disaster for	FY2010-2011	l, and placing the	se funds on
8	Controller's Reserve pendi	ing the sale of the b	onds.		
9	•				
10	Be it ordained by the People	of the City and Coun	ty of San Fra	ncisco:	
11					
12	Section 1. The sources of	f funding outlined be	elow are her	ein appropriated t	o reflect the
13	funding available for Fiscal Y	ear 2010-2011 in the	Department	of Public Works.	
14					
15	SOURCES Appropriation –	3C CPF XXX			
16	Fund	Index/Project Code	Subobject	Description	Amount
17	3C CPF XXX	XXXXXX	80111	General Obligation	\$85,000,000
18					
	Earthquake Safety and	CESER1 MP0000		Bond Proceeds	
19	Earthquake Safety and Emergency Response Bond	CESER1 MP0000		Bond Proceeds	
	,	CESER1 MP0000		Bond Proceeds	
19	Emergency Response Bond			Bond Proceeds	\$85,000,000
19 20	Emergency Response Bond Fund			Bond Proceeds	\$85,000,000
19 20 21	Emergency Response Bond Fund			Bond Proceeds	\$85,000,000
19 20 21 22	Emergency Response Bond Fund			Bond Proceeds	\$85,000,000
19 20 21 22 23	Emergency Response Bond Fund			Bond Proceeds	\$85,000,000

FILE NO._101248_____

O. INANCE NO.

RO#11006 SA#06 Section 2. The uses of funding outlined below are herein appropriated in the Subobject 0670 (Buildings, Structures, and Improvement Project-Budget), Subobject 07311 (Cost of Bond Issuance, Underwriter's Discount, and Reserve Pending Bond Sales), Subobject 081C4 (City Services Auditor Internal Audits for the General Obligation Bond Oversight Committee and the Controller's Audit Fund), Subobject 0935W (Operating Transfer Out to 5W — Water Department Funds), and reflects the projected uses of funding to support the necessary repairs and seismic improvements needed in order to better prepare San Francisco for a major earthquake or natural disaster for Fiscal Year 2010-2011.

. 9

USES Appropriation – 3C CPF XXX

Fund	Index Code/	Subobject	Description	Amount
	Project Code			
3C CPF XXX	XXXXXX	06700 Buildings,	Earthquake Safety and	\$70,223,621
Earthquake Safety and	CESER1	Structures, and	Emergency Response	
Emergency Response	MP0000	Improvement	Repairs and	
Bond Fund	·	Project-Budget	Improvements	
3C CPF XXX	xxxxx	07311	Cost of Issuance	\$452,914
Earthquake Safety and	CESER1	Bond Issuance		
Emergency Response	MP0000	Cost		
Bond Fund				
3C CPF XXX	xxxxxx	07311	Underwriter's Discount	\$599,325
Earthquake Safety and	CESER1	Bond Issuance		
Emergency Response	MP0000	Cost		
Bond Fund				
	ot on City			D0-65

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. 1	Fund	Index Code/	Subobject	Description	Amount
2		Project Code		·	
3	3C CPF XXX	XXXXXX	07311	Reserve Pending	\$5,090,000
. 4	Earthquake Safety and	CESER1	Bond Issuance	Bond Sales	τ,
. 5 ⁻	Emergency Response	MP0000	Cost		
6	Bond Fund	, · · · · .		Sec. 25.	
7	vito vito jik	4 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	,	e^{Θ} .	
8	3G CPF XXX	XXXXXX	081C4- Controller	··City Services Auditor (%)	\$79,910
9	Earthquake Safety and	CESER1	Internal Audits	0.1% allocation for the	
10	Emergency Response	MP0000		General Obligation Bond	
11	Bond Fund			Oversight Committee	•
12				Audits	
13					
14	3C CPF XXX	XXXXXX	081C4- Controller	City Services Auditor	\$157,241
15	Earthquake Safety and	CESER1	Internal Audits	0.2% allocation for the	
16	Emergency Response	MP0000		Controller's Audit Fund	
17	Bond Fund			,	
18	And the state of t				
19	3C CPF XXX	XXXXXX	0935W OTO to	Transfer out of	\$8,396,929
20	Earthquake Safety and	CESER1	5W – Water Dept	3C CPF XXX	
21	Emergency Response	MP0000	Funds		
22	Bond Fund	· ·		·	·
23					
24	Total USES Appropriation	n – 3C CPF XXX			\$85,000,000
25				unon	
-					
	Mayor Newsom, Super Board of Supervisors	visor Chiu			Page 3 of 5

5.

Section 3. The sources of funding outlined below are herein appropriated to reflect the funding available for Fiscal Year 2010-2011 in the Public Utilities Commission

SOURCES Appropriation – 5W CPF XXX

Fund .	Index/Project Code	Subobject	Description	Amount
5W CPF XXX	xxxxxx	9301G	Transfer in to	\$8,396,929
Earthquake Safety and	CUWAWS 01	OTI from	. 5W CPF XXX	
Emergency Response Bond		3C CPF XXX		A CONTRACTOR
Fund		٠.		
Total SOURCES Appropriation	- 5W CPF XXX			\$8,396,929

Section 4. The uses of funding outlined below are herein appropriated in the Subobject 06700 (Buildings, Structures, and Improvement Project-Budget), and reflects the projected uses e^{ϵ} funding to support the necessary repairs and seismic improvements needed in order to better prepare San Francisco for a major earthquake or natural disaster for Fiscal Year 2010-2011.

USES Appropriation – 5W CPF XXX

Fund	Index Code/	Subobject	Description	Amount
	Project Code		•	
5W CPF XXX	XXXXXX	06700 Buildings,	Auxiliary Water Supply	\$8,396,929
Earthquake Safety and	CUWAWS 01	Structures, and	System Repairs and	
Emergency Response		Improvement	Improvements	
Bond Fund		Project-Budget	•	

Mayor Newsom, Supervisor Chiu **Board of Supervisors**

Total USES Appropriation – 5W CPF XXX

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\$8,396,929

1		
1	Section 5. The uses of funding outlined ab	ove for \$85,000,000 are herein placed on
2.	Controller's Reserve for Fiscal Year 2010-2011 p	ending sale of the General Obligation Bonds.
-3		
4	Section 6. The Controller is authorized to apply	funds appropriated by this ordinance to abate
5	advanced expenditures incurred by the General	Fund for projects supported by ESER bonds
6	that are eligible to be reimbursed by bond proceed	ds.
. 7		
8	Section 7. The Controller is authorized to rec	ord transfers between funds and adjust the
. 9	accounting treatment of sources and uses app	ropriated in this ordinance as necessary to
10	conform with Generally Accepted Accounting Pri	nciples.
11		
12	F	UNDS AVAILABLE
13		
14	APPROVED AS TO FORM:	BEN ROSENFIELD
15		
16	DENNIS J. HERRERA, City Attorney	Controller
17		
18	By: /. Chur	By: May
19		
20	Deputy City Attorney	Date: 09/28/2010
21		
22		
23		
24		
25		

Items 8, 9, and 10 Files 10-1255, 10-1256 and 10-1248 Department:

Public Utilities Commission, Department of Public Works, Controller's Office of Public Finance

EXECUTIVE SUMMARY

Legislative Objectives

- File 10-1255: Resolution providing for the issuance of up to \$412,300,000 of Earthquake Safety and Emergency Response (ESER) General Obligation Bonds, based on San Francisco voters approval of Proposition B in June of 2010.
- <u>File 10-1256</u>: Resolution authorizing and directing the sale of up to \$85,000,000 in Earthquake Safety and Emergency Response General Obligation Bonds.
- File 10-1248: Ordinance appropriating \$85,000,000 of Earthquake Safety and Emergency Response Bond proceeds, including (a) \$70,223,681 to the Department of Public Works (DPW) for project costs, (b) \$8,396,929 to the Public Utilities Commission (PUC) for project costs, (c) \$1,289,390 for issuance and related costs, (d) (d) \$5,090,000 to allow for fluctuations in market conditions, and (e) placing the entire \$85,000,000 on Controller's Reserve pending the sale of the Bonds.

Key Points

- The proposed resolution authorizes the issuance of up to \$412,300,000 in ESER General Obligation (GO) Bonds, which were approved by San Francisco voters on June 8, 2010 as Proposition B. The ESER Bonds will finance the construction, improvement, and retrofit of 19 Fire Stations, the City's Auxiliary Water Supply System (AWWS), a new Public Safety Building, and other firefighting facilities related to earthquake safety. Of the total \$412,300,000 in ESER GO Bonds, the DPW will manage projects totaling \$308,100,000, and the PUC will manage projects totaling \$104,200,000.
- The proposed resolution directing the sale of up to \$85,000,000 of ESER GO Bonds would be the first in a series of four ESER GO Bond sales under the \$412,300,000 authorized by Proposition B.
- The proposed appropriation ordinance for \$85,000,000 in ESER GO Bond funds includes \$78,620,610 for project-related costs, \$1,289,390 for bond oversight and cost of issuance, and \$5,090,000 for a reserve to allow for fluctuations in the financing market between the date when the Board of Supervisors adopts the proposed legislation and the sale date.
- Under the proposed \$85,000,000 appropriation ordinance, DPW will use (a) \$66,596,284 to initially design, develop plans and commence construction on a new Public Safety Building, and (b) \$3,627,397 for planning and feasibility studies to renovate 19 Fire Stations. The PUC will use \$8,396,929 to define the plan of pipe network repair and replacement, and conduct schematic design of the AWSS, cisterns, pipes and tunnels. \$1,289,390 will be used for bond oversight and cost of issuance. \$5,090,000 will be placed on Controller's reserve.

Fiscal Impact

• The proposed resolution authorizing the sale of up to \$85,000,000 in ESER GO Bonds will have a projected annual interest rate of 6.0 percent over approximately 25 years, with estimated total debt service payments of \$155,295,000, including \$75,385,000 in interest and \$79,910,000 in principal, with estimated average annual debt service payments of \$6,212,000. Debt service would be paid from increased Property Taxes, such that an owner of a single family residence with an assessed value of \$500,000 would pay additional Property Taxes to the City of \$11.83 per year.

Recommendation

Approve the proposed ordinance (File No. 10-1248) and the proposed resolutions (File Nos. 10-1255, 10-1256).

BUDGET AND LEGISLATIVE ANALYST

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Section 9.105 of the City's Charter provides that the Board of Supervisors is authorized to approve the issuance and sale of General Obligation bonds in accordance with State law or local procedures adopted by ordinance. Section 9.105 of the City's Charter also provides that (a) amendments to the appropriation ordinance, as finally adopted, are to be adopted in the same manner as other ordinances¹ and (b) no amendment to the appropriation ordinance may be adopted unless the Controller certifies the availability of funds.

Background

On June 8, 2010, the voters of San Francisco approved Proposition B, which authorized the issuance of \$412,300,000 of Earthquake Safety and Emergency Response (ESER) General Obligation Bonds. The ESER General Obligation Bonds will finance the construction, acquisition, improvement, and retrofitting of 19 Fire Stations, the City's Auxiliary Water Supply System (AWSS), a new Public Safety Building and other firefighting infrastructure and facilities related to earthquake safety. As shown in Table 1 below, the total ESER Bond Program Budget is \$412,300,000.

Table 1: Earthquake Safety and Emergency Response General Obligation Bond Budget

Description	Total Budget
19 Fire Stations ²	\$65,100,000
Public Safety Building	243,000,000
DPW Subtotal	\$308,100,000
Auxiliary Water Supply System (AWSS)	\$35,000,000
Firefighting Cisterns	36,600,000
Firefighting Pipes and Tunnels	32,600,000
PUC Subtotal	104,200,000
Total ESER Budget	\$412,300,000
Source: San Francisco Department of Public Works	· .

The 19 Fire Stations and the new Public Safety Building projects totaling \$308,100,000 will be managed by the Department of Public Works (DPW). The City's AWSS, firefighting cisterns³, and firefighting projects, pipes and tunnels totaling \$104,200,000 will be managed by the Public Utilities Commission (PUC).

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¹ In accordance with Section 2.105 of the San Francisco Charter, the approval of an ordinance requires two readings at separate Board of Supervisors meetings, held at least five days apart.

² Renovations are planned for Fire Stations #2, 5, 6, 13, 15, 17, 18, 28, 38, 40, 41, 21, 22, 36, 43, 44, the Mission Bay Fire Station, Fire Boat Headquarters at the Port, and the Equipment Logistics Center.

³ The Fire Department maintains 177 underground cisterns throughout the City, which store water available for fire fighting in case the domestic water supply and the AWSS are not available.

SAN FRANCISCO BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

The single largest project under the subject ESER General Obligation Bonds will be the construction of a new \$243,000,000 Public Safety Building, on Block 8 in the Mission Bay South Redevelopment Project Area, which is Redevelopment Agency-owned land in Mission Bay. This new Public Safety Building will provide (a) a new Police Headquarters, including a new Southern District Police Station, which are both currently located in the Hall of Justice, and (b) a new Mission Bay Fire Station.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (File No. 10-1255) would authorize the issuance of up to \$412,300,000 of ESER General Obligation (GO) Bonds for all of the Earthquake Safety and Emergency Response funds approved by the voters on June 8, 2010 under Proposition B. The proposed resolution (File No. 10-1256) would authorize and direct the sale of not-to-exceed \$85,000,000 of ESER General Obligation Bonds, which would be the first of four ESER General Obligation Bond sales. The proposed ordinance (File No. 10-1248) would appropriate the entire \$85,000,000 under the first ESER General Obligation Bond sale, including (a) \$70,223,681 to the Department of Public Works, (b) \$8,396,929 to the Public Utilities Commission, (c) \$1,289,390 for issuance and related costs, (d) \$5,090,000 to allow for fluctuations in market conditions and (e) placing all \$85,000,000 on Controller's Reserve pending the sale of the ESER General Obligation Bonds.

According to a September 27, 2010 Memorandum from Ms. Nadia Sesay, Director of Public Finance in the Office of the Controller, the proposed resolution authorizing the issuance of up to \$412,300,000 of ESER General Obligation Bonds (File 10-1255) would authorize the specific parameters of the General Obligation Bonds program to finance the Earthquake Safety and Emergency Response projects, including authorizing the execution, authentication and registration of the bonds; providing for the Property Tax levy to pay the required debt service; and establishing separate accounts for each Earthquake Safety Project.

The proposed resolution authorizing the sale of the not-to-exceed \$85,000,000 in ESER General Obligation Bonds (File 10-1256) would be the first in the series of the total \$412,300,000 Bonds to be sold under Proposition B. According to Mr. Anthony Ababon, Bond Associate at the Controller's Office of Public Finance, under the proposed resolution the not-to-exceed \$85,000,000 of ESER General Obligation Bonds are expected to be sold in December 2010. Issuance and sale of the remaining \$327,300,000 (\$412,300,000 total authorized less \$85,000,000 first issuance) of General Obligation Bonds will be subject to future approval by resolution of the Board of Supervisors.

The proposed ordinance (File 10-1248) would appropriate the entire \$85,000,000 from the above-noted first ESER General Obligation Bond sale. As shown in Table 2 below, of the total \$85,000,000 from the first Bond sale, (a) \$78,620,610 would be for direct project related costs, (b) \$1,289,390 would be for issuance and related costs, and (c) \$5,090,000 is a reserve to allow for fluctuations in market conditions and the resulting interest rates between the date that subject bonds are appropriated by the Board of Supervisors and December of 2010, when the bonds are anticipated to be sold. Table 2 below identifies that DPW will require \$66,596,284 to (a) initially

SAN FRANCISCO BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

design, (b) develop plans and (c) begin construction on the new Public Safety Building and \$3,627,397 for planning and feasibility studies to renovate 19 Fire Stations, for a total of \$70,223,681. As shown in Table 2, PUC will use \$8,396,929 to define the plan of pipe network repair and replacement, and conduct schematic designs for the AWSS, cisterns, pipes and tunnels.

Table 2: Earthquake Safety and Emergency Response General Obligation Bond Total Budget and Proposed Request for Bond Sale and Appropriation

Description	Total Project Budget	First Bond Sale and Appropriation for Direct Project Costs	First Bond Sale and Appropriation for Cost of Issuance, Bond Oversight, and Underwriters Discount**	First Bond Sale and Appropriation Total Request	Future Bond Sales and Supplemental Requests
Department of Pub	lic Works (DPW)				
Fire Stations	\$65,100,000	\$3,627,397	\$205,555	\$3,832,952	\$61,267,048
Public Safety Building	243,000,000	66,596,284	747,472	67,343,756	175,656,244
DPW Subtotal	308,100,000	70,223,681	953,027	71,176,708	236,923,292
Public Utilities Com	ımission (PUC)				
Auxiliary Water Supply System	35,000,000	3,990,000	112,121	4,102,121	30,897,879
Firefighting Cisterns	36,600,000	1,083,191	112,121	1,195,312	35,404,688
Firefighting Piper and Tunnels	32,600,000	3,323,738	112,121	3,435,859	29,164,141
PUC Subtotal	104,200,000	8,396,929	336,363	8,733,292	95,466,708
ESER Budget	\$412,300,000	\$78,620,610	\$1,289,390	\$79,910,000	\$332,390,000
	Reserve Per	iding Subject \$85	5,000,000 Bond Sale*	5,090,000	5,090,000
			<u>Total</u>	\$85,000,000	\$327,300,000

^{*}The amount of the Reserve Pending Bond Sale is subject to change due to bond market conditions at the time of sale. The Controller's Office makes technical adjustments based on the sale results. If the \$5,090,000 in Reserves is not used, those funds must be re-authorized by the Board of Supervisors through subsequent sale resolutions in order to be issued.

Source: San Francisco Department of Public Works

Table 3 below provides a breakdown of the \$1,289,390 for the cost of issuance, underwriters discount, and bond oversight of the proposed not-to-exceed \$85,000,000 ESER General Obligation Bond issuance and appropriation.

^{**}Table 3 below provides a breakdown of the Cost of Issuance and Bond Oversight expenditures. Issuance and Bond Oversight expenditures associated with the project costs will be paid through the Controller's Office, as opposed to by the DPW or the PUC.

TABLE 3: Proposed Cost of Issuance and Bond Oversight

Description	Amount
Cost of Issuance ⁴	\$452,914
Underwriter's Discount ⁵	599,325
City Auditor .1% allocation for the General Obligation Bond Oversight	
Committee Audits	79,910
City Services Auditor .2% allocation for the Controller's Audit Fund	157,241
Total	\$1,289,390
Source: San Francisco Department of Public Works	

FISCAL IMPACTS

According to Mr. Ababon, the proposed issuance of \$412,300,000 in General Obligation Earthquake Safety and Emergency Response Bonds will be sold in four increments between December 2010 and July 2014 as shown in Table 4 below.

TABLE 4: Four Anticipated Bond Sales

Date	Direct Project Costs	Cost of Issuance and Bond Oversight	Total
	\$78,620,610 (see		
December, 2010	Table 2 above)	\$1,289,390	\$79,910,000*
July, 2011	134,904,068	2,145,932	137,050,000
July, 2012	117,811,322	1,963,678	119,775,000
July, 2014	74,064,000	1,501,000	75;565,000
Total	\$405,400,000	\$6,900,000	\$412,300,000

^{*}The anticipated sale amount of \$79,910,000 does not include the \$5,090,000 placed on reserve in order to provide for market fluctuations between now and the sale date. The total appropriation request of \$85,000,000 includes both the anticipated sale amount (\$79,910,000) and reserves (\$5,090,000) pending the first series of bond sales. Source: San Francisco Office of the Controller

The \$85,000,000 in ESER General Obligation Bonds may be issued (a) entirely as tax-exempt bonds, (b) entirely as Federally Taxable Build America Bonds, or (c) as a combination of the two, depending on market conditions pertaining to interest rates. According to the September 27, 2010 Memorandum from Ms. Sesay, San Francisco customarily issues federally tax-exempt bonds to finance capital improvements. However, under provisions of the Federal American Recovery and Reinvestment Act of 2009, a new category of federally taxable bonds were created called Build America Bonds. In accordance with the sale of Build America Bonds, the Federal government

⁴ Cost of Issuance includes payments for bond, disclosure and tax counsel fees; financial advisory fees; rating agency fees; printing costs; and City costs for the Office of Public Finance, Treasurer, Controller, and City Attorney's Office.

⁵ The Underwriters Discount refers to the fact that the original purchaser of the bonds that submitted the most competitive bid for the bonds includes a compensation component for underwriting the bonds and associated risks. This compensation component is included in the bid price submitted for the bonds. Thus, the award of the bonds based on the most competitive bid takes into consideration the amount of Underwriter's Discount. SAN FRANCISCO BOARD OF SUPERVISORS **BUDGET AND LEGISLATIVE ANALYST**

pays the City an amount equal to the Federal Income Taxes payable by the bond investors for received interest income. Ms. Sesay stated that there are some unique risks associated with the sale of the Build America Bonds, such as (a) whether the Build America Bond program might be altered or repealed in the future by Congress and (b) the timeliness of payments by the Federal government to the City of the Federal Income Taxes which the Federal Government received from the bondholder. Therefore, the proposed resolution provides the Director of Public Finance with the discretionary authority to issue the proposed ESER General Obligation Bonds as Federally Taxable Build America Bonds if such a sale is considered to be in the best interests of the City.

Mr. Ababon advised that the not-to-exceed \$85,000,000 of ESER General Obligation Bonds are projected to have an annual interest rate of 6.0 percent over approximately 25 years. Mr. Ababon notes that based on market conditions existing at the time of the sale, coupled with policies associated with setting the Property Tax rate, the proposed \$85,000,000 in ESER General Obligation Bonds could be structured with a 20-year life. However, assuming a 25-year term, these bonds will result in estimated total debt service payments of \$155,295,000, including \$75,385,000 in interest and \$79,910,000 in principal, with average annual debt service payments of an estimated \$6,212,000.

Repayment of such annual debt service will be recovered through increases to the annual Property Tax rate which, according to the Controller's Office, average \$0.0024 per \$100 of assessed valuation over the anticipated 25-year term of the Bonds. A single family residence with an assessed value of \$500,000, assuming a homeowners exemption of \$7,000, would pay average annual additional Property Taxes to the City of \$11.83 per year (\$500,000-\$7,000 / \$100 x \$0.0024) if the proposed \$85,000,000 ESER General Obligation Bond is issued and appropriated.

RECOMMENDATIONS

Approved the proposed ordinance (File 10-1248) and resolutions (Files 10-1255 and 10-1256).

Harvey M. Rose

cc: Supervisor Avalos

Supervisor Mirkarimi

Supervisor Elsbernd

President Chiu

Supervisor Alioto-Picr

Supervisor Campos

Supervisor Chu

Supervisor Daly

Supervisor Dufty

Supervisor Mar

Supervisor Maxwell

Clerk of the Board

Chervl Adams

Controller

Greg Wagner

SAN FRANCISCO BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST