

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

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January 25, 2013


TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: January 30, 2013 Budget and Finance Committee Meeting

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Items 5, 6 and 7 - Files 12-1201, 13-0016 and 13-0015	Departments: Department of Public Works (DPW) Office of Economic and Workforce Development (OEWD) Convention Facilities Department , General Services Agency
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EXECUTIVE SUMMARY

Legislative Objectives

- Resolution (File 12-1201) finding that the proposed expansion of the North and South exhibit halls in Moscone Convention Center is fiscally feasible and responsible in accordance with Administrative Code Chapter 29.
- Ordinance (File 13-0016) authorizing execution of Certificates of Participation (COPs) not to exceed \$507,880,000 to finance the expansion of Moscone Convention Center; approving the form of the Trust Agreement; authorizing the selection of the Trustee; approving respective forms of a Property Lease and a Project Lease; authorizing the execution and delivery of Assessment Notes payable from Moscone Expansion District assessments to further secure principal, premium and interest evidenced and represented by the Certificates; granting general authority to City officials to take necessary actions; approving modifications to documents and agreements; and ratifying previous actions taken.
- Ordinance (File 13-0015) appropriating \$507,880,000 of Certificates of Participation (COPs) proceeds to fund the Moscone Center Expansion Project in the General Services Agency, Office of the City Administrator for FY 2012-13 and placing these funds on Controller's Reserve pending issuance of the COPs or associated commercial paper used for cash flow purposes in FY 2012-13.

Key Points

- Administrative Code Chapter 29 requires that certain development projects be submitted to the Board of Supervisors for approval of the project's fiscal feasibility prior to submitting the project to the Planning Department for environmental review. The finding that the proposed expansion of Moscone Convention Center is fiscally feasible does not commit the Board of Supervisors to future approval of environmental findings under the California Environmental Quality Act (CEQA).
- Moscone Convention Center (Moscone North, South and West) currently includes a total of 1,043,000 gross square feet, which is proposed to increase to 1,414,000 square feet, an increase of 371,000 square feet, or 35%, at an estimated cost of up to \$500 million, which would include (a) demolition of a portion of the existing support building at 3rd and Howard Streets and replacement with a larger building, (b) excavation and reconfiguring of the North and South halls to create additional contiguous exhibit space, (c) elimination of the front driveways for expanded useable space on Moscone North and South, and (d) improvements to the landscaping, streetscape and urban design.
- On November 20, 2012, the Board of Supervisors approved a Resolution of Intent (File 12-0989; Resolution 416-12) to form a new 32-year Moscone Expansion District (MED) and levy hotel assessments to support the proposed \$500 million expansion of Moscone, which

will be considered by the Board of Supervisors on February 5, 2013, as a Committee of the Whole (File 13-0043), after the results of the hotel's election are determined.

Fiscal Impacts

- The not to exceed \$500 million for the Moscone Expansion Project, with debt financing costs, is estimated to cost a total of \$1,105,915,860, including (a) \$5,238,860 of available General Funds, (b) \$82,625,000 of available MED funds, (c) \$21,536,000 for furniture, fixtures, equipment and additional rental costs, and (d) \$996,516,000 for Certificates of Participation (COPs) total debt service (principal and interest).
- The total estimated \$996,516,000 COPs debt service includes \$483,695,000 of principal and \$512,821,000 of interest based on a conservative 6% interest rate over 30 years, or an average annual debt service cost of \$35,590,000. The COPs would be issued in 2017.
- The total \$996,516,000 Moscone Convention Center Expansion COPs principal and interest cost would be repaid with (a) a conservatively estimated \$699,212,000 from annual MED assessments from 2013 through 2045 assuming a 1.25% hotel assessment rate in Zone 1 and a .3125 hotel assessment rate in Zone 2, and (b) a total of \$297,304,000 of annual City General Fund contributions from 2019 through 2047, ranging from \$8,200,000 to \$10,700,000 per year.
- The proposed expansion of Moscone would: (1) yield annual additional tax revenues to the City of approximately \$5.8 million in FY 2017-18 and up to \$7.6 million in FY 2021-22; (2) generate an estimated 2,408 to 3,407 new one-time construction jobs and up to 945 ongoing, permanent jobs by FY 2021-22; (3) provide an estimated \$382 million in construction expenditures, or an estimated \$1,030 per square foot for 371,000 additional square feet; (4) be financed with \$82,625,000 of available hotel assessment fees and \$5,238,860 of available City General Funds, or approximately 8% of the total \$1,105,915,860 project costs; (5) increase Moscone's ongoing maintenance and operating costs by approximately \$1.3 million annually, to be paid by the City's General Fund; and (6) result in \$996,516,000 COPs principal and interest expenses to be repaid with (a) conservative \$699,212,000 from MED hotel assessments from 2013 through 2045, and (b) \$297,304,000 of General Fund contributions from 2019 through 2047, ranging from \$8,200,000 to \$10,700,000 per year.
- The proposed fiscal feasibility is predicated on receiving an estimated total of \$699,212,000 from the annual MED hotel assessments from 2013 through 2045 to fund the proposed Moscone Expansion Project, such that the proposed Moscone Expansion Project is not fiscally feasible without these additional annual hotel assessments. However, the decision to establish the MED and levy these additional hotel assessments will not be determined until February 5, 2013, when the ballots are tabulated and the Board of Supervisors sits as a Committee of the Whole.

Recommendations

- Amend the proposed resolution (File 12-1201) and the two proposed ordinances (Files 13-0016 and 13-0015) to add a Further Resolved clause that the Board of Supervisors finds the proposed Project is fiscally feasible and responsible subject to the approval by the Board of Supervisors to create and levy the associated MED hotel assessments (File 13-0043) on February 5, 2013, when the Board of Supervisors will consider this matter.
- Approve the proposed resolution and ordinances, as amended.

MANDATE STATEMENT

Chapter 29 of the City's Administrative Code requires Board of Supervisors approval of certain projects to determine the project's fiscal feasibility¹ prior to submitting the project to the Planning Department for environmental review if (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA), (b) total project costs are estimated to exceed \$25,000,000, and (c) construction costs are estimated to exceed \$1,000,000.

Chapter 29 specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including the (1) direct and indirect financial benefits to the City, (2) construction costs, (3) available funding, (4) long term operating and maintenance costs, and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review.

Charter Section 9.118 requires any agreement with a term of more than ten years or expenditures of more than \$10,000,000 be subject to approval by the Board of Supervisors. The proposed issuance of not to exceed \$507,880,000 Certificates of Participation requires the City to enter into an agreement which exceeds ten years and \$10,000,000. In addition, Charter Section 9.105 requires that amendments to the Annual Appropriation Ordinance be approved by ordinance of the Board of Supervisors, subject to the Controller certifying the availability of funds.

BACKGROUND

Moscone Convention Center

The George Moscone Convention Center (Moscone) was originally constructed in 1981 as a single 300,000 square foot convention facility on Howard Street, which is now known as Moscone South between 3rd and 4th Streets, adjacent to Yerba Buena Gardens. Moscone expanded in 1992 with the addition of Moscone North and the Esplanade Ballroom and again expanded in 2003 with the addition of Moscone West and now encompasses over 20 acres of convention facility space on three adjacent blocks, as shown in Figure 1 below. Renovations of Moscone were recently completed in May of 2012, which included restroom, lobby and kitchen renovations, digital and telecom upgrades, elevator and escalator improvements, and new carpeting, painting and lighting at a cost of \$56 million.

Moscone West currently includes a total of 774,000 gross square feet, comprising 380,154 square feet of rentable space plus 393,846 square feet of support space, which is not proposed to change under the proposed Moscone Expansion Plan. Moscone North and South currently

¹ Chapter 29 excludes various types of projects from the fiscal feasibility requirement, including (a) any utilities improvement project by the Public Utilities Commission, (b) projects with more than 75 percent of funding from the San Francisco Transportation Authority, and (c) projects approved by the voters of San Francisco.

includes a total of 1,043,000 gross square feet, comprising 583,135 square feet of rentable space plus 459,865 square feet of support space. Moscone North and South rentable space includes:

- 28,800 square feet of lobby area;
- 260,560 square feet of contiguous exhibit space in Moscone South;
- 138,684 square feet of exhibit space in Moscone North;
- 42,675 square feet of ballroom space at 3rd and Howard;
- 112,416 square feet of meeting and flexible space in over 100 meeting rooms.

Figure 1: Map of Moscone Convention Center



Source: Moscone Convention Center website.

Moscone is owned by the City and County of San Francisco and the Office of Community Investment and Infrastructure (the successor agency the San Francisco Redevelopment Agency). The Convention Facilities Department within the General Services Agency operates and

maintains Moscone through contracts with (a) San Francisco Travel² to promote the City as a destination for conventions, meetings and tradeshow, and (b) Moscone Joint Venture³, a private firm to manage the daily operations of Moscone.

Current Moscone Capital Expenses

Ms. Nadia Sesay, Director of the Office of Public Finance advises that, in order to pay for the initial construction of Moscone North and South, the former San Francisco Redevelopment Agency (SFRA) issued lease revenue bonds and to finance the construction of Moscone West, the City issued lease revenue bonds. Both the SFRA and the City subsequently refunded these initial lease revenue bonds, such that, as shown in Attachment I, the current long term Moscone obligations total approximately \$370.4 million for the City. According to Ms. Sesay, the City is currently paying a total of approximately \$30 million annually through 2019 declining to approximately \$11 million through final maturity in 2030 from dedicated Hotel Tax revenues to repay these long term debt obligations related to Moscone.

In addition, as noted above, in May of 2012 the City completed a \$56 million renovation of Moscone. Of the \$56 million, \$21 million was funded with Tourism Improvement District (TID) hotel assessments and \$35 million from City General Funds. Ms. Sesay advises that the City used available funds, and issued commercial paper to fund the balance of these renovation costs, such that the City will be issuing an anticipated \$45.5 of COPs to refund the commercial paper, to be repaid with an estimated \$8.2 million annual General Fund contribution through 2018.

Proposed Expansion of Moscone Convention Center

According to Mr. John Noguchi, Director of the Convention Facilities Department, the existing three-building configuration of Moscone is effectively filled to capacity and cannot accommodate many of the existing convention market needs. As a result, Mr. Noguchi reports that it is difficult to retain or significantly grow the San Francisco convention market, without providing additional contiguous exhibition space and additional meeting rooms. Based on surveys conducted by the Moscone Joint Venture of the corporate convention users, medical and financial associations, as well as tradeshow, the Convention Facilities Department, working with the Office of Economic and Workforce Development, the Department of Public Works and the Controller's Office of Public Financing is proposing an estimated up to \$500 million expansion of Moscone to:

² San Francisco Travel, previously known as the San Francisco Convention and Visitors Bureau, is a nonprofit organization which currently has an annual \$1.2 million agreement with the City to promote San Francisco as a premier destination for conventions, meetings, events and leisure travel, funded through Grants for the Arts Hotel Tax revenues and the Office of Economic and Workforce Development General Fund revenues.

³ Moscone Joint Venture, a private consortium of Spectator Management Group (SMG), currently has an eight-year agreement with the City, which extends through June 30, 2017, to manage the day-to-day operations of Moscone Convention Center at a FY 2012-13 budgeted cost of \$28,481,068, paid by the City's General Fund.

- increase the overall gross square footage from 1,043,000 to 1,414,000, an increase of 371,000 square feet, within the existing Moscone perimeter;
- demolish a portion of the existing Esplanade building at 3rd and Howard Streets and construct a new 4-story building, including a new lobby, multipurpose meeting rooms, ballrooms and support spaces above ground;
- demolish the existing Moscone South lobby and replace with a new 2-story building that eliminates the front driveway area and provides an enlarged lobby, meeting rooms, ballroom, circulation and support space;
- expand Moscone South and Moscone North by excavating additional areas under Howard Street and retrofitting existing lower level support space to create enlarged contiguous exhibition spaces;
- eliminate front driveway area to convert Moscone North with new expanded lobby;
- construct a new foot access bridge across Howard Street to provide public and internal access between Moscone North and South buildings; and
- enhance Moscone's physical interface with the surrounding area by providing improvements to the landscaping, urban design and streetscape.

Existing Tourism Improvement District (TID)

In 2008, the Board of Supervisors working with the City's hotel community, approved a 15-year Community Benefit District, entitled the San Francisco Tourism Improvement District (TID), to authorize 0.75% to 1.5% assessments on all tourist hotel room revenues received from January 1, 2009 through December 31, 2024 in two separate zones, as shown in Table 1 below (File 08-1517). The revenues generated from these hotel assessments were specifically designated to San Francisco Travel for the (a) promotion of San Francisco as a tourism destination, (b) renovation of Moscone, which was completed in May of 2012, and (c) exploration of potential expansion of Moscone. While the collection of hotel assessment revenues for the promotion of San Francisco as a tourism destination will continue through December 31, 2024, the assessment revenues dedicated to the renovation of Moscone and the potential expansion of Moscone will terminate on December 31, 2013.

Table 1: Existing Tourism Improvement District (TID) and Proposed Moscone Expansion District Assessment Rates

Existing Tourism Improvement District	Zone 1⁴	Zone 2⁵
Years 1-5 (January 1, 2009 – December 31, 2013)	1.5 % of gross revenues	1% of gross revenues
Years 6-15 (January 1, 2014 – December 31, 2024)	1% of gross revenues	0.75% of gross revenues
Proposed Moscone Expansion District		
Commencement of the Assessment (no earlier than July 1, 2013) - December 31, 2013	0.5 % of gross revenues	0.3125% of gross revenues
January 1, 2014 – 32 Years from Commencement of the Assessment (approximately June 30, 2045)	1.25% of gross revenues	0.3125% of gross revenues
Total Assessments on Hotels in Districts		
Prior to December 31, 2013	2.0% of gross revenues	1.3125% of gross revenues
January 1, 2014 – December 31, 2024	2.25% of gross revenues	1.0625% of gross revenues
January 1, 2025 – June 30, 2045	1.25% of gross revenues	0.3125% of gross revenues

Proposed Moscone Expansion District (MED)

On November 20, 2012, the Board of Supervisors, again working with the City's hotel community, approved a Resolution of Intent (File 12-0989; Resolution 416-12) to form a new 32-year Moscone Expansion District, including adopting the Management District Plan, approving assessment ballots, hotel assessment rates, budgets, allocation of funds, governance structure and scheduling a public hearing to be held on this matter. Table 1 above shows the

⁴ Zone 1 is defined as all tourist hotels on or east of Van Ness Avenue or South Van Ness Avenue and north of 16th Street from South Van Ness to the Bay.

⁵ Zone 2 is defined as all tourist hotels west of Van Ness Avenue and South Van Ness Avenue and tourist hotels south of 16th Street.

proposed dates and rates of assessments on hotel gross revenues for the proposed Moscone Expansion District, and the total assessments from both the existing Tourism Improvement District and the proposed Moscone Expansion District over time. Revenues generated by the proposed additional hotel assessments over the proposed 32-year period would be used to support the proposed \$500 million expansion of Moscone.

The Department of Elections sent ballots to all tourist hotels in the City subject to the proposed Moscone Expansion District assessments on December 7, 2012. All ballots are due back by February 5, 2013. On February 5, 2013, the Board of Supervisors will sit as a Committee of the Whole and hold a public hearing on a resolution (File 13-0043) to establish the Moscone Expansion District, levy assessments against defined hotel businesses located in that District for 32 years, provide for the determination, imposition, collection and enforcement of the assessments and making environmental findings. After this public hearing is closed, the Department of Elections will tabulate the hotel ballots, and if the results are positive, the Board of Supervisors could approve the establishment of the Moscone Expansion District and levying the proposed hotel assessments. If the assessments are approved by a weighted majority of the hotels, and by the Board of Supervisors under the proposed legislation (File 13-0043), as shown in Table 1 above, the Moscone Expansion District could commence imposing assessments as early as July 1, 2013.

On January 23, 2012, the Budget and Finance Committee held a hearing of persons interested in or objecting to the proposed establishment the Moscone Expansion District and ordering the levy and collection of assessments of hotel properties in the District (File 12-1230).

Status of the Moscone Expansion Project

According to Mr. Brook Mebrahtu, Senior Project Manager for the Department of Public Works (DPW), the Moscone Expansion Project would be overseen and managed by the Department of Public Works. Mr. Mebrahtu advises that the existing Tourism Improvement District (TID), working with the City in early 2012, issued a Request for Proposals (RFP), to complete the design for the proposed Moscone Expansion Project. Mr. Mebrahtu advises that seven architectural firms responded and based on qualifications five firms were interviewed⁶ and a panel that included City and TID representatives evaluated the proposals and selected Skidmore Owens and Merrill (SOM) to complete the design using hotel assessment funds, with the initial phase, conceptual design, at a cost of \$1.4 million. SOM is currently completing this conceptual design phase, which extended from May 2012 through January 2013.

Mr. Mebrahtu advises that in 2012, the City again working with the TID, issued a RFP for a Construction Manager/General Contractor (CMGC) to oversee the management and construction of the Moscone Expansion Project. According to Mr. Mebrahtu, the TID received five bids⁷, and based on a similar evaluation process, on January 10, 2013, the TID awarded a \$4.1 million initial pre-construction agreement to WebCor. Pre-construction activities are

⁶ The five design firms interviewed were (1) HOK/Populous, (2) Fentress/Kwan Henmi, (3) Gensler/Michael Willis, (4) Heller Manus/Woods, and (5) SOM/Cavagnero.

⁷ The five CMGC bids were from (1) Suffolk/Turner Construction, (2) Clark Construction, (3) Hunt Construction, (4) Hathaway Dinwiddie, and (5) WebCor.

anticipated to extend for 23 months from January 2013 through November 2014. Construction is then anticipated to extend for 38 months from December 2014 through February 2018. The overall Moscone Expansion Project is estimated to cost up to \$500 million, with approximately \$360 million for construction costs.

According to Mr. Mebrahtu, completion of the Moscone Expansion Project will be phased in order to minimize the disruption of operations of Moscone convention activities during the construction. In this regard, Mr. Mebrahtu advises that the first phase would include demolition of a portion of the existing Esplanade building at 3rd and Howard Streets in order to construct a new 4-story building, which would include a new lobby, multipurpose meeting rooms, ballrooms and support spaces above ground, which could be used while other portions of Moscone North and South are under construction. Mr. Adam Van de Water of the Office of Economic and Workforce Development (OEWD), notes that there is a 3-week window in late December 2014 to early January 2015, when no activities are scheduled at Moscone, such that this timeframe is critical to undertake major construction work on Moscone, in order to minimize the impact on Moscone revenues, operations and to complete construction on time.

DETAILS OF PROPOSED LEGISLATION

File 12-1201: Resolution finding that the proposed expansion and renovation of the North and South exhibit halls in the Moscone Convention Center, including reconfiguring the North and South exhibit halls to create additional contiguous exhibit space, a new ballroom, new loading and building service space and improvements to the landscaping, urban design and public realm, within and adjacent to the North and South exhibit halls, is fiscally feasible and responsible under Administrative Code, Chapter 29.

File 13-0016: Ordinance authorizing the execution and delivery of Certificates of Participation (COPs) evidencing and representing an aggregate principal amount not to exceed \$507,880,000 to finance the costs of additions and improvements to the George R Moscone Convention Center; approving the form of Trust Agreement between City and Trustee; authorizing the selection of the Trustee by the Director of Public Finance; approving respective forms of a Property Lease and a Project Lease, each between the City and the Trustee for the lease and lease-back of all or a portion of the Moscone Center, including the Moscone Expansion Project to be constructed thereon; authorizing the execution and delivery of Assessment Notes payable from Moscone Expansion District assessments to further secure principal, premium, if any, and interest evidenced and represented by the COPs; granting general authority to City officials to take necessary actions in connection with this authorization, issuance, sale and delivery of the COPs and the Assessment Notes; approving modifications to documents and agreements; and ratifying previous actions taken in connection therewith.

File 13-0015: Ordinance appropriating \$507,880,000 of Certificates of Participation (COPs) proceeds to fund the Moscone Center Expansion Project in the General Services Agency, Office of the City Administrator for FY 2012-13 and placing these funds on Controller's Reserve

pending issuance of the COPs or associated commercial paper used for cash flow purposes in FY 2012-13.

MAJOR PARAMETERS

Table 2 below, prepared by the Budget and Legislative Analyst, summarizes the major parameters of the proposed Moscone Convention Center Expansion Project, incorporating provisions of the proposed resolution (File 12-1201) and the two proposed ordinances (Files 13-0015 and 13-0016):

Table 2: Summary of Proposed Moscone Expansion Project

Total Project Cost	- Up to \$500,000,000
Debt Financing	<ul style="list-style-type: none"> - Request for up to \$507,880,000 City Certificates of Participation (COPs); - City expects to issue \$483,695,000 of COPs in Spring, 2017, with additional authorization to allow for fluctuations in interest rates and related reserve funds from time authorized by Board of Supervisors until actual issuance; - City anticipates issuing interim commercial paper to pay preliminary project costs as expenditures are incurred for design, planning and permitting.
Term of COPs	- 30 Years, from 2017 through 2047
Third-Party Trustee Agreement	<ul style="list-style-type: none"> - Agreement provides for terms of COPs, such as prepayment, default, and other administrative provisions; - Director of Public Finance would select third-party trustee based on lowest fees, and other criteria, based on competitive request for proposal or negotiations⁸; - City makes annual base rental payments to third-party trustee in amounts required to repay the COPs; - Third-party trustee holds proceeds from the sale of COPs, administers and disburses COP payments for costs incurred for the Moscone Expansion Project and enforces covenants and remedies, in event of default by City; - After COPs are fully repaid, trustee agreement would terminate.
Property Lease	<ul style="list-style-type: none"> - City would lease a portion of City-owned Moscone property, including the expansion project, to third-party trustee. - After COPs are fully repaid, property lease would terminate.
Project Lease	<ul style="list-style-type: none"> - City would lease-back the leased property (Moscone), together with the proposed Moscone expansion improvements that are financed with the proceeds from the COPs, from the third-party trustee. - After COPs are fully repaid, project lease would terminate.
Assessment Notes	- Issuance of Assessment Notes in an amount not to exceed the authorized COPs to validate (a) formation of the hotel assessment district, and (b) levy hotel assessments, to ensure that debt service is repaid primarily from assessments levied on hotels in the Moscone Expansion District and not the City's General Fund, in accordance with the District Management Plan.
City Capital	- \$1,700,000 in FY 2012-13 for pre-development costs;

⁸ Ms. Sesay advises that whether a competitive request for proposal or negotiated agreement is completed will be based on market conditions at the time of issuance.

Contributions from General Fund	<ul style="list-style-type: none"> - \$3,538,860 in FY 2013-14 for project management costs; - \$8,200,000 in FY 2019-20, increasing 3% per year through FY 2028-29; - \$10,700,000 annually for remainder of term, or through 2047.
Moscone Expansion District Assessment Contributions	<ul style="list-style-type: none"> - 87.5% of hotel assessments would be allocated to Moscone Expansion Project, estimated to be approximately \$17 million in FY 2013-14; - Percentage allocation to Project would decrease to 82.5% over time; - Over 32-year term of District, estimated to generate \$829,073,000 contribution for Moscone Expansion Project although \$699,212,000 estimated required contribution to repay the COPs.
Other Moscone Expansion District Assessment Allocations	<ul style="list-style-type: none"> - 1% of assessments toward Capital Reserve for future renovations and improvements of Moscone, which will increase to 6% over time; - 9% for a Moscone Convention Incentive Fund, to attract conventions and meetings to San Francisco, decreasing to 8% over time; - 2.5% for administration of Moscone Expansion District and operating contingency; - 1% beginning in 2018 for a Convention Sales and Marketing Fund.
Annual Debt Service Repayments and Shortfalls	<ul style="list-style-type: none"> - City’s General Fund secures the repayment of the COPs; - City responsible to fund any annual shortfalls from the General Fund to finance debt service, to be repaid from future annual hotel assessment surpluses. Annual shortfall is defined as the FY debt service not covered by (a) the MED allocation to debt plus (b) the City’s above-noted \$8,200,000 - \$10,700,000 annual contributions.

Not to Exceed \$500 Million for Moscone Expansion Project

Table 3 below summarizes the total not to exceed \$500,000,000 budget for the Moscone Expansion Project. Attachment II provided by Mr. Mebrahtu, provides additional detail on an initial preliminary \$500,000,000 budget for the Moscone Expansion Project.

Table 3: Estimated Project Budget

Preconstruction, Construction, Demolition, Abatement	\$388,246,465
Architecture, Engineering, Permits, Other Soft Costs	63,342,536
Site Control/Moving Expenses	1,800,000
Other Program Costs	33,780,000
Furniture, Fixtures and Equipment	12,831,000
Total Uses	\$500,000,000

Total Costs of the Proposed Moscone Expansion Project

As shown in Attachment III, provided by Ms. Sesay, DPW’s estimated cost of up to \$500 million for the five-year Moscone Convention Center Expansion, with debt financing costs included, is projected to cost a total of \$1,105,915,860, including (a) \$5,238,860 of available General Funds, (b) \$82,625,000 of available MED funds, (c) \$21,536,000 for furniture, fixtures, equipment and additional rental costs, and (d) \$996,516,000 for Certificates of Participation (COPs) total debt

service, including issuance of the principal amount of \$483,695,000 COPs, with interest expenses of an estimated \$512,821,000.

Certificates of Participation (COPs)

Table 4 below, provided by Ms. Sesay, summarizes the sources and uses of the estimated \$483,695,000 COPs.

Table 4: Estimated Sources and Uses of Funds from COPs

Sources of Funds	
Certificates of Participation (COPs)	\$483,695,000
Total Sources	\$483,695,000
Uses of Funds	
Project Fund	\$400,551,140
Controller's Audit Fund	798,610
Subtotal Project Fund Deposit	\$401,349,750
Debt Service Reserve	35,592,500
Capitalized Interest Fund thru 9/20/18	41,114,075
Other Costs of Issuance	801,725
Other Underwriters Discount	4,836,950
Total Uses	\$483,695,000

Ms. Sesay advises that the estimated \$483,695,000 COPs are anticipated to be issued in the spring of 2017 for 30 years. Projected at a conservative 6% interest rate, the estimated \$483,695,000 of principal would result in \$512,821,000 of interest expense over the 30 years, a total of \$996,516,000 or an average annual payment of \$35,590,000. The proposed ordinance (File 13-0016) would approve the issuance of a not-to-exceed \$507,880,000 Moscone Convention Center Expansion COPs. The Budget and Legislative Analyst questioned the additional authorization authority request totaling \$24,185,000 (\$507,880,000 less \$483,695,000). Ms. Sesay advises that the Office of Public Finance is requesting this additional authorization, which reflects a 5% increase more than the current estimated issuance amount, to allow for fluctuations in interest rates and related reserve funds, including potentially significant additional capitalized interest expenses depending on when the COPs are issued.

The proposed ordinance (File 13-0015) would also appropriate up to the total not-to-exceed \$507,880,000 of COPs proceeds to fund the Moscone Center Expansion Project and place these funds on Controller's Reserve pending issuance of the COPs or associated commercial paper used for cash flow purposes in FY 2012-13. According to Ms. Sesay, the proposed appropriation ordinance is being requested at this time in order to authorize the expenditures from the issuance of commercial paper in 2013 and allow expenditures from the subject hotel assessments.

Funding Sources and Amounts

As detailed in Attachment III and summarized in Table 5 below, the total \$996,516,000 Moscone Convention Center Expansion COPs principal and interest cost would be repaid with (a) a

conservatively estimated \$699,212,000⁹ or 70% from annual MED assessments from 2013 through 2045 assuming 87.5% of the assessments in 2013 declining to 82.5% of the assessments by 2023 at a 1.25% hotel assessment rate in Zone 1¹⁰ and a .3125 hotel assessment rate in Zone 2, and (b) a total of \$297,304,000 or 30% of annual City General Fund contributions from 2019 through 2047, ranging from \$8,200,000 to \$10,700,000 per year. Over the past five years, the City's General Fund has funded \$8,200,000 annually for the Moscone Convention Center renovations, which will continue through 2018.

Table 5: Certificates of Participation Anticipated Repayments

COPs Repayments over 30 Years	Amounts	Percent
MED Hotel Assessments	\$699,212,000	70%
City General Fund	297,304,000	30%
Total COP Repayments	\$996,516,000	100%

As shown in Table 5 above, MED hotel assessments are assumed to cover \$699,212,000 or 70% of the total COP repayments. However, in accordance with the MED Plan, the MED hotel assessments could generate a maximum allowable \$5,766,814,000 over the 32-year term of the district, which assumes 10% annual increases. However, such 10% annual increases are not projected to occur, such that the actual collections are likely to be considerably less.

As also shown in Attachment III, during the first eight years of these future repayments from 2019 through 2026, there could potentially be insufficient revenues generated by the hotel assessments, such that the City would be required to make additional net impact contributions of a maximum of \$6,315,000 in 2019 decreasing to \$725,000 in 2026, which would be paid back through MED assessment surpluses in later years, as future hotel revenues and assessments increase. Under the MED's Management District Plan, the City would have the discretion to apply any annual MED assessment surpluses as are in the best interests of the City.

Ms. Sesay estimates MED surplus assessment revenues totaling \$169,874,000 would be applied as follows: (a) to fund a \$15,000,000 Stabilization Fund, which would be used in any year when lower than expected MED collections are received, to be replenished through the term of the COPs, (b) to fund an estimated \$25,487,000 sinking fund to make debt service payments in the two years beyond the term of the District in 2046 and 2047, (c) to fund an estimated \$28,750,000 prior year deficits paid by the City and then reimbursed by MED, and (d) to fund an estimated \$100,637,000 for potential additional expansions of the Moscone Convention Center in the future, as detailed in Attachment III.

⁹ The estimated \$699,212,000 to repay the COPs is in addition to the initially available \$82,625,000 from the hotel assessments and an estimated \$12,831,000 for furniture, fixtures and equipment.

¹⁰ Zone 1 hotel assessments through December 31, 2013 would remain at the currently proposed rate of 0.5% of gross revenues.

FISCAL FEASIBILITY ANALYSIS

As discussed in the Mandate Statement Section above, Chapter 29 of the City's Administrative Code requires that certain projects be submitted to the Board of Supervisors for approval of the project's fiscal feasibility prior to submitting the project to the Planning Department for environmental review if: (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA); (b) total project costs are estimated to exceed \$25,000,000; and, (c) construction costs are estimated to exceed \$1,000,000. Mr. Van de Water advises that if the Board of Supervisors approves the proposed resolution finding that the Moscone Expansion Project is fiscally feasible, the City will immediately proceed with environmental review in accordance with CEQA.

Chapter 29 of the City's Administrative Code specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including: (1) direct and indirect financial benefits to the City; (2) construction costs; (3) available funding; (4) long term operating and maintenance costs; and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review. The finding that the proposed Moscone Convention Center project is fiscally feasible does not commit the Board of Supervisors to future approval of environmental findings under the California Environmental Quality Act (CEQA) or approval of any future contracts or agreements related to the Moscone Convention Center expansion and renovation project.

(1) Direct and Indirect Financial Benefits to the City

Direct Benefits

According to the San Francisco Travel Association (SF Travel)¹¹, a total of 16.35 million tourists visited San Francisco in 2011, spending approximately \$8.46 billion, which generated a total of \$526,271,694 of additional revenues for the City and County of San Francisco. Of this total 2011 tourist activity, SF Travel estimates that approximately 21 percent of the total spending or approximately \$1.8 billion was related to conventions, trade shows and group meetings, or a calculated amount of approximately \$110.5 million of tax and related revenues to the City.

On March 16, 2012, Jones Lang LaSalle Hotels (JLLH) submitted a comprehensive review¹² on the performance of Moscone's existing facilities, competitive environment, the potential for expansion and a hotel market analysis to the TID. This JLLH review concluded that the most likely scenario currently proposed for the Moscone Expansion Project would result in positive increased visitor spending in FY 2017-18 of approximately \$56.6 million, resulting in additional

¹¹ San Francisco Travel Association's 2011 Visitor Industry Economic Impact Estimates, prepared by Economic Research Associates.

¹² Moscone Convention Center Expansion: Cost Benefit Phase II Analysis prepared for the San Francisco Tourism Improvement District Management, March 16, 2012.

tax benefits (hotel taxes, retail sales taxes and gross receipts taxes¹³) to San Francisco of approximately \$5.8 million. Such visitor spending is projected to increase each year up to \$76.8 million in FY 2021-22, which is estimated to generate additional annual tax benefits of \$7.6 million to San Francisco.

Indirect Benefits

The JLLH review estimated a net increase of 3,480 local jobs from FY 2014-15 through FY 2021-22 would be created as a result of the proposed expansion of Moscone, primarily resulting from direct, indirect and induced visitor spending, or up to 945 annual jobs by FY 2021-22. In addition, based on the recent Controller's model estimates of 8.92 direct and indirect jobs created per \$1 million of construction, and assuming an estimated \$270 million to \$382 million for construction of the proposed Moscone Expansion Project, this Project will generate an additional approximately 2,408 to 3,407 one-time construction related jobs.

(2) Construction Costs

As discussed above and detailed in Attachment II, the proposed Moscone Expansion Project is estimated to not exceed \$500,000,000, including preliminary estimated costs of \$381,726,465 for the principal construction contract, which includes (a) a construction escalator, (b) a design contingency, and (c) a construction contingency. Assuming total construction costs of \$382 million, and based on the proposed Moscone Expansion Project resulting in an additional increase of 371,000 total square feet, the proposed Moscone Expansion Project construction alone will cost approximately \$1,030 per square foot.

According to Mr. Mebrahtu, all of these costs are preliminary estimates. As the project proceeds, more detailed estimates, validation and refinements of projects costs will occur. Mr. Mebrahtu advises that if project costs are higher than estimated due to unforeseen conditions, prior to or after the commencement of the construction, the project will be scaled back, such that the completed project would not exceed \$500 million.

Mr. Mebrahtu advises that a small portion of the improvements that were completed under the recent \$56 million renovation of Moscone, such as the elevator and escalator upgrades, may need to be removed and reinstalled, as part of the Moscone Expansion Project. However, Mr. Mebrahtu notes that the recently renovated men's and women's restrooms in the existing Esplanade Ballroom support building at 3rd and Howard Streets would be demolished under the proposed Moscone Expansion Project. As of the writing of this report, there was no estimate of the cost of recent renovations, which would be required to be removed as part of the proposed Moscone Expansion Project.

(3) Available Funding

As discussed above and shown in Attachment III, DPW's estimated construction cost of up to \$500 million for the five-year Moscone Convention Center Expansion is projected to be initially funded with (a) \$5,238,860 of available City General Funds¹⁴, and (b) \$82,625,000 of available

¹³ This study actually computed Payroll Taxes, which were recently changed to gradually be replaced with Gross Receipts Taxes.

¹⁴ The FY 2012-13 budget appropriated \$1,700,000 of General Fund revenues and the FY 2013-14 budget is anticipated to include \$3,538,860 of General Fund revenues for the Moscone Convention Center Expansion Project.

MED funds¹⁵. The balance of the total estimated cost of \$1,105,915,860 from all sources for the proposed Moscone Expansion Project would be funded with an initial estimated \$67,493,140 of commercial paper to be repaid with issuance of longer term financing with an estimated \$483,695,000 COPs. Therefore, a total of \$87,863,860 (\$5,238,860 plus \$82,625,000), or approximately 8% of the total \$1,105,915,860 project costs would be immediately available funds, subject to approval of the MED hotel assessment district.

(4) Ongoing Maintenance and Operating Costs

In FY 2011-12, the City received a total of \$22,654,673 of operating income from Moscone, including rental income, catering and concession revenues and other operating revenues and incurred operating expenses totaling \$26,883,055 for direct operations, management expenses and overhead. As a result, there was a net FY 2011-12 operating loss of \$4,228,382, which was funded by the City's General Fund. The annual net operating loss is projected to increase to approximately \$5,000,000 in FY 2012-13 and FY 2013-14, to be covered by the City's General Fund.

According to Mr. Noguchi, with completion of the proposed Moscone Expansion Project in 2018, annual operating income is projected to increase to a total of \$35.5 million, with operating expenses increasing to a total of \$41.8 million, or an estimated net operating loss of \$6.3 million in FY 2017-18, an increase of approximately \$1.3 million annually from the \$5 million in FY 2012-13 and FY 2013-14. Such net operating losses are projected to continue and would need to be funded by the City's General Fund.

(5) Debt Load

As discussed above, the current long term Moscone debt obligations total approximately \$370.4 million for the City, or annual payments of approximately \$30 million through 2019, declining to approximately \$11 million through 2030 from dedicated Hotel Tax revenues. In addition, the City recently completed a \$56 million renovation of Moscone, to be funded with COPs to be issued in the near future, and repaid with TID hotel assessments plus an estimated \$8.2 million of General Funds annually through 2018.

The proposed Moscone Convention Center Expansion is projected to be funded with an estimated \$483,695,000 COPs for 30 years, at a conservative 6% interest rate, for a total cost of \$996,516,000, including \$483,695,000 of principal and \$512,821,000 of interest, or an average annual payment of \$35,590,000. The total \$996,516,000 COPs principal and interest cost would be repaid with (a) a conservatively estimated total of \$699,212,000 from annual MED assessments from 2013 through 2045, and (b) a total of \$297,304,000 of annual City General Fund contributions from 2019 through 2047, ranging from \$8,200,000 to \$10,700,000 per year. During the first eight years of these future repayments from 2019 through 2026, there could potentially be insufficient revenues generated by the hotel assessments, such that the City would be required to make additional contributions of a maximum of \$6,315,000 in 2019 decreasing to

¹⁵ Of the total estimated \$82,625,000, \$3,000,000 is available from the existing TID and the remaining \$79,625,000 would come from new hotel assessments under the proposed new TID over the first five years.

\$725,000 in 2026, which would be paid back through MED assessment surpluses in later years, as future hotel revenues and assessments increase.

As discussed above, MED surplus assessment revenues totaling \$169,874,000 would be used: (a) to fund a \$15,000,000 Stabilization Fund, (b) to fund a \$25,487,000 sinking fund, (c) to fund \$28,750,000 of prior year deficits paid by the City, and (d) to fund \$100,637,000 for potential additional expansions of the Moscone Convention Center.

The City and the Office of Community Investment and Infrastructure (successor agency to the SFRA) currently own Moscone and the City would own the proposed Moscone expansion area. In addition, the City would issue the proposed COPs, such that the City would ultimately be liable for repayment of the COPs debt. However, as noted above, as part of the proposed ordinance (File 13-0016) the City is including the issuance of Assessment Notes, which according to Mr. Mark Blake, Deputy City Attorney, would provide the legal underpinnings in the validation action relating to the (a) formation of the hotel assessment district, and (b) levy of the hotel assessments. Mr. Blake advises that a successful validation action will ensure that a portion of debt service on the COPs will be offset from assessments levied on hotels in the Moscone Expansion District.

CONCLUSIONS

Moscone Convention Center (Moscone North, South and West) currently includes a total of 1,043,000 gross square feet, which is projected to increase to 1,414,000 square feet, an increase of 371,000 square feet, or over 35%, at a cost of up to \$500 million. Including the cost of financing, the not-to-exceed \$500 million for the Moscone Expansion Project is estimated to cost a total of \$1,105,915,860, including (a) \$5,238,860 of available General Funds, (b) \$82,625,000 of available MED funds, (c) \$21,536,000 for furniture, fixtures, equipment and additional rental costs, and (d) \$996,516,000 for Certificates of Participation (COPs) total debt service.

The \$996,516,000 Moscone Convention Center Expansion COPs principal and interest cost would be repaid with (a) conservatively estimated \$699,212,000 from annual MED assessments from 2013 through 2045, and (b) a total of \$297,304,000 of City General Fund contributions from 2019 through 2047, ranging from \$8,200,000 to \$10,700,000 per year. During the first eight years of these future repayments from 2019 through 2026, there could potentially be insufficient revenues generated by the hotel assessments, such that the City would be required to make additional net contributions of a maximum of \$6,315,000 in 2019 decreasing to \$725,000 in 2026, which would be paid back through MED assessment surpluses in later years, as future hotel revenues and assessments increase. Ms. Sesay estimates MED surplus assessment revenues totaling \$169,874,000 would be used to pay back these shortfalls and fund necessary other reserve accounts.

Finding of Fiscal Feasibility

The proposed expansion of Moscone would:

(1) yield annual additional tax revenues to the City of approximately \$5.8 million in FY 2017-18 up to \$7.6 million in FY 2021-22;

(2) generate an estimated 2,408 to 3,407 new one-time construction jobs and up to 945 ongoing, permanent jobs by FY 2021-22;

(3) provide an estimated \$382 million in construction expenditures for an additional 371,000 total square feet, or an estimated \$1,030 per square foot;

(4) be financed with \$82,625,000 of available hotel assessment fees, subject to separate approval based on the results from hotels ballots and by resolution of the Board of Supervisors and \$5,238,860 of available City General Funds, or approximately 8% of the total \$1,105,915,860 project costs;

(5) increase Moscone's ongoing maintenance and operating costs by approximately \$1.3 million annually, to be paid by the City's General Fund; and

(6) result in total \$996,516,000 COPs principal and interest cost to be repaid with (a) conservatively estimated \$699,212,000 from MED hotel assessments from 2013 through 2045, and (b) \$297,304,000 of General Fund contributions from 2019 through 2047, ranging from \$8,200,000 to \$10,700,000 per year.

Establishment of the Moscone Expansion District and Levying of Assessments

On November 20, 2012, the Board of Supervisors approved a Resolution of Intent (File 12-0989; Resolution 416-12) to form a new 32-year Moscone Expansion District, assessing hotels rates as shown in Table 1 above. The results of the voting on the election for this Moscone Expansion District will not be known until February 5, 2013, when the ballots are tabulated and the Board of Supervisors will consider approving a resolution to establish the Moscone Expansion District and levy the proposed hotel assessments (File 13-0043). However, the Budget and Finance Committee will be holding a public hearing and considering approval of the subject resolution to determine the fiscal feasibility and two proposed ordinances to issue COPs and appropriate the COP proceeds on January 30, 2013, prior to the determination of the outcome of the hotel assessment vote and approval by the Board of Supervisors. As discussed above, the proposed fiscal feasibility is predicated on receiving an estimated \$82,625,000 of initially available hotel assessment revenues and a conservatively estimated \$699,212,000 from these annual MED hotel assessments from 2013 through 2045 to fund the proposed Moscone Expansion Project.

Therefore, the Budget and Legislative Analyst advises that the proposed Moscone Expansion Project is not fiscally feasible without these additional annual hotel assessments. Therefore, the Board of Supervisors should not find the proposed Project fiscally feasible if (a) the Moscone Expansion District is not established, based on the results of the pending election by the hotels and (b) subsequently approved by resolution by the Board of Supervisors on February 5, 2013 (File 12-1201). Similarly, the Board of Supervisors should not approve the accompanying ordinances to authorize the issuance of up to \$507,880,000 of COPs (File 13-0016) and appropriate the COP proceeds (File 13-0015), if the Moscone Expansion District is not approved on February 5, 2013.

However, if the hotel ballot results approve the creation of the proposed Moscone Expansion District and related assessments, which is subsequently approved by the Board of Supervisors, then based on the fiscal feasibility criteria and findings discussed above, the Budget and Legislative Analyst finds the proposed development to be fiscally feasible under Chapter 29 of the City's Administrative Code. Therefore, the proposed resolution and ordinances should be

amended to clarify that approval is subject to approval of the proposed resolution (File 13-0043), which will not be determined by the Board of Supervisors until February 5, 2013.

RECOMMENDATIONS

1. Amend the proposed resolution (File 12-1201) and the two proposed ordinances (Files 13-0016 and 13-0015) to add a Further Resolved clause that the Board of Supervisors finds the proposed Project is fiscally feasible and responsible subject to the approval by the Board of Supervisors to create and levy the associated MED hotel assessments (File 13-0043) on February 5, 2013, when the Board of Supervisors will consider this matter.
2. Approve the proposed resolution and ordinances, as amended.

**City and County of San Francisco
Moscone Long Term Lease Obligations -- City as Lessee ¹ and Redevelopment Agency Hotel Tax Revenue Refunding Bonds**

FY	1992 Lease Revenue Bonds (North) ²		2011B Moscone Refunding COP (North) ²		2011A Moscone Refunding COP (South) ³		2011 Hotel Occupancy Tax Revenue Refunding Bonds ⁴		Total Long-term Obligations Debt Service		2008-1,-2 Finance Corporation Moscone Lease Revenue Bonds ⁵ (West)		All Moscone Long Term Obligations	
	Total Debt Service	Total Debt Service	Total Debt Service	Total Debt Service	Total Debt Service	Total Debt Service	Total Debt Service	Total Debt Service	DEBT SERVICE	DEBT SERVICE	Total Debt Service	Total Debt Service	GRAND TOTAL DEBT SERVICE	GRAND TOTAL DEBT SERVICE
2013	12,820,000	2,971,400	1,268,850	3,172,400	20,232,650	9,700,385	29,933,035							
2014	6,705,000	7,256,350	2,199,600	3,083,800	19,244,750	9,710,526	28,955,276							
2015	ref. by 2002	13,957,550	2,293,150	5,100,350	21,351,050	9,711,429	31,062,479							
2016	ref. by 2002	13,963,850	2,380,650	5,018,750	21,363,250	9,902,250	31,265,500							
2017	ref. by 2002	13,957,250	2,471,050	4,945,350	21,373,650	9,914,170	31,287,820							
2018	ref. by 2002	13,956,250	2,566,375	4,829,750	21,352,375	9,919,199	31,271,574							
2019		9,998,875	2,674,625	5,995,750	18,669,250	10,081,281	28,750,531							
2020			2,772,875	4,520,250	7,293,125	10,029,250	17,322,375							
2021			2,797,750	4,497,000	7,294,750	10,167,138	17,461,888							
2022			2,791,500	4,501,500	7,293,000	10,288,895	17,581,895							
2023			2,789,500	4,492,000	7,281,500	10,196,539	17,478,039							
2024			2,372,000	4,653,750	7,025,750	10,294,101	17,319,851							
2025			2,398,500	4,677,750	7,076,250	10,375,534	17,451,784							
2026						10,440,836	10,440,836							
2027						10,490,009	10,490,009							
2028						10,721,035	10,721,035							
2029						10,729,883	10,729,883							
2030						10,920,584	10,920,584							
	19,525,000	76,061,525	31,776,425	59,488,400	186,851,350	183,593,043	370,444,393							

¹ 1988 Lease Revenue Bonds RETIRED on July 1, 2004 by 1992 Bonds Cross-Over Refunding

² 1992 Current Interest Lease Revenue Bonds REFUNDED by 2002 Lease Revenue Bonds and REFUNDED by 2011B Moscone COP. Only CABS (no semi-annual interest) remain outstanding

³ 1994 Lease Revenue Bonds REFUNDED by 2004 Lease Revenue Bonds and REFUNDED by 2011A Moscone COP.

⁴ 2011 Hotel Occupancy Tax Revenue Refunding Bonds refunded the Series 1994 and 1998 Hotel Occupancy Tax Revenue Bonds

⁵ (a) Mandatory sinking fund principal amortization schedule assumes level debt service if the average coupon is a constant 3.25% (each series identical in structure). Please keep in mind the interest rate is an estimate and is subject to change.
(b) Liquidity fee is .7100% annually, based on outstanding par.
(c) Remarketing fee is .0725% annually, based on outstanding par.

Job No: 7731A					Date:
Project:	Moscone Expansion Project				Location:
			Amount		% of CP&I (uon)
			CITY	MED	City+MED
TOTAL PROGRAM BUDGET		404,544,001	95,456,000	500,000,000	100.0%
1. PRECON, CONSTRUCTION, DEMOLITION AND ABATEMENT		335,743,257	52,503,208	388,246,465	77.6%
1.0 Misc./Other Construction				0	
1.1 Principal Construction Contract				381,726,465	
1.2 Hazardous Materials Construction/Abatement				0	
1.3 EIR Mitigation Requirements				6,520,000	
1.4 Reimbursables		2,000,000		2,000,000	
2. SOFT COST - 3. SITE CONTROL - 4. PROGRAM COSTS - 5. FF&E		68,800,744	42,952,792	111,753,536	22.4%
2.0 ART ENRICHMENT		5,446,239	0	5,446,239	2%
2.1 CLIENT DEPARTMENT SERVICES		900,000	1,519,000	2,419,000	0%
2.2 DPW PROJECT MANAGEMENT		5,850,000	210,000	6,060,000	1.2%
2.3 ADMINISTRATIVE SERVICES		2,330,000	300,000	2,630,000	
2.4 REGULATORY AGENCY APPROVALS		8,486,505	197,792	8,684,297	
2.5 A/E/C SERVICES		10,208,000	27,895,000	38,103,000	10.8%
3. SITE CONTROL		1,800,000	0	1,800,000	
4. OTHER PROGRAM COSTS		33,780,000	0	33,780,000	
4.0 - Unallocated Program Reserve		33,780,000		33,780,000	
5. FURNITURE, FIXTURES & EQUIPMENT		0	12,831,000	12,831,000	

MED - OPTION 28A: W FFE - PARTIAL FY 2014; MED 1.25% 2014 THRU 2047; CITY CONTR \$8.2M, 3% GROWTH THRU 2028, \$10.7M 2029-2047; Sinking Fund 2046-2047; FM 2047

Fiscal Year	Sources				Uses				Sources				Excess Revenue:			
	Construction Draw Down	Comm Paper	City Contr	Med Cash	Med for FFE	2017 COPs	City Contr	Med Assessment for Expans	City Contr 2018 & later	Total Sources	Net Impact	Fund Balance	Stabil'n Fund	Sinking Fund	Prior Year Deficits	Future M/oscene Expans
0 2013	5,820,000	5,820,000	1,700,000	(3,000,000)	(4,700,000)	-	1,700,000	3,000,000	-	4,700,000	-	-	15,000,000	-	-	-
1 2014	16,800,000	16,800,000	(3,538,860)	82,633	(16,373,860)	-	3,538,860	12,835,000	2	16,373,860	-	-	-	-	-	-
2 2015	30,200,000	30,200,000	-	-	(19,090,000)	-	-	19,090,000	-	19,090,000	-	-	-	-	-	-
3 2016	74,499,000	74,499,000	-	-	(19,662,000)	-	-	19,662,000	-	19,662,000	-	-	-	-	-	-
4 2017	212,228,000	212,228,000	-	-	(20,252,000)	-	-	20,252,000	-	20,252,000	-	-	-	-	-	-
5 2018	153,975,000	153,975,000	-	-	(7,786,000)	(12,831,000)	-	20,622,000	-	20,622,000	-	-	-	-	-	-
6 2019	6,478,000	6,478,000	-	-	(35,592,000)	-	-	21,377,000	8,200,000	29,577,000	(6,315,000)	-	-	-	-	-
7 2020	-	-	-	-	(35,593,000)	-	-	22,021,000	8,446,000	30,467,000	(5,426,000)	-	-	-	-	-
8 2021	-	-	-	-	(35,590,000)	-	-	22,682,000	8,699,000	31,381,000	(4,509,000)	-	-	-	-	-
9 2022	-	-	-	-	(35,592,000)	-	-	23,362,000	8,960,000	32,322,000	(19,820,000)	-	-	-	-	-
10 2023	-	-	-	-	(35,592,000)	-	-	22,951,000	9,229,000	32,180,000	(3,712,000)	-	-	-	-	-
11 2024	-	-	-	-	(35,590,000)	-	-	23,639,000	9,506,000	33,145,000	(26,277,000)	-	-	-	-	-
12 2025	-	-	-	-	(35,587,000)	-	-	24,348,000	9,791,000	34,139,000	(1,748,000)	-	-	-	-	-
13 2026	-	-	-	-	(35,588,000)	-	-	25,078,000	10,085,000	35,163,000	(725,000)	-	-	-	-	-
14 2027	-	-	-	-	(35,591,000)	-	-	25,831,000	10,388,000	36,219,000	(28,422,000)	328,000	-	-	-	-
15 2028	-	-	-	-	(35,588,000)	-	-	26,605,000	10,700,000	37,305,000	(27,005,000)	1,417,000	-	-	-	-
16 2029	-	-	-	-	(35,592,000)	-	-	27,404,000	10,700,000	38,104,000	(24,793,000)	2,212,000	-	-	-	-
17 2030	-	-	-	-	(35,591,000)	-	-	28,226,000	10,700,000	38,926,000	(21,758,000)	3,035,000	-	-	-	-
18 2031	-	-	-	-	(35,588,000)	-	-	29,073,000	10,700,000	39,773,000	(17,873,000)	3,885,000	-	-	-	-
19 2032	-	-	-	-	(35,590,000)	-	-	29,945,000	10,700,000	40,645,000	(13,118,000)	4,123,000	-	-	-	-
20 2033	-	-	-	-	(35,588,000)	-	-	30,843,000	10,700,000	41,543,000	(7,464,000)	-	-	-	-	-
21 2034	-	-	-	-	(35,588,000)	-	-	31,769,000	10,700,000	42,469,000	(6,581,000)	-	-	-	-	-
22 2035	-	-	-	-	(35,588,000)	-	-	32,722,000	10,700,000	43,422,000	(6,650,000)	-	-	-	-	-
23 2036	-	-	-	-	(35,588,000)	-	-	33,704,000	10,700,000	44,404,000	(5,166,000)	-	-	-	-	-
24 2037	-	-	-	-	(35,592,000)	-	-	34,714,000	10,700,000	45,414,000	(24,688,000)	-	-	-	-	-
25 2038	-	-	-	-	(35,592,000)	-	-	35,756,000	10,700,000	46,456,000	(10,564,000)	-	-	-	-	-
26 2039	-	-	-	-	(35,589,000)	-	-	36,829,000	10,700,000	47,529,000	(48,892,000)	-	-	-	-	-
27 2040	-	-	-	-	(35,590,000)	-	-	37,934,000	10,700,000	48,634,000	(59,636,000)	-	-	-	-	-
28 2041	-	-	-	-	(35,591,000)	-	-	39,071,000	10,700,000	49,771,000	(13,880,000)	-	-	-	-	-
29 2042	-	-	-	-	(35,590,000)	-	-	40,244,000	10,700,000	50,944,000	(89,570,000)	-	-	-	-	-
30 2043	-	-	-	-	(35,590,000)	-	-	41,451,000	10,700,000	52,151,000	(104,831,000)	-	-	-	-	-
31 2044	-	-	-	-	(35,589,000)	-	-	42,695,000	10,700,000	53,395,000	(17,506,000)	-	-	-	-	-
32 2045	-	-	-	-	(35,588,000)	-	-	43,975,000	10,700,000	54,675,000	(141,124,000)	-	-	-	-	-
33 2046	-	-	-	-	(35,590,000)	-	-	-	10,700,000	10,700,000	(25,190,000)	-	-	-	-	-
34 2047	-	-	-	-	(35,590,000)	-	-	-	10,700,000	10,700,000	(10,403,000)	-	-	-	-	-
Total	500,000,000	500,000,000	(5,238,860)	(82,625,000)	(12,831,000)	(996,516,000)	(8,705,000)	929,710,000	297,304,000	1,232,252,860	126,337,000	15,000,000	25,487,000	28,750,000	100,637,000	

**Items 8 and 9 -
Files 12-1186 & 12-1187**

**Department:
Municipal Transportation Agency (SFMTA)**

EXECUTIVE SUMMARY

Legislative Objective

- 12-1186: The proposed resolution would approve a 10-year Feeder agreement retroactively from July 1, 2010 through June 30, 2020 between the City, on behalf of the Municipal Transportation Agency (SFMTA), and Bay Area Rapid Transit (BART), in which BART partially reimburses SFMTA for the costs of passenger transfer trips between the San Francisco Municipal Railway (MUNI) and BART.
- 12-1187: The proposed resolution would approve the Fast Pass agreement between the City, on behalf of SFMTA, and BART, for a 4.5-year term retroactive to January 1, 2010 through June 30, 2014, in which SFMTA partially reimburses BART for BART trips in San Francisco taken by Adult Fast Pass users who purchase the Fast Pass from SFMTA with the option to take unlimited monthly rides on BART within San Francisco.

Key Points

- A proposed resolution approving a new Fast Pass agreement with an 8.5-year term retroactive from January 1, 2010 through June 30, 2018 was considered by the Budget and Finance Committee on May 4, 2011 (File 11-0201). The Budget and Finance Committee tabled the proposed resolution and requested that SFMTA staff renegotiate the terms of this agreement along with the Feeder agreement discussed below and bring back both agreements jointly to the Board of Supervisors for approval.
- Under the proposed Feeder agreement (File 12-1186), BART pays SFMTA to offset a portion of SFMTA's costs to provide MUNI feeder services to BART stations located in San Francisco. The proposed Feeder agreement includes retroactive payments by BART to SFMTA of \$2,654,357 in FY 2010-11 and \$2,667,629 in FY 2011-12. From FY 2012-2013 through FY 2019-20, payments are adjusted annually based on the percentage change of ridership and the San Francisco Bay Area Consumer Price Index (CPI), up to a maximum of 5 percent annually. Feeder ridership changes would be calculated using the number of MUNI feeder trips taken by passengers who then transfer to BART which were tracked on the Clipper Card for the two preceding years.
- Under the proposed Fast Pass agreement (File 12-1187), SFMTA pays BART \$1.19 for each BART trip in San Francisco using the Fast Pass with the option to take unlimited trips on BART within San Francisco, retroactively from January 1, 2010 through June 30, 2012, increasing to \$1.21 per BART trip retroactively from July 1, 2012 through June 30, 2014. There is an annual reimbursement cap on payments by SFMTA to BART of \$14 million per fiscal year.

Fiscal Analysis

- 12-1186: Payments by BART to SFMTA for SFMTA providing feeder service to BART stations in San Francisco are estimated to total \$32,069,140 under the proposed 10-year Feeder agreement assuming a 2.88 annual increase in CPI and a 3 percent ridership increase, resulting in annual increases in payments of five percent due to the cap limiting increases in payments to five percent annually.
- 12-1187: SFMTA would be required to reimburse BART an estimated \$42,763,704 under the proposed Fast Pass agreement, less the \$8,690,297 which has previously been paid by SFMTA to BART for a net retroactive payment by SFMTA to BART of \$34,073,407.

- Based on the estimated payments from FY 2010-11 through FY 2013-14 for both the proposed Fast Pass, an estimated payment of \$37,498,332 by SFMTA to BART and the Feeder agreement, an estimated payment of \$11,054,057 by BART to SFMTA, SFMTA would pay approximately \$26,444,275 in total net payments to BART, the overlapping time period of the proposed Fast Pass and Feeder agreements.

Policy Considerations

- 12-1186: The proposed Feeder agreement limits increases in annual payments by BART to SFMTA to five percent. However, there is no limit to the decrease in annual payments. Since FY 1998-99, the annual change in feeder ridership has ranged between a 6.8 percent decrease and a 13.4 percent increase. Therefore, the Budget and Legislative Analyst recommends a five percent floor on decreases in payments from BART to SFMTA to stabilize Feeder payments by BART to SFMTA.
- 12-1187: In the Budget and Legislative Analyst's report to the May 4, 2011 Budget and Finance Committee, the Budget and Legislative Analyst recommended that the Budget and Finance Committee request that SFMTA staff renegotiate the terms of the Fast Pass agreement, including (1) adjusting annual reimbursements by SFMTA to BART based on the rate of inflation rather than increases in BART fares, and (2) capping annual SFMTA's reimbursement increases to BART. As noted above, the proposed Fast Pass agreement includes an annual reimbursement payment cap of \$14,000,000, as previously recommended by the Budget and Legislative Analyst, but continues to adjust annual reimbursements by SFMTA to BART based on the percentage increase in BART fares rather than the rate of inflation.
- 12-1187: The annual cap of \$14,000,000 payable by SFMTA to BART is \$4,390,842, or 45.7 percent, more than any estimated annual payment, the maximum being \$9,609,158, under the proposed Fast Pass agreement. Therefore, the annual cap of \$14,000,000, which would likely not serve to contain payment increases in a significant way, should be reduced to \$10,000,000.
- 12-1187: Because SFMTA's FY 2011-12 incremental revenues of \$3,608,840 from the \$10 additional fee for purchasing a Fast Pass with the option to take unlimited monthly rides on BART within San Francisco are \$5,584,544 less than SFMTA's FY 2011-12 payment to BART of \$9,193,384 under the Fast Pass agreement, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

Recommendations

12-1186

- Amend the proposed resolution to specify that the proposed Feeder agreement will be revised to correct the formula for payment increases from FY 2012-13 through FY 2019-20, as agreed to by SFMTA.
- Amend the proposed resolution to require that the proposed Feeder agreement be revised to include a floor of no more than five percent on decreases in payments from BART to SFMTA.
- Approve the proposed resolution as amended.

12-1187

- Amend the proposed resolution to require that the proposed Fast Pass agreement be revised to reduce the amount of the annual cap by \$3,500,000 to \$10,500,000 to reflect actual anticipated payments by SFMTA to BART. Approval of the proposed resolution, as amended, is a policy decision for the Board of Supervisors.

MANDATE STATEMENT/ BACKGROUND**Mandate Statement**

12-1186: In accordance with Charter Section 9.118(a), City agreements, or amendments to such City agreements, with anticipated revenue of \$1,000,000 or more are subject to approval of the Board of Supervisors.

12-1187: In accordance with Charter Section 9.118(b), City agreements with anticipated expenditures of \$10,000,000 or more, or amendments to such City agreements with anticipated expenditures of more than \$500,000, are subject to approval by the Board of Supervisors.

Background**12-1186: Feeder Agreement**

Since 1987, Bay Area Rapid Transit (BART) and the San Francisco Municipal Transportation Agency (SFMTA) have entered into annual Feeder agreements, in which BART pays the SFMTA to offset a portion of SFMTA's costs to provide Municipal Railway (MUNI) services to BART stations located in San Francisco. The original methodology for calculating BART's Feeder agreement payment to the SFMTA was based on the difference between SFMTA's operating costs and fare revenues for each passenger trip resulting from a transfer between BART and MUNI, multiplied by the number of trips.

Since 1991, BART's Feeder agreement payments to the SFMTA have been adjusted annually by the percentage change in Sales Tax revenue allocated to BART¹ for the two years prior to the current year's Feeder agreement, irrespective of the actual number of transfer trips between BART and MUNI. Under that method, in August 2011 the Board of Supervisors approved a resolution authorizing the payment by BART to SFMTA of \$2,641,151 for FY 2009-10 based on a FY 2008-09 payment of \$2,904,092 minus \$262,941, the 9.1 percentage decrease in the Sales Tax allocation to BART in FY 2008-09 compared to FY 2007-08 (Resolution No. 348-11). However, the resolution "urge[d] the SFMTA and BART to renegotiate the methodology for the FY 2011 and FY 2012 Feeder agreements to provide a clear nexus between the actual number of transfers trips between BART and Muni and the related Feeder agreement payment by BART to the SFMTA."

12-1187: Fast Pass Agreement

The Fast Pass agreement between BART and SFMTA allows Adult Fast Pass users who purchase the Fast Pass with the BART option² to take an unlimited number of monthly rides on BART within San Francisco city limits at no additional cost to the rider, with reimbursements for each trip to be made by the SFMTA to BART at a fixed reimbursement rate. According to Mr. Jason Lee, SFMTA Financial Services Manager, approximately 34.4 percent of Fast Passes sold in FY 2011-12 were Fast Passes with the BART option. The most recent Fast Pass agreement, with a two-year term from December 21, 2007 through December 31, 2009, provided that

¹ BART collects 0.5 percent Sales Tax from San Francisco, Alameda, and Contra Costa counties. Of this amount, BART retains 75 percent and the remaining 25 percent is split evenly between AC Transit and SFMTA.

² The Adult Fast Pass with the BART option costs, \$74, \$10 more than the \$64 MUNI-only Adult Fast Pass.

SFMTA pay BART a fixed reimbursement rate of \$1.02 per trip.³ SFMTA continued to pay BART at the same \$1.02 reimbursement rate until December, 2010. Since December, 2010, no payments by SFMTA to BART have been made because SFMTA did not have the contractual authority to continue payments.

A proposed resolution approving a new Fast Pass agreement with an 8.5-year term retroactive from January 1, 2010 through June 30, 2018 was considered by the Budget and Finance Committee on May 4, 2011 (File 11-0201). Key provisions of that new Fast Pass agreement included:

- Prior to July 1, 2012 - An increase in the reimbursement rate payable by SFMTA to BART from \$1.02 per trip to \$1.19 per trip retroactive to January 1, 2010 through June 30, 2012, resulting in a reimbursement rate discount of \$0.56 or 32 percent from the BART fare in San Francisco of \$1.75.
- Beginning on July 1, 2012 – An increase in the reimbursement rate payable by SFMTA to BART by the same amount as BART fare increases, rather than being tied to the rate of inflation. However, BART's fare policy expired on July, 2012 and the structure of a new fare policy was not yet known;
- Annual reimbursement rate increases limited to ten percent; and
- No not-to-exceed amount capping SFMTA's reimbursements to BART on an annual basis.

As a result, the Budget and Finance Committee tabled the proposed resolution and requested that SFMTA staff renegotiate the terms of this agreement along with the Feeder agreement discussed below and to bring back both renegotiated agreements jointly to the Board of Supervisors for approval.

DETAILS OF PROPOSED LEGISLATION

12-1186: The proposed resolution would retroactively approve a 10-year Feeder agreement between the City, on behalf of SFMTA, and BART for payment by BART to SFMTA for transfer trips made on San Francisco Municipal Railway (MUNI) to BART stations located in San Francisco with a term retroactive from July 1, 2010 through June 30, 2020 (Fiscal Years 2010-11 through 2019-20). The proposed Feeder agreement's key provisions include:

- FY 2010-11: Payment by BART to SFMTA of \$2,654,357 (an increase of 0.5 percent above the FY 2009-10 reimbursement amount of \$2,641,151);
- FY 2011-12: Payment by BART to SFMTA of \$2,667,629 (an increase of 0.5 percent above the FY 2010-11 reimbursement amount of \$2,654,357);
- FY 2012-13 through FY 2019-20: Payments by BART to SFMTA are adjusted annually based on the percentage change of ridership and the San Francisco Bay Area Consumer

³ From December 21, 2007 through June 30, 2009, the BART fare in San Francisco was \$1.50, or \$0.48 more than the SFMTA reimbursement of \$1.02 made to BART. From July 1, 2009 through December 31, 2009, when the prior agreement expired, the BART fare in San Francisco was \$1.75, or \$0.73 more than the SFMTA reimbursement to BART of \$1.02.

Price Index (CPI), up to a maximum of 5 percent annually⁴. Feeder ridership changes would be calculated by the number of MUNI feeder trips to BART tracked on the Clipper Card⁵ for the two preceding years.

According to Mr. Lee, the proposed Feeder agreement is a negotiated agreement between SFMTA and BART which is entered into voluntarily.

Based on inquiries by the Budget and Legislative Analyst, Mr. Lee advises that the formula currently included in the proposed Feeder agreement is incorrect. Therefore, the Budget and Legislative Analyst recommends that the proposed Feeder agreement should be amended to accurately reflect the method for calculating annual payment⁶.

12-1187: The proposed resolution would approve a new 4.5-year Fast Pass agreement which allows Adult Fast Pass users who purchase the Fast Pass with the BART option⁷ to take an unlimited number of monthly rides on BART within San Francisco city limits at no additional cost to the rider, between the City, on behalf of SFMTA, and BART, with a term retroactive to January 1, 2010 through June 30, 2014. Either SFMTA or BART may terminate the proposed Fast Pass agreement after giving the other party a 90-day written notice prior to the termination date. The proposed Fast Pass agreement's key provisions include:

- A \$1.19 reimbursement rate payable by SFMTA to BART would apply retroactively to January 1, 2010 and would be in effect until June 30, 2012. This \$1.19 rate represents a 16.7 percent increase over the current \$1.02 rate. This proposed \$1.19 reimbursement rate is based on BART's last 16.7 percent fare increase in San Francisco from \$1.50 to \$1.75 on July 1, 2009.
- A \$1.21 reimbursement rate payable by SFMTA to BART, an increase of 1.7 percent, based on BART's most recent July, 2012 fare increase of 1.4 percent, would commence retroactive to July 1, 2012 and remain in effect through June 30, 2014.⁸ However, the BART fares for trips within San Francisco stayed the same at \$1.75 per trip other than trips between Market Street stations and the Balboa Park station, which increased by \$0.05 to \$1.80 per trip or 2.9 percent increase. Those trips comprise approximately 37 percent of trips taken by Fast Pass riders on BART.
- SFMTA and BART must begin negotiations by January 1, 2014 for a new Fast Pass agreement. If both parties cannot agree on the terms of a new agreement effective July 1, 2014, then the Fast Pass agreement shall continue on a month-to-month basis with a reimbursement rate adjustment based on BART's CPI formula effective on the date of a

⁴ The formula in the proposed Feeder agreement states that: Annual Feeder payment = Previous Year's Feeder payment *(((1 + Percentage Change in Ridership with 1 being 100 percent)*(1+Percentage Change in CPI)) -1). This formula incorrectly subtracts the previous year's feeder payment from the calculation.

⁵ The Clipper Card is an all-in-one transit card for Bay Area transit systems, including BART and MUNI, that keeps track of passes, discount tickets, ride books and cash value that are loaded onto it, while applying all applicable fares, discounts and transfer rules.

⁶ The formula which correctly calculates the annual Feeder payment is: Annual Feeder payment = Previous Year's Feeder payment *(((1 + Percentage Change in Ridership with 1 being 100 percent)*(1+Percentage Change in CPI))).

⁷ The Adult Fast Pass with the BART option costs, \$74, \$10 more than the \$64 MUNI-only Adult Fast Pass.

⁸ \$1.19 x 1.014 percent = \$1.2067, rounded to \$1.21.

BART fare increase on or after July 1, 2014.

- There is an annual reimbursement payment cap of \$14 million per fiscal year payable by SFMTA to BART. Based on actual ridership, the SFMTA would pay BART \$9,609,158 for FY 2010-11 Fast Pass trips.

In the Budget and Legislative Analyst's report to the May 4, 2011 Budget and Finance Committee, the Budget and Legislative Analyst recommended that the Budget and Finance Committee request that SFMTA staff renegotiate the terms of this agreement, including (1) adjusting annual reimbursements by SFMTA to BART based on the rate of inflation rather than increases in BART fares, and (2) capping annual SFMTA's reimbursement increases to BART. As noted above, the proposed Fast Pass agreement includes an annual cap on reimbursements made by SFMTA to BART of \$14,000,000, as previously recommended by the Budget and Legislative Analyst, but continues to adjust annual reimbursements by SFMTA to BART based on the percentage increase in BART fares rather than the rate of inflation.

FISCAL ANALYSIS

12-1186: BART Feeder Agreement Payments to SFMTA from FY 2010-11 through FY 2019-20 Are Estimated to be \$32,069,140

As previously noted, the formula included in the proposed feeder agreement is incorrect. As shown below in Table 1 below, based on the SFMTA-corrected formula included in the proposed Feeder agreement, the payments by BART to SFMTA are estimated to total \$32,069,140 over the ten-year term of the agreement. According to Mr. Lee, these estimates are based on two assumptions:

1. Ridership will increase at an average of 3 percent annually, based on recent BART ridership trends.
2. CPI annual adjustments will average 2.88 percent based on fluctuations in CPI between 2.5 and 3.25 percent.

Table 1 below summarizes payments both constrained by the 5 percent annual increase cap and unconstrained by any payment increase cap.

Table 1: Estimated Payments by BART to SFMTA under Feeder Agreement

	Estimated Payment to SFMTA by BART Without Cap	Estimated Payment to SFMTA by BART with 5% Cap	Difference
FY 2010-11	\$2,654,357	\$2,654,357	\$0
FY 2011-12	2,667,629	2,667,629	0
FY 2012-13	2,826,790	2,801,010	25,780
FY 2013-14	2,995,448	2,941,061	54,387
FY 2014-15	3,174,168	3,088,114	86,054
FY 2015-16	3,363,552	3,242,520	121,032
FY 2016-17	3,564,235	3,404,646	159,589
FY 2017-18	3,776,892	3,574,878	202,014
FY 2018-19	4,002,236	3,753,622	248,614
FY 2019-20	4,241,025	3,941,303	299,722
Total	\$33,266,333	\$32,069,140	\$1,197,193

Given an average CPI of 2.88 percent, a 2.1 percent increase in ridership would result in actual additional payments by BART to SFMTA under the proposed Feeder agreement due to the five percent cap on annual payment increases. If ridership increases beyond that 2.1 percent in any given year, SFMTA would not be additionally reimbursed for that increase. In addition, it is possible that ridership could decrease and the proposed Feeder agreement does not include a floor on decreases in annual payments.

Without the 5 percent annual cap on payment increases, payments would increase approximately 6 percent annually and result in a total of \$33,266,333 in payments by BART to SFMTA, an increase of approximately \$1,197,193 in payments over the term of the proposed Feeder agreement with the five percent cap in place (See Table 1 above). While the Budget and Legislative Analyst believes that the five percent cap is reasonable, the Budget and Legislative Analyst notes that there is currently no floor limiting how much the annual payments by BART to SFMTA could decrease over the 10-year term included in the proposed Feeder agreement.

12-1187: The Proposed Fast Pass Agreement Would Result in Total Estimated Payments by SFMTA to BART of \$42,763,704

As shown in Table 2 below, SFMTA would pay BART an estimated \$42,763,704 under the proposed Fast Pass agreement from January 1, 2010 through June 30, 2014, less the \$8,690,297 which has already been paid by SFMTA to BART, or a net of \$34,073,407. If the proposed agreement is approved, SFMTA would be required to make an initial one-time retroactive payment of \$15,377,617 to BART (See Table 2 below)

Table 2: Total Estimated Payments by SFMTA to BART from January 1, 2010 through June 30, 2014

	Trips	Amount Previously Paid by SFMTA to BART at \$1.02 Reimbursement Rate	Proposed Annual Reimbursement by SFMTA to BART	Amount SFMTA Would Owe BART Retroactively if Proposed Agreement is Approved
\$1.19 Per Trip Reimbursement Rate				
January 1, 2010 – June 30, 2010	4,424,682	\$4,513,175	\$5,265,372	\$752,197
July 1, 2010 – June 30, 2011	8,074,923	4,177,122	9,609,158	5,432,036
July 1, 2011 – June 30, 2012	7,725,533	0	9,193,384	9,193,384
Subtotal for Retroactive Payments	20,225,138	\$8,690,297	\$24,067,914	\$15,377,617
\$1.21 Per Trip Reimbursement Rate				
July 1, 2012 – June 30, 2013	7,725,533	\$0	\$9,347,895	\$0
July 1, 2013 – June 30, 2014	7,725,533	0	9,347,895	0
Subtotal for Estimated Payments	15,451,066	\$0	\$18,695,790	\$0
Total	35,676,204	\$8,690,297	\$42,763,704	\$15,377,617

Two Agreements Result in Estimated Annual Net Payments of \$6,406,834 to \$6,954,801 by SFMTA to BART from FY 2010-11 through FY 2013-14

As shown in Table 3 below, based on the estimated payments for both the proposed Fast Pass and Feeder agreements, SFMTA would pay approximately \$26,444,275 in total net payments to BART from FY 2010-11 through FY 2013-14, the overlapping time period of the proposed Fast Pass and Feeder agreements.

Table 3: Net Payments to BART from FY 2010-11 through FY 2013-14

	Estimated Payments by BART to SFMTA Under Proposed Feeder Agreement	Estimated Payments by SFMTA to BART Under Proposed Fast Pass Agreement	Net Payments by SFMTA to BART
FY 2010-11	\$2,654,357	\$9,609,158	\$6,954,801
FY 2011-12	2,657,629	9,193,384	6,535,755
FY 2012-13	2,801,010	9,347,895	6,546,885
FY 2013-14	2,941,061	9,347,895	6,406,834
Total	\$11,054,057	\$37,498,332	\$26,444,275

POLICY CONSIDERATIONS**12-1186: The Proposed Feeder Agreement Only Includes a Cap on Increases in Payments but Does not Cap Decreases**

As previously noted, the proposed Feeder agreement limits increases in annual payments by BART to SFMTA to five percent. According to Mr. Lee, this five percent cap was agreed upon during negotiations⁹. However, there is no limit to the decrease in annual payments payable by BART to SFMTA. While Mr. Lee advises that electronically tracked feeder ridership is not available for previous years, the total number of San Francisco exits from San Francisco BART stations is available and would serve as an approximation for potential future changes in feeder ridership. Based on the available San Francisco BART exit data, ridership on MUNI could potentially fluctuate significantly from year to year. Since FY 1998-99, the annual change has ranged between a 6.8 percent decrease and a 13.4 percent increase. Therefore, the Budget and Legislative Analyst recommends revising the proposed resolution to require a five percent floor on decreases in payments to stabilize payments by BART to SFMTA under the proposed Feeder agreement.

12-1187: The \$14,000,000 Annual Cap in Payments by SFMTA to BART is Too High

The proposed Fast Pass agreement includes a cap on payments by SFMTA to BART, as previously recommended by the Budget and Legislative Analyst. However, the annual cap of \$14,000,000 is \$4,390,842, or 45.7 percent, more than any estimated annual payment, the maximum being \$9,609,158, under the proposed Fast Pass agreement. Therefore, the annual cap of \$14,000,000 payable by SFMTA to BART, which would likely not serve to contain payment increases in a significant way, should be reduced.

In order to establish an annual cap which serves to contain payments payable by SFMTA to BART, the proposed Fast Pass agreement should be amended to reduce the cap from \$14,000,000 to a cap of \$10,500,000, a reduction of \$3,500,000, which is more practically linked to possible fluctuations in payments under a Fast Pass agreement.

12-1187: SFMTA's Payment to BART under the Fast Pass Agreement is Less than SFMTA's Incremental Revenues from the Fast Pass

Because SFMTA's FY 2011-12 incremental revenues of \$3,608,840 from the \$10 additional fee for purchasing the Fast Pass with the Bart option are \$5,584,544 less than SFMTA's FY 2011-12 payment to BART of \$9,193,384 under the Fast Pass agreement, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

⁹ Mr. Lee advises that SFMTA originally proposed a cap of 6 to 7 percent annually.

RECOMMENDATIONS12-1186

1. Amend the proposed resolution to specify that the proposed Feeder agreement will be revised to correct the formula for payment increases from FY 2012-13 through FY 2019-20, as agreed to by SFMTA.
2. Amend the proposed resolution to require that the proposed Feeder agreement be revised to include a floor of no more than 5 percent on decreases in payments from BART to SFMTA.
3. Approve the proposed resolution as amended

12-1187

1. Amend the proposed resolution to require that the proposed Fast Pass agreement be revised to reduce the amount of the annual cap from \$14,000,000 to \$10,500,000, a reduction of \$3,500,000, to reflect actual anticipated payments by SFMTA to BART.
2. Approval of the proposed resolution, as amended, is a policy decision for the Board of Supervisors.