

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

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TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: October 19, 2016 Budget and Finance Committee Meeting

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Item 2 File 16-1011	Department: Public Utilities Commission (SFPUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • Resolution approving issuance of water revenue bonds in aggregate principal amount not to exceed \$295,000,000 to be issued by the SFPUC pursuant to prior ordinances and the Charter of the City and County of San Francisco; affirming covenants contained in the indenture pursuant to which water revenue bonds are issued; authorizing the taking of appropriate actions in connection therewith; and related matters. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • On November 5, 2002, San Francisco voters approved Proposition E, authorizing the SFPUC to issue revenue bonds or other forms of indebtedness, as authorized by the Board of Supervisors, to reconstruct, replace, expand, repair and/or improve SFPUC's water system. • As of September 1, 2016, the SFPUC has approximately \$236,000,000 of commercial paper outstanding. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed issuance of \$295,000,000 of water revenue bonds was previously appropriated and related debt service costs have already been factored into SFPUC's 10-Year Financial Plan Update. • \$239,000,000 of the requested \$295,000,000 water revenue bonds will be used to pay off outstanding commercial paper, related interest and administrative costs. \$26,000,000 will be used to continue funding the Calaveras Dam Project. \$29,000,000 is for capitalized interest for the initial three years during project construction. • The \$295,000,000 water revenue bonds are estimated at 4% annual interest over 30 years. Annual debt service is projected at \$18,065,369 or a total of \$487,764,963, including \$295,000,000 principal and \$192,764,963 interest expense. • Water rates paid by SFPUC customers fund the SFPUC's Water Enterprise operating and capital costs, including debt service. The proposed \$295,000,000 water revenue bonds have already been factored in the SFPUC's 10-Year Financial Plan. The SFPUC approved an overall 10 percent increase in water rates in FY 2016-17 and a 7 percent increase in water rates in FY 2017-18. The SFPUC estimates that the average monthly residential water bill will increase by \$4 in FY 2016-17, from \$40 in FY 2015-16 to \$44 in FY 2016-17; and by \$3 in FY 2017-18, from \$44 in FY 2016-17 to \$47 in FY 2017-18. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

Charter Section 9.107 authorizes the Board of Supervisors to issue revenue bonds on behalf of the San Francisco Public Utilities Commission for water and electric power facilities, following the approval of the issuance of such revenue bonds by a majority of the voters.

Charter Section 9.109 authorizes the Board of Supervisors to issue general obligation or revenue bonds to refund outstanding City and County debt, without voter approval, if such refunding bonds result in net debt service savings on a present value basis. However, on June 14, 2016, the Board of Supervisors approved an ordinance authorizing the SFPUC to sell refunding bonds to refinance outstanding water revenue bonds through June 30, 2018 without further Board of Supervisors approval if the SFPUC achieves at least 3% net present value debt service savings (File 16-0472; Ordinance No 112-16).

BACKGROUND

San Francisco Public Utilities Commission

The San Francisco Public Utilities Commission (SFPUC) owns and operates a municipal water supply, storage, and distribution system that provides drinking water to (1) retail customers in the City, (2) certain retail customers located outside of the City, and (3) wholesale customers in Alameda County, Contra Costa County, and Santa Clara County. The SFPUC water system is divided into two geographic groups including (1) the regional water conveyance system and the (2) in-city (local) distribution system. The SFPUC is currently completing the approximately \$5 billion Water System Improvement Program (WSIP), which consists of 87 capital projects to repair, replace and upgrade the SFPUC's regional and local water facilities and systems.

Prior Authorizations of Water Revenue Bonds

On November 5, 2002, San Francisco voters approved Proposition E, authorizing the SFPUC to issue revenue bonds or other forms of indebtedness, as authorized by the Board of Supervisors, to reconstruct, replace, expand, repair and/or improve SFPUC's water system, codified in City Charter Section 8B.124. As of September 1, 2016, the Board of Supervisors has authorized the SFPUC to sell up to \$3.7 billion in water revenue bonds under Proposition E. Currently, there are approximately \$2,667,497,000 total principal SFPUC water revenue bonds outstanding under this authorization.

Prior Authorization of Commercial Paper

On December 16, 2008, the Board of Supervisors approved increasing the commercial paper authorization for the SFPUC water enterprise to a not-to-exceed \$500,000,000 (Ordinance No. 311-08; File 08-1453). As of September 1, 2016, the SFPUC has approximately \$236,000,000 of commercial paper outstanding, leaving a remaining authorization balance of approximately \$264,000,000.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (a) approve the issuance of water revenue bonds (Series 2016C) in an aggregate principal amount not to exceed \$295,000,000 to be issued by the SFPUC pursuant to prior ordinances and the Charter of the City and County of San Francisco; (b) affirm covenants contained in the indenture pursuant to which water revenue bonds are issued; (c) authorize the taking of appropriate actions in connection therewith; and (d) related matters.

The proposed resolution would authorize the issuance of up to \$295,000,000 of new water revenue bonds in one or more series on one or more dates at a maximum 12% annual interest, as tax-exempt or taxable bonds based on a competitive or negotiated sale. The bond funds would be used to:

- (a) Refund the SFPUC's outstanding commercial paper;
- (b) Finance previously authorized capital improvements to the City's water system;
- (c) Pay capitalized interest on the bonds;
- (d) Pay issuance costs on the bonds;
- (e) Provide recommended and/or necessary fund credit enhancements, bond insurance, reserve funds and/or debt service reserves.

The proposed resolution would also approve the financing documents for this bond issuance, including the:

- Preliminary Official Statement (POS), disclosure describing the bond terms and condition of the SFPUC Water Enterprise.
- Continuing Disclosure Certificate, which is an appendix to the POS that outlines the disclosure reporting requirements during the term of the bonds.
- Supplemental Indentures, regarding the agreements between the SFPUC and the investors, or purchasers of the bonds.
- Notice of Intention to Sell, which notifies the financial community regarding the pending revenue bond sale.
- Official Notice of Sale, which notifies underwriters regarding the bidding parameters for a competitive bond sale.
- Bond Purchase Contract, which outlines the terms of the bond sale for a negotiated transaction.

If approved, the SFPUC anticipates completing the sale of the \$295,000,000 water revenue bonds in late November 2016.

FISCAL IMPACT

The Public Utilities Commission approved the SFPUC 10-Year Capital Plan for FY 2016-17 through FY 2025-26 in January 2016. The 10-Year Capital Plan provides for \$1.4 billion in Water

Enterprise projects. The requested \$295 million of new water revenue bonds has been previously appropriated and related debt service costs have already been factored into the 10-Year Financial Plan Update, approved by the SFPUC in February 2016.

Table 1 below shows the estimated sources and uses for the requested not-to-exceed \$295,000,000 Series 2016C new water revenue bonds.

Table 1: Sources and Uses of \$295,000,000 Water Revenue Bonds

Sources	
Bond Proceeds Par Amount	\$295,000,000
Uses	
Commercial Paper Refunding	\$239,000,000
WSIP Project Fund	26,000,000
Capitalized Interest Fund	29,000,000
Bond Issuance and RBOC ¹	400,000
Underwriter's Discount	<u>600,000</u>
Total	\$295,000,000

According to Mr. Michael Brown in Capital Finance at SFPUC, the commercial paper payoff of \$239,000,000 shown in Table 1 above includes the \$236,000,000 of outstanding commercial paper and an additional \$3,000,000 estimated for interest and administrative costs, such as bank facility and rating agency fees, due at the time of the commercial paper refunding.

The WSIP Project Fund for \$26,000,000 shown in Table 1 above will be used to continue funding the Calaveras Dam Project. The Calaveras Dam Project is a WSIP Regional Project, with a total estimated cost of approximately \$145,000,000, including \$80,000,000 over the next 12 months. The Calaveras Dam Project is anticipated to be completed in 2019.

The Capitalized Interest Fund of \$29,000,000 shown in Table 1 above will be used to pay for interest costs on the total \$295,000,000 debt for the initial three years. Capitalized interest is typically included to fund debt service during project construction.

The requested \$295,000,000 water revenue bonds are anticipated to be taxable bonds at an estimated 4% annual interest with a term of 30 years. Annual debt service is projected at \$18,065,369 or a total of \$487,764,963, which includes \$295,000,000 of principal and \$192,764,963 of interest expense for 27 years. As noted above, the first three years, debt service would be paid with a set aside Capitalized Interest Fund.

Water Rate Increases in FY 2016-17 and FY 2017-18

In accordance with Charter Section 8B.125, the SFPUC is responsible for setting the rates, fees and other charges for water and sewer. The SFPUC's action on all rates, fees and charges is subject to rejection, within 30 days of submission, by resolution of the Board of Supervisors. If the Board of Supervisors does not act within 30 days, the SFPUC proposed rates become effective without further Board of Supervisors action.

¹ The SFPUC Revenue Bond Oversight Committee (RBOC) was created pursuant to Proposition P in November of 2002 and requires 0.05% of gross proceeds of the bonds be deposited in a fund and appropriated by the Board of Supervisors to cover the costs of this Committee.

Water rates paid by SFPUC customers cover the costs of the Water Enterprise's operating and capital costs. The SFPUC bills residential customers for a combined water and sewer bill. The average monthly residential combined water and sewer bill in FY 2015-16 was \$86, of which \$40 is water and \$46 is sewer. Currently, water rates have been approved through FY 2017-18.

The additional debt service to cover the costs of the proposed \$295,000,000 water revenue bonds has already been factored in the SFPUC's 10-Year Financial Plan adopted by the Commission on February 9, 2016. According to the FY 2016-17 to FY 2025-26 Financial Plan, the SFPUC approved a 10 percent increase in water rates in FY 2016-17 and 7 percent increase in water rates in FY 2017-18 to cover the Water Enterprise's operating and capital costs. The SFPUC estimates that the average monthly residential water bill will increase by \$4 in FY 2016-17, from \$40 in FY 2015-16 to \$44 in FY 2016-17; and by \$3 in FY 2017-18, from \$44 in FY 2016-17 to \$47 in FY 2017-18.

RECOMMENDATION

Approve the proposed resolution.

<p>Items 3, 4, 5, 6 and 7 Files 16-1035, 16-1036, 16-1037, 16-1038 and 16-1039</p>	<p>Department: Treasure Island Development Authority (TIDA)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • The Treasure Island Development Project is an ongoing project to transition Treasure Island and a portion of Yerba Buena Island from a former military base to a new San Francisco residential and commercial development. A Financing Plan approved by the Board of Supervisors in 2011 (Files 11-0226 and 11-0291) obligates the City to provide funding for certain public improvements by forming an Infrastructure and Revitalization Financing District (IRFD) and a Community Facilities District (CFD) on Treasure Island and Yerba Buena Island and issuing bonds and other debt for the IRFD and CFD. • The five proposed resolutions are the first step in the process of forming the IRFD and CFD, and the associated authorization to levy special assessments and incur bonded and other debt. If the proposed resolutions are approved, the IRFD, CFD, and associated debt would then be the subject of public hearings and special elections. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • IRFDs use property tax increment financing to pay for public facilities, and CFDs levy a special assessment on properties within the CFD to pay for infrastructure expenses and services. • <u>File 16-1035</u> states the intention to establish the IRFD. <u>File 16-1036</u> directs the Office of Public Finance to prepare an Infrastructure Financing Plan for the IRFD. <u>File 16-1037</u> states the intention to issue bonds for the IRFD in a not-to-exceed principal amount of \$780,000,000. <u>File 16-1038</u> states the intention to establish the CFD. <u>File 16-1039</u> states the intention to incur bonded indebtedness of an amount not to exceed \$5,000,000,000 for the CFD. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • The proposed IRFD will receive incremental property tax revenue that would otherwise be allocated to the City’s General Fund, estimated to be between \$1,080,836,000 and \$1,233,335,000 over a 43-year term, based on the projected assessed value of the initial project areas from 2018-19 through 2061-62. • The proposed CFD will not have direct fiscal impact on the City because it levies a special assessment to be paid by the property owners in the CFD. • The entire Treasure Island Development Project is estimated to generate an aggregate surplus to the City’s General Fund, MTA, and Library Preservation Fund of approximately \$529,600,000 over a 52-year term from 2015-16 through 2067-68, and an annual General Fund surplus upon buildout/stabilization of \$10,500,000 per year. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> • Because the proposed resolutions are consistent with legislation previously approved by the Board of Supervisors related to the Treasure Island Development Project, the Budget and Legislative Analyst recommends approval of the proposed resolutions. 	

MANDATE STATEMENT

A city, county, or city and county may establish an Infrastructure and Revitalization Financing District under California Government Code Section 53369 *et seq.* An Infrastructure and Revitalization Financing District is a legally constituted government entity established for the sole purpose of financing public facilities.

Under the Mello-Roos Community Facilities Act of 1982, as amended, a board of supervisors is authorized to establish a Community Facilities District after considering and adopting local goals and policies. A Community Facilities District is a geographic area wherein a supplemental assessment on properties is levied to finance eligible public infrastructure and services expenditures.

BACKGROUND

The Treasure Island Development Project is an ongoing project to transition Treasure Island and a portion of Yerba Buena Island from a former military base to a new San Francisco residential and commercial development. The project includes the development of 8,000 new residences (including affordable units), 300 acres of parks and open space, 551,000 square feet of retail and office space, up to 500 hotel rooms, and public infrastructure and community facilities. Upon buildout, the project's service population is currently projected to reach 16,326 residents and 2,544 employees.

History of the Treasure Island Development Project

Naval Station Treasure Island (Treasure Island) is a former United States Navy base located on Treasure Island and a 90-acre portion of Yerba Buena Island. In 1993, the base was selected for closure under the Federal Base Realignment and Closure Act. Accordingly, upon completion of environmental remediation activities, the Department of the Navy (Navy) has conveyed and will continue to convey portions of Treasure Island to the Treasure Island Development Authority (TIDA), a non-profit public benefit corporation. TIDA (a) oversees the Navy's environmental remediation activities, (b) has negotiated the conveyance of Treasure Island from the Navy to the City, and (c) is responsible for planning, redevelopment, reconstruction, rehabilitation, reuse, and conversion of Treasure Island.

Today, Treasure Island consists primarily of low-density residential usages, along with vacant and underutilized non-residential structures. There are approximately 1,000 total dwelling units on Treasure Island (of which 726 are available for occupancy), about 100 buildings with existing and former non-residential uses, parking and roadways, open space, a wastewater treatment facility, and other infrastructure.

In 2000, TIDA initiated a competitive selection process, culminating in the selection of Treasure Island Community Development, LLC (TICD) in March 2003 to serve as master developer to the Treasure Island Development Project to develop public infrastructure and sell or ground lease parcels to private developers to construct housing and commercial and public facilities.

In 2006, the Board of Supervisors approved the Development Plan and Term Sheet for the Redevelopment of Treasure Island (File 06-1498), prepared by TIDA and TICD, which established the development goals and funding strategy for Treasure Island. In 2010, the Board of Supervisors approved an update to the 2006 Development Plan and Term Sheet that incorporated additional documentation (Files 10-0432 and 10-0428).

In 2014, the Board of Supervisors approved the Economic Development Conveyance Memorandum of Agreement (MOA) for the transfer of Treasure Island from the Navy to TIDA (File 14-0562). Under the agreement, the total purchase price for the property from the Navy was \$55,000,000, plus interest expected to total \$12,375,000 and additional consideration projected to cost an additional \$50,000,000, for a total cost for the Treasure Island property projected to be \$117,375,000. According to Mr. Robert Beck, Treasure Island Director, an initial payment of \$5,500,000 was made at the time of the initial closing, May 29, 2015, and a second payment of \$7,544,350 was made on May 26, 2016. The payments were made by TICD directly to the Navy.

Financing Plan

In 2011 the Board of Supervisors approved the Development Agreement between the City and TICD (File 11-0226) and the Disposition and Development Agreement between TIDA and TICD (File 11-0291) and other related documents. Included in both of these Agreements was a Financing Plan that identifies the financial goals of the project and the contractual framework for cooperation among TIDA, the City, and TICD in achieving those goals and implementing the project.

The Financing Plan obligates the City to provide funding for certain public improvements by:

- forming Infrastructure and Revitalization Financing District(s), or IRFD(s), to reimburse TICD for qualified project costs through incremental property tax revenue derived in the project area;¹
- forming Community Facilities District(s), or CFD(s), to reimburse TICD for qualified project costs, to pay for certain public services necessary to ensure that the shoreline and facilities will be protected should sea levels rise, and to pay for ongoing park maintenance by imposing a special assessment on properties within the CFD; and
- issuing bonds and other debt for the IRFD(s) and CFD(s).

IRFDs

IRFDs use property tax increment financing to pay for public facilities. These districts may finance public infrastructure of community-wide significance and with a useful life of fifteen years or more, but may not finance services like routine maintenance, repair work, or the cost of ongoing operations or the provision of services. The revenues may be used to pay directly for

¹ Although the text of the Financing Plan actually calls for the formation of Infrastructure Financing Districts rather than Infrastructure and Revitalization Financing Districts because the law establishing IRFDs had not been created at the time, the Office of Public Finance finds that IRFDs are a better vehicle to finance the project, and that IRFDs should be used to comply with the Financing Plan in the place of Infrastructure Financing Districts.

work on qualifying projects or may be pledged to pay the principal of and interest on bonds issued to finance qualifying projects.

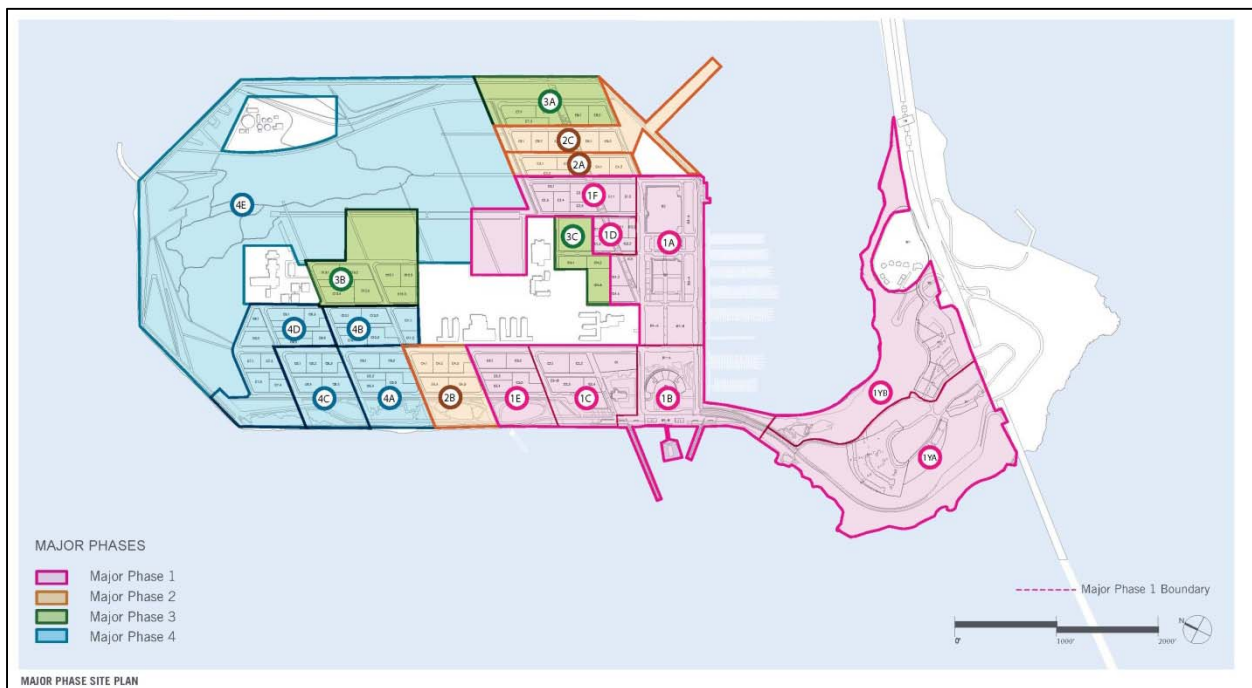
CFDs

CFDs levy a special assessment on properties within a specified district based on land usage (commercial/retail, hotel, or residence type, for example), subject to a vote of the property owners. The revenues may be used to finance eligible infrastructure expenses with a useful life of five years or more, and may also finance services and maintenance activities.

Project Site and Phases

The project site is divided into four major phases (large, mixed-use areas) and, within each major phase, various sub-phases (one or more adjacent blocks within the major phase). Figure 1 below displays the major development phases.

Figure 1: Treasure Island Development Project Major Phases



Source: TIDA, Major Phase Application for Major Phase 1

Current Status of the Treasure Island Development Project

The initial Treasure Island property transfer from the Navy to TIDA occurred in May of 2015, and additional transfers are anticipated through the end of 2021 as the Navy completes environmental remediation activities. Development parcels for the first areas were transferred by TIDA to TICD in February of 2016. TICD has completed demolition of obsolete structures on Yerba Buena Island, and demolition on Treasure Island is underway.

TICD has taken bids for the initial infrastructure contracts on Yerba Buena Island for new water storage reservoirs and for new roadways and utility infrastructure. Before the end of 2016, TICD anticipates bidding and awarding contracts for the soil stabilization and utility infrastructure in

the initial sub-phase area on Treasure Island. TICD is also mobilizing consultants to begin the detailed design of infrastructure in the next sub-phase area.

With the commencement of development activities, TIDA needs to establish the IRFD and CFD as funding sources to develop and maintain infrastructure on Treasure Island and Yerba Buena Island.

DETAILS OF PROPOSED LEGISLATION

The five proposed resolutions, shown in Figure 2 below, are the first step in the authorization process to form the Community Facilities District (CFD) and Infrastructure and Revitalization Financing District (IRFD) on Treasure Island and Yerba Buena Island. If the proposed resolutions are approved, the IRFD, CFD, and associated debt would then be the subject of public hearings and special elections. Following the public hearings and elections, further Board of Supervisors actions would be required to formally establish each district, incur bonded indebtedness, and levy special taxes.

Figure 2 below outlines the key required legislative actions for the formation of the CFD and IRFD. The proposed resolutions currently under consideration are indicated in bold and are described in detail following the table.

Figure 2: Summary of Key Legislative Actions

IRFD	CFD
Resolutions in this Report	
<ul style="list-style-type: none"> • 16-1035: Resolution of intention to establish the IRFD • 16-1036: Resolution authorizing the preparation of an Infrastructure Financing Plan • 16-1037: Resolution of intention to issue bonds 	<ul style="list-style-type: none"> • 16-1038: Resolution of intention to establish the CFD • 16-1039: Resolution of intention to incur bonded indebtedness
Future Actions	
<ul style="list-style-type: none"> • Preparation of the Infrastructure Financing Plan (by Director of the Office of Public Finance) • Resolution approving the Infrastructure Financing Plan • Public hearing • Resolution proposing the formation of the IRFD • Resolution calling for a special election • Election • Resolution confirming election results • Ordinance adopting the Infrastructure Financing Plan • Resolution authorizing bond issuance 	<ul style="list-style-type: none"> • Preparation of the CFD Report (by the Director of the Office of Public Finance) • Public hearing • Resolution of formation of the CFD and future annexation area • Resolution of necessity to incur bonded indebtedness • Resolution calling for a special election • Election • Resolution confirming election results • Ordinance ordering levy of special taxes • Resolution authorizing bond issuance

Related to the IRFD

File 16-1035: Resolution of intention to establish the IRFD on Treasure Island and Yerba Buena Island. Under California Code, the Board of Supervisors must approve the resolution of intention to establish the IRFD as the first step in the formation of the IRFD. The IRFD provides

tax revenue generated by the project areas within the IRFD will be used to finance these facilities, and the financing will be described in an Infrastructure Financing Plan (see File 16-1036 below). The Board of Supervisors will establish the date on which the allocation of tax increment will begin, and these dates may vary by project area.

File 16-1036: Resolution authorizing and directing the Director of the Office of Public Finance to prepare an Infrastructure Financing Plan. The Infrastructure Financing Plan is intended to guide the function and administration of the IRFD. IRFD law requires a resolution be adopted authorizing preparation of the plan and further requires that the plan be distributed to each landowner within the proposed district and each affected taxing agency at least 60 days prior to the public hearing on the proposed IRFD. In order to expedite the process of forming the IRFD, the Director of the Office of Public Finance has already prepared the Infrastructure Financing Plan, which will be submitted to the Board of Supervisors in a future resolution. In order to distribute the Infrastructure Financing Plan 60 days prior to a public hearing on December 6, 2016, per the Treasure Island Schedule proposed by TIDA, the Infrastructure Financing Plan was mailed on October 7, 2016 to property owners, taxing entities, the Planning Commission, and the Board of Supervisors.

File 16-1037: Resolution of intention to issue bonds related to the IRFD. The proposed resolution is the first step in the authorization of bonded indebtedness under the IRFD, and states the Board of Supervisors' intention to issue bonds or other debt to finance the cost of the facilities within the IRFD.

The proposed resolution establishes a not-to-exceed principal amount of \$780,000,000 in debt from the initial project areas shown in Figure 3 above.² The principal of and interest on the bonds to finance the initial project areas is \$1,080,000,000. Bond principal and interest is paid from property tax increment generated by the respective project areas in the IRFD.

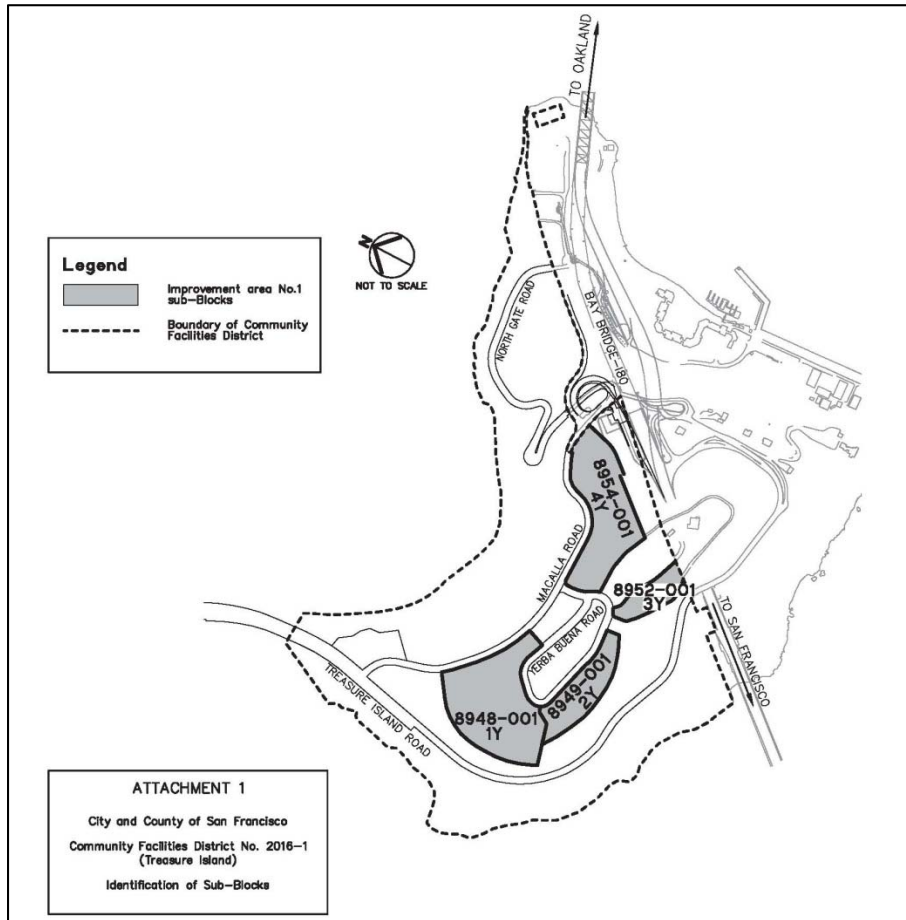
Related to the CFD

File 16-1038: Resolution of intention to establish the CFD. The proposed resolution is the first step in the formation of the CFD in order to finance costs of public infrastructure and public services, including future improvements necessitated by sea level rise. The initial area to be included in the CFD is Improvement Area 1, shown in Figure 4 below, which is consistent with IRFD Project Area A on Yerba Buena Island, and additional parcels can be annexed to the CFD in the future. The purpose of establishing separate improvement areas within the CFD is to give the City and TICD the flexibility to establish different special assessments, subject to the vote of the property owners, to reflect market conditions as property is transferred from the Navy for development.

² The resolution provides for bonds to be issued in an amount of more than \$780,000,000, as "approved by the Board of Supervisors and the qualified electors of the annexation territory in connection with the annexation of the annexation territory to the IRFD, so long as the Board makes the finding specified in IRFD Law Section 53369.41(f)". According to IRFD Law Section 53369.41(f), the finding is the "amount necessary to pay the principal of, and interest on, the proposed bond issuance will be less than, or equal to...the amount of tax revenue available or estimated to be available...".

The boundaries of the proposed CFD in its initial formation and Improvement Area 1 are shown in Figure 4 below.

Figure 4: Map of Proposed CFD and Improvement Area No. 1



Source: TIDA

The proposed resolution states the intention to issue bonds in the aggregate principal amount not to exceed \$250,000,000 for Improvement Area No. 1, and in the aggregate principal amount not to exceed \$4,750,000,000 for the portion of the CFD that is not included in Improvement Area No. 1.

File 16-1039: Resolution of intention to incur bonded indebtedness. The proposed resolution is the first step in the authorization of bonded indebtedness and other debt for the CFD in order to finance the CFD facilities costs, estimated to be \$5,000,000,000: \$250,000,000 for Improvement Area No. 1, and \$4,750,000,000 for the portion of the CFD that is not included in Improvement Area No. 1.

The special assessment to pay bonds and other debt issued by CFD, in an amount of \$5,000,000,000, is a debt of the property owners within the CFD and not the City. As noted above, property owners in the CFD must approve the special assessment by vote, which will be administered by the City’s Department of Elections. According to Mr. Robert Beck, Treasure Island Director, the developer, TICD, is the sole property owner subject to the CFD at the time

of formation. However, future property owners would also be subject to the CFD if there is a change in ownership of the properties within the CFD.

Environmental Impact Report and Associated Findings

Each of the proposed resolutions also finds that the Final Environmental Impact Report (FEIR) for this project, previously certified by the Board of Supervisors in 2011 (File 11-0619), is adequate, and approval of the proposed resolutions would incorporate the FEIR and the related California Environmental Quality Act findings adopted by the Board of Supervisors in 2011 (File 11-0328).

FISCAL IMPACT

Fiscal Impact of the IRFD and Related Resolutions

The proposed IRFD will receive incremental property tax revenue that would otherwise be allocated to the City's General Fund. The Infrastructure Financing Plan prepared by the Office of Public Finance estimates that the amount allocated to the IRFD, which would otherwise be allocated to the City's General Fund, will be between \$1,080,836,000 and \$1,233,335,000, based on the projected assessed value of the initial project areas over the term from 2018-19 through 2061-62, as explained in more detail below.

The City's share of the 1.0 percent property tax rate is 0.647, as shown in Figure 5 below. According to the Infrastructure Financing Plan, 0.567 is pledged as "net available increment" to pay for IRFD improvements and 0.08 is pledged as "conditional City increment" that will accrue to the City's General Fund if not required for the repayment of bonds.³ Of Treasure Island's 0.567 share of the 1.0 percent property tax rate, 0.468 will be allocated to infrastructure and 0.099 will be allocated to affordable housing. Figure 5 below summarizes the share of the property tax increment pledged to the IRFD.

³ In connection with the issuance of bonds, the conditional City increment will be added to the net available increment when determining coverage on the bonds and such amounts will be pledged to the payment of debt service on the bonds. However, if the net available increment is sufficient to cover the debt service on the bonds in any given year, the conditional City increment will not be remitted to the IRFD, or, if previously remitted to the IRFD, will be returned to the City.

If the conditional City increment is ever used to pay debt service on bonds, then in future years after first paying or setting aside amounts needed for debt service due payable from net available increment, the IRFD will repay the City out of net available increment for any conditional City increment used for debt service in the same amount plus interest.

Figure 5: Share of Property Tax Rate Pledged to IRFD

Property Tax Revenue Recipient	Share of Total Property Tax Rate
Infrastructure and facilities projects	0.468
Affordable housing	<u>0.099</u>
Subtotal, Treasure Island Development Project	0.567
Conditional City increment	<u>0.080</u>
Total, City share	0.647
Other tax entities' share ^a	<u>0.353</u>
Total Property Tax Rate	1.000

^a BART, Community College District, San Francisco Unified School District, Bay Area Air Quality Management District, and Education Revenue Augmentation Fund

These pledged percentages are unchanged from the percentage share approved by the Board of Supervisors in 2011.

The IRFD will be authorized to issue up to \$780,000,000 in bonds. The bonds will be secured by the net available increment. Issuance of the bonds is subject to future Board of Supervisors approval.

Based on the projected assessed value of the initial project areas over 43 years from 2018-19 through 2061-62, the Infrastructure Financing Plan estimates that a total of \$1,080,836,000 of net available increment and \$152,499,000 of conditional City increment will be generated for the IRFD over the 43-year term that otherwise would have been allocated to the City's General Fund. Using these estimates, the maximum amount that otherwise would have been allocated to the City's General Fund is \$1,233,355,000 if all the conditional City increment is used, based on the projected assessed value of the initial project areas over the term from 2018-19 through 2061-62. The estimates are summarized in Figure 6 below.

Figure 6: Estimates of Maximum Total Amount Diverted Away from General Fund

Allocation	Amount
Net available increment	\$1,080,836,000
Conditional City increment	152,499,000
Total	\$1,233,335,000

Source: Infrastructure Financing Plan

Some of the facilities to be financed by the IRFD are also eligible for financing by the proposed CFD. TICD intends to use both the CFD and the IRFD to fund all of the eligible facilities. The TIDA Board of Directors and the Board of Supervisors may authorize the use of net available increment to pay debt service on CFDs as well.

Fiscal Impact of the CFD and Related Resolutions

The proposed CFD will not have direct fiscal impact on the City because it levies a special assessment to be paid by the property owners in the CFD that is in addition to the regular property tax.

Total Revenue and Cost Impacts of the Treasure Island Development Project Overall

Appendix B of the Infrastructure Financing Plan includes an assessment of the annual revenue and cost impacts of the entire Treasure Island Development Project on the City prepared by Keyser Marston Associates, Inc. The analysis evaluates the cumulative fiscal impacts on the City over 52 years, extending from FY 2015-16 through FY 2067-68.

As shown in Figure 7 below, overall the project is anticipated to generate a cumulative surplus to the City's General Fund of approximately \$328,700,000 over 52 years, and an annual General Fund surplus upon buildout/stabilization of \$6,800,000 per year. The project is also anticipated to generate cumulative surpluses of \$201,000,000 over the 52-year term and ongoing annual surpluses upon buildout of \$3,800,000 to the MTA and Library Preservation Funds. (All estimates in 2016 dollars.)

The calculated revenues to the General Fund capture both recurring revenues and one-time construction revenues. Recurring revenues include property taxes, sales and use tax, business license tax, and a hotel room tax, among others. One-time construction revenues include construction sales tax, gross receipts taxes on construction, transfer tax on initial pad and unit sales, and others.

General Fund expenditures related to the project include fire protection, police services, the population-based transfer to the Municipal Transportation Agency required under Proposition B, public health, public works, and other expenditures.

Figure 7: Aggregate Net Fiscal City Impact (in 2016 dollars)

	Cumulative Impacts (FY 2015/16 – FY 2067/68)	Annual Impacts upon Buildout (FY 2035/36)
<i>Net General Fund Impacts</i>		
Revenues*	\$981,200,000	\$21,900,000
Expenditures	(652,600,000)	(15,100,000)
Net Surplus	\$328,700,000	\$6,800,000
<i>Net MTA and Library Impacts</i>		
Revenues	277,800,000	6,400,000
Expenditures	(76,800,000)	(2,700,000)
Net Surplus	\$201,000,000	\$3,800,000
<i>Aggregate Net City Impact</i>		
Revenues	1,259,000,000	28,300,000
Expenditures	(729,400,000)	(17,800,000)
Net Surplus	\$529,600,000	\$10,500,000

*includes annual recurring and construction-related revenues

Source: Keyser Marston Associates, Inc.

Additional City Obligations

The Infrastructure Financing Plan states that the City will construct a wastewater treatment plant on Treasure Island that is expected to cost approximately \$65,000,000. The plant will not be financed with assistance from the IRFD. According to Mr. Beck, the San Francisco Public Utilities Commission (PUC) will finance the development of the plant, and has included \$63,000,000 in its capital budget over the next three years beginning in FY 2016-17. TIDA is

currently working with PUC staff on a scope to initiate the conceptual engineering work for the plant.

The Infrastructure Financing Plan also states that the City will be responsible for the upgrading and rehabilitation of publicly-owned assets on Treasure Island, including but not limited to buildings, hangars, school facilities, living quarters, parks, improvements for sea-level rise, and piers. Over the projected life of the IRFD and future annexation areas, the costs of these improvements could exceed \$250,000,000 and will be specified in the Treasure Island/Yerba Buena Island Capital Plan.

RECOMMENDATION

Because the proposed IRFD and CFD are consistent with the Development Agreement between the City and TIDA and the Disposition and Development Agreement between TIDA and TIDC (Files 11-0226 and 11-0291), previously approved by the Board of Supervisors, the Budget and Legislative Analyst recommends approval of the proposed resolutions.

Item 8 File 16-1040	Department: Municipal Transportation Agency (MTA)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution authorizes the San Francisco Municipal Transportation Agency (SFMTA) to execute a Communications Agreement with the Bay Area Rapid Transit District (BART). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The agreement would allow BART to negotiate and enter into license agreements with telecommunications carriers on behalf of the SFMTA to extend BART's existing underground commercial fiber and cellular infrastructure to the SFMTA underground system for a 15-year term, plus two five-year options to extend the agreement. • SFMTA currently experiences long absences of cellular coverage in the Muni Metro. SFMTA has examined options for the construction of underground cellular infrastructure and concluded that the most effective way to extend cellular coverage to the SFMTA underground is through the extension of an existing underground Distributed Antennae System (DAS) that is already in place and managed by the Bay Area Rapid Transit System (BART). BART constructed the nation's first neutral host underground cellular network that allows competing carriers, to use the same equipment, extending competitive cellular markets to the underground while minimizing the amount of wayside equipment. • In August of 2015, the SFMTA and BART completed a Feasibility Study to determine if it is viable to extend BART's existing underground cellular network to SFMTA's underground area; both agencies agreed that it would be feasible. • Both agencies determined that it would be feasible and that the best approach for completing this project is to allow BART to negotiate with the cellular carriers to cover the cost of extending BART's network. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Total construction costs are anticipated to be \$5,900,000. • All capital costs are expected to be paid by the cellular carriers, and there is no anticipated cost to either BART or the SFMTA. • The carriers will pay an annual fee for the privilege of operating in the Muni underground area. The SFMTA will receive 20% for areas controlled or used by BART and 50% for areas controlled or used by the SFMTA. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

As stated in Section 21.16 (b) of the San Francisco Administrative Code, a City department or agency may utilize the competitive procurement process of any other public agency to make purchases of Commodities or Services for the use of the City under the terms established in that agency's competitive procurement process and as agreed upon by the City and the procuring agency, upon making a determination that (i) the other agency's procurement process was competitive or the result of a sole source award, and (ii) the use of the other agency's procurement would be in the City's best interests.

Charter Section 9.118(c) states that any agreement having anticipated revenue to the City of \$1 million or more is subject to Board of Supervisors approval.

BACKGROUND

The San Francisco Municipal Transportation Agency (SFMTA) currently experiences long absences of cellular coverage in the Muni Metro. SFMTA has examined options for the construction of underground cellular infrastructure and concluded that the most effective way to extend cellular coverage to the SFMTA underground is through the extension of an existing underground Distributed Antennae System (DAS) that is already in place and managed by the Bay Area Rapid Transit System (BART).

BART constructed the nation's first neutral host underground cellular network that allows competing carriers, including AT&T, Verizon, Sprint, T-Mobile, and Metro PCS, to use the same equipment, extending competitive cellular markets to the underground while minimizing the amount of wayside equipment.

In August of 2015, the SFMTA and BART completed a Feasibility Study to determine if it is viable to extend BART's existing underground cellular network to SFMTA's underground area. Both agencies determined that it would be feasible and that the best approach for completing this project is to allow BART to negotiate with the cellular carriers to cover the cost of extending BART's network to the SFMTA's Muni Metro.

This arrangement will leverage BART's sizeable investment in underground cellular infrastructure. As the lead party and owner of the underground facilities, BART would be responsible for approving the installation of any new fiber and cellular infrastructure. BART would also be required to conduct environmental review of the infrastructure at an appropriate future juncture, pursuant to California Environmental Quality Act (CEQA) and San Francisco Administrative Code Chapter 31.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the San Francisco Municipal Transportation Agency (SFMTA) to execute a 15-year Communications Agreement with two five-year options with the Bay Area Rapid Transit District (BART). The agreement would allow BART to negotiate and enter into license agreements with telecommunications carriers on behalf of the SFMTA Muni Metro

to extend BART’s existing underground commercial fiber and cellular infrastructure to the SFMTA Muni Metro for a 15-year term, plus two five-year options to extend the agreement.

The details of the Agreement between SFMTA and BART are included in Exhibit 1 below.

Exhibit 1: Details of the Proposed Communications Agreement

<u>Term of the Agreement</u>	15 years through 2031
<u>Negotiation</u>	BART will have exclusive authority to negotiate license agreements with telecommunications carriers and implement the work needed, subject to standard indemnity, insurance, and hazardous materials handling provisions agreed to by SFMTA and BART.
<u>Revenue</u>	SFMTA will receive a portion of the annual license payments collected by BART as follows: 20% for areas controlled or used by BART and 50% for areas controlled or used by SFMTA.
<u>Option to Extend</u>	The parties have the option to extend the Agreement for two five-year terms through 2041.
<u>Easements</u>	SFMTA will grant utility easements to BART at designated locations within SFMTA Real Property for placement and operation of communications facilities.

According to Ms. Sonali Bose, SFMTA Chief Financial Officer, BART will select a lead telecommunications carrier through a publicly advertised, cooperative agreement, termed a Teaming Agreement, which will conduct the project for SFMTA. The lead carrier will be self-selected by the carriers that are willing to participate in the network. In a Teaming Agreement, the participating carriers agree to build neutral host equipment that can be shared by all participants, and make room for future participants. The primary requirement for participation in a Teaming Agreement is sharing the costs equally.

Under the proposed agreement between BART and SFMTA, BART will (a) negotiate with telecommunications carrier(s) to develop the telecommunications project for SFMTA, (b) enter into license agreement(s) with telecommunications carrier(s) for wireless facilities and fiber optic capacity, and (c) set rates paid by the telecommunications carrier(s) to BART and SFMTA. The agreements between BART and telecommunications carrier(s) are not subject to SFMTA Board of Directors or San Francisco Board of Supervisors approval.

The SFMTA Board of Directors approved the Agreement on September 20, 2016. According to Ms. Bose, the BART Board of Directors also needs to approve the Agreement, but a date for the BART Board of Directors has not yet been calendared. It is anticipated to be calendared in the next available meeting after the Board of Supervisors completes approval.

FISCAL IMPACT

Estimated Construction Costs

SFMTA estimates that the construction required to extend the existing BART network to the Muni Metro will take between 12 and 18 months once an agreement is reached with the cellular carriers. Total estimated construction costs are \$5,900,000. All construction and related costs are expected to be paid by the cellular carriers, and there is no anticipated cost to either BART or the SFMTA.

License Fees

The SFMTA will receive a portion of the annual license payments paid by the telecommunications carriers to BART, less administrative and other costs. As described in Exhibit 1 above, the SFMTA will receive 20% for areas controlled or used by BART and 50% for areas controlled or used by the SFMTA. SFMTA does not have an estimate at this time of fee revenues to be received by the SFMTA.

RECOMMENDATION

Approve the proposed resolution.

<p>Item 9 File 16-0967</p>	<p>Departments: Department of Emergency Management (DEM) Department of Technology (DT) Office of Public Finance</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the (a) Department of Emergency Management and Department of Technology to enter into a Purchase and Installation Agreement for a term through June 30, 2021 and a Maintenance and Support Agreement with a term through September 1, 2035 for a Citywide 800 MHz Radio System with Motorola, Inc. for a total not to exceed \$76,000,000; and (b) Director of the Office of Public Finance to procure financing through the State Department of General Services Golden State Financial Marketplace Program for a not to exceed \$35,000,000. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The City currently owns and maintains two primary Motorola radio systems for daily push-to-talk voice communications, with over 10,000 radios currently in use by City employees. • On April 21, 2015, the Board of Supervisors approved the City’s Five-Year Information and Communication Technology Plan for FYs 2016-2020, which includes a Public Safety and Public Service Radio Replacement Project with an estimated budget of \$73,020,103. • The Radio Replacement Project will combine the existing public safety and public service radio systems into one comprehensive network, including SFO in this consolidation. • The City conducted a competitive RFP process, received two responsive proposals from (1) Motorola Solutions and (2) Harris Corporation and selected Motorola Solutions. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • To fund the \$48,000,000 Purchase and Installation Agreement, non-City agencies will fund up to \$2,865,864, leaving a City obligation of \$45,134,136 including contingencies. The Board of Supervisors already appropriated \$11,000,000 of General Fund revenues in DEM’s FY 2016-17 budget, leaving a remaining estimated \$34,134,136, for lease financing. • Lease financing over a ten-year term at annual interest rates of 1.599% would result in total estimated costs of \$38,062,472 from General Fund revenues. • The \$28,000,000 Maintenance and Support Agreement for 18 years through November 1, 2035 will require approximately 75% or \$21,000,000 from the City’s General Fund. • An additional estimated \$17,660,806 between FY 2016-17 and FY 2019-20 is also needed to manage and implement this project. • Overall, the City’s Radio Replacement Project is estimated to cost \$105,946,396. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • In 2012, the SFMTA entered into a \$91,804,136 agreement with Harris Corporation for the SFMTA to purchase and install a new transit communications system, which will be compatible and a back-up for the proposed Motorola radio system. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

Mandate Statement

Charter Section 9.118(b) requires that any agreement entered into by a department which extends for more than ten years or has anticipated City and County expenditures of \$10,000,000 or more, or amendments to such agreements of \$500,000 or more be subject to approval by resolution by the Board of Supervisors.

BACKGROUND

Current Radio Systems

The City currently owns, operates and maintains two primary Motorola radio systems for daily push-to-talk voice communications. The City’s public safety agencies use the Citywide Emergency Radio System (CERS). All other City departments, except the San Francisco International Airport (SFO) and San Francisco Municipal Transportation Agency (SFMTA)¹ use the Public Service Emergency Radio System (PERS). SFO and SFMTA operate and maintain their own radio systems, with the SFO radio system linked to the City’s CERS and PERS systems.

Table 1 below lists City departments and outside agencies that use each of these two primary radio systems. Ms. Michelle Geddes Project Manager at the Department of Emergency Management (DEM) advises that outside agencies have public safety responsibilities and need City-wide radio coverage and the ability to communicate with the City’s public safety agencies.

Table 1: Departments and Agencies that use the City’s Emergency Radio System (CERS) and Public Service Emergency Radio System (PERS)

CERS		
Adult Probation	Homeless Outreach Team	SFMTA Enforcement Division (formerly DPT)
Animal Care and Control (ACC)	Juvenile Probation	Sheriff’s Department
City College of SF (CCSF)	Medical Examiner	State Parole (CDCR)
Department Of Emergency Management	Police Department	University of California SF (UCSF)
Department Of Public Health	Private Ambulance	US Marshalls (USM)
Department Of Technology	PUC - Water/City Distribution Division (CDD)	Veteran Authority (VA)
District Attorney Investigations	Recreation and Park	Water Emergency Transport Authority (WETA)
Fire Department	San Francisco State University (SFSU)	
PERS		
California Academy of Sciences (CAS)	GSA - Admin Services	Public Utilities Commission (PUC)
Controller’s Office	Human Service Agency (HSA)	Real Estate Division
Department Of Building Inspection	Library	Unified School District
Department Of Public Works (DPW)	Port of San Francisco	
SFO		
San Francisco Airport (SFO)		

¹ The SFMTA radio system is currently being developed with Harris Corporation radios and equipment, which is anticipated to be operational in 2017.

Table 2 below shows the current number of Motorola radios, including (a) control station radios in buildings, (b) mobile radios installed in vehicles and (c) portable radios carried by employees.

Table 2: Number of Existing Radios in Use by Department and Type

Department	Control Station	Mobile	Portable	
Adult Probation	1		100	
Animal Care and Control (ACC)	1		15	
California Academy of Sciences (CAS)			3	
City College of SF (CCSF)			50	
Controller's Office			34	
Department Of Building Inspection	3	3	122	
Department Of Emergency Management	46	10	118	
Department Of Public Health	30		300	
Department Of Public Works (DPW)	11	349	765	
Department Of Technology	20	30	90	
District Attorney Investigations	1		40	
Fire Department	115	445	635	
GSA - Admin Services			20	
Homeless Outreach Team	1	1	7	
Human Service Agency (HSA)			50	
Juvenile Probation	1		15	
Library			40	
Medical Examiner	1	2	10	
Police Department	35	540	2628	
Port of San Francisco	1	45	75	
Private Ambulance			90	
Public Utilities Commission (PUC)	5	45	190	
PUC - Water/City Distribution Division (CDD)	1		26	
Real Estate Division			93	
Recreation and Park	6	116	122	
San Francisco Airport (SFO)	30	150	350	
San Francisco State University (SFSU)	5		10	
SFMTA Enforcement Division (formerly DPT)	10	67	360	
Sheriff's Department	17	114	1092	
State Parole (CDCR)			50	
Unified School District		5	165	
University of California SF (UCSF)		17	98	
US Marshalls (USM)			55	
Veteran Authority (VA)			49	
Water Emergency Transportation Authority (WETA)			6	
Total	341	1,939	7,873	10.153

As shown in Table 2 above, there are over 10,000 radios currently in use by City employees. These radios are used at a rate of approximately 100,000 push-to-talk times each day.

The current CERS radio system also includes nine radio sites throughout the City that provide wireless coverage for the radios. These include (1) Fort Miley/VA Medical Center, (2) Clay/Jones, (3) One Market Plaza, (4) Bernal Heights, (5) South Hill, (6) San Francisco State University, (7) Forest Hill, (8) Twin Peak and the primary dispatch site at (9) Central Emergency Control Center (CECC) at 1011 Turk Street. The current PERS radio system has four radio sites for wireless coverage, including (1) VA Medical Center, (2) South Hill, (3) One Market Plaza, and (4) Twin Peaks.

Current Agreement with Motorola

The Board of Supervisors originally approved a ten-year Citywide 800 MHz Radio System Project Agreement between the Department of Technology (DT) and Motorola Inc. in 1997 for a system purchase price not to exceed \$50,000,000 and additional equipment maintenance up to \$9,999,999 for September 22, 1997 through September 21, 2007. Although the Department of Technology (DT) conducted a competitive selection process, Motorola was the only respondent. This agreement included both procurement and maintenance of the existing City radio systems.

The existing Motorola agreement has been amended eight times, such that the current additional equipment and maintenance agreement extends through September 21, 2017 for a not-to-exceed \$30,378,734. DT currently maintains the City's 800 MHz radio systems, using Motorola to provide additional technical support. Motorola's current service agreement with DT is approximately \$320,000 annually.

Under the existing Motorola agreement, a total of \$3,450,000 was appropriated in FY 2014-15 and FY 2015-16 to purchase 878 new radios, including 514 radios for Police, 182 radios for Fire and 182 radios for Sheriff. Ms. Geddes advises that these new radios are new technology equipment capable of operating on both the old and new radio systems.

COIT's Five-Year Information and Technology Plan and the City's Capital Plan

The Five-Year Information and Communications Technology (ICT) Plan for FY 2013-14 to FY 2017-18, previously approved by the Board of Supervisors, recommended replacement of the existing Citywide 800 MHz radio communications system. In FY 2013-14 and FY 2014-15 the Board of Supervisors appropriated a total of \$1,880,000 of General Fund monies to DEM's budget for initial planning and development for the City's Radio Replacement Project, based on a recommendation by the Committee on Information Technology (COIT). These initial planning funds allowed City staff to work with a consultant, to develop specifications and a Request for Proposal (RFP) process.

On April 21, 2015, the Board of Supervisors approved the City's Five-Year Information and Communication Technology Plan for FYs 2016-2020, which includes the Public Safety and Public Service Radio Replacement Project with an estimated budget of \$73,020,103 (File 15-0223; Resolution No. 143-15). On September 17, 2015, the Capital Planning Committee

recommended General Fund expenditures of \$5,126,115 for capital site improvements, which was appropriated by the Board of Supervisors in FY 2015-16 and FY 2016-17 in DEM’s budget. The site improvements include tower enhancements, generator and electrical improvements, control system updates, HVAC and other improvements to the existing and planned radio sites.

As a result, to date, the City has appropriated a total of \$11,223,118 of General Fund monies for the City’s Radio Replacement Project, as shown in Table 3 below.

Table 3: Appropriations to Date

Radio Site Improvements	\$5,126,115
Project Scoping	1,880,000
Initial Public Safety Radio Purchases	3,452,000
Project Management & City Dept. Work Orders	<u>765,003</u>
Total	\$11,223,118

City’s Radio Replacement Project

The City’s Radio Replacement Project will combine the existing public safety and public service radio systems into one comprehensive network, including SFO in this consolidation. According to Ms. Geddes, DT and DEM selected a P25 System as the replacement system, which sets forth basic functionality and guidelines for radio compatibility and system interoperability among agencies. Some of the major features and benefits of the new consolidated radio system are:

- Upgrades all radio systems from analog to digital;
- Consolidates five core network systems with various software versions into one system operating on one core network with the latest version of software throughout;
- Better coverage throughout the City, especially inside buildings and in the Municipal Railway and Bay Area Rapid Transit (BART) tunnels;
- Adds two new radio base station sites at Bayview Park and San Bruno Jail to improve coverage in Hunter’s Point and San Bruno Jail areas;
- Push-to-Talk Smartphone “App” which will allow a limited number of users to listen and communicate with a specified talk-group on a smartphone or PC. As this relies on commercial cellular service and internet connectivity, this network is not reliable during major events and large emergencies;
- GPS tracking of radios during emergencies;
- Allows priority for public safety agencies in the event of a major emergency, when the system may be heavily used;
- Improved Asset Management and System Reporting tools; and
- Standards based radios which allow interoperability across the Bay Area, including San Mateo County, Oakland, Alameda County, Contra Costa County, Santa Clara County and eventually Marin County.

Selection Process for New Vendor

In July 2014, the City issued a Request for Information (RFI) to gather more information regarding the capabilities of potential vendors. Five vendors responded to the RFI. The five vendors were (1) Harris Corporation, (2) EJ Johnson, (3) Motorola Solutions, (4) Zetron, and (5) Airbus (in partnership with AT&T).

On June 8, 2015, the Department of Emergency Management (DEM) and the Department of Technology (DT), working with a consultant, Federal Engineering, and the Radio Replacement Executive Steering Committee² issued a Request for Proposals (RFP) for the City's new radio system. The RFP included (a) replacement of radio communications infrastructure and consoles; (b) replacement of radios, including portables, mobile and consoles, (c) 2-18 year maintenance agreement with options, and (d) financing options for infrastructure and radio acquisitions. The RFP allowed vendors to respond to provide either or both the infrastructure equipment³ and/or the radio subscriber purchase⁴, which were separately evaluated. Professional services to install, program and test equipment was included in both purchases.

The City received two responsive proposals from (1) Motorola Solutions and (2) Harris Corporation as shown in Table 4 below.

Table 4: Two Responsive Bids to RFP

	Motorola Solutions	Harris Corporation
Infrastructure Equipment	\$18,832,351	\$19,926,907
Radio Subscriber Purchase	24,542,966	20,721,279
Total	\$43,375,317	\$40,648,186

Table 4 above reflects higher overall costs of approximately \$2.73 million for Motorola Solutions, but Ms. Geddes advises that Table 4 does not reflect potential bundled discounts offered by Motorola of \$12 million and by Harris of \$2 million.

The City's Office of Contracts Administration, Contracts Monitoring Division, oversaw a two-phased process for each of the proposals, which included scoring of various features in the RFP response and then scoring of an oral interview and demonstration. The evaluation committee included nine representatives from major stakeholder departments, including Police, Fire, Sheriff, DT, DEM, GSA, and the Public Utilities Commission (PUC). Based on a maximum potential score of 200, Motorola received 183.1 and Harris received 171.8.

On December 1, 2015, the evaluation committee selected Motorola as the highest qualified respondent.

² The Radio Replacement Executive Steering Committee consisted of approximately 70 members representing all major City departments, which met quarterly to review project activities, decisions, needs and priorities.

³ Infrastructure equipment includes (a) radio site needs, such as routers, switches, servers, firewalls, base stations, and antennas, and (b) dispatch center needs, such as personal computers, networking equipment, console software.

⁴ Radio subscriber purchases are radio equipment, including portable handheld radios, mobile radios installed in vehicles and control station radios in buildings and their accessories, such as batteries, chargers, speaker mics, etc.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the:

- Department of Emergency Management's (DEM) Executive Director to execute a Purchase and Installation Agreement for the City's new radio system with Motorola for a maximum guaranteed cost of \$48,000,000 for approximately five years from late 2016 through June 30, 2021.
- Department of Technology's (DT) Executive Director to execute a Maintenance and Support Agreement with Motorola for a maximum guaranteed cost of \$28,000,000 for approximately 18 years from July 1, 2017 through November 1, 2035.
- Office of Public Finance's Director, in consultation with the City Attorney, to negotiate terms and obtain lease financing on a competitive basis for a not to exceed \$35,000,000 through the State of California's Department of General Services Golden State Financial Marketplace Program (GS \$mart).

Purchase and Installation Agreement

The Purchase and Installation Agreement contains the following major terms:

1. Five year contract, for not to exceed \$48,000,000, with guaranteed system purchase price of \$42,534,136, which includes new infrastructure, consoles and radios and design and installation services necessary to install, test and cutover to new system.
2. System purchases include: (a) replacing and/or upgrading 9,910 radios; (b) replacing and/or upgrading equipment at nine dispatch locations; and (c) replacing equipment at eight radio sites and adding two new sites at San Bruno Jail and Bayview/Hunters Point.
3. Motorola offers discounts to City to bundle infrastructure and radio purchases together.
4. Several testing milestones included to ensure meeting requirements of public safety users, while Motorola is required to keep current system operational during transition.
5. Payments will be made based on performance payment milestones on project schedule.
6. Liquidated damaged if Motorola does not meet critical performance based milestones.
7. Termination for cause, convenience and/or non-appropriation of funds included.
8. One year warranty on all equipment and services starting after Final System Acceptance.
9. Insurance, liability and indemnification reviewed by City Attorney and Risk Manager.
10. Local Business Enterprise goals at 5% of contract value included.

The Purchase and Installation Agreement would be in substantially the form on file with the Clerk of the Board of Supervisors, but would allow changes or modifications acceptable to the DEM Executive Director and City Attorney which do not materially increase the City's obligations and liabilities.

Maintenance and Support Agreement

The Maintenance and Support Agreement documents the services necessary to maintain and support the existing 1997 radio system during the transition and support the new radio system after it is purchased and installed and contains the following major terms:

1. 18-year contract for a not to exceed \$28,000,000.
2. Payments made at beginning of each fiscal year, with first four years low payments for maintenance of current system. Payments escalate in FY 2021-22 as the new system comes online.
3. 20% discount on maintenance offered by committing to long term contract.
4. Requires 24hour-7day-365year technical support, case management and issue resolution within specified timeframes on all Motorola manufactured equipment.
5. System upgrade component, which requires Motorola to upgrade system every two years, to latest shipping version of software and replace any obsolete hardware.

The Maintenance and Support Agreement would be in substantially the form on file with the Clerk of the Board of Supervisors, but would allow changes or modifications acceptable to the DT Executive Director and City Attorney which do not materially increase the City's obligations and liabilities.

Lease Financing of up to \$35,000,000

If the Director of the Office of Public Finance is able to secure lease financing from GS \$mart, the proposed resolution specifies that

- (a) Interest costs cannot exceed 12% per year;
- (b) Compensation payable to any bank providing financing cannot exceed 1%;
- (c) Legal fees payable to the State's Department of General Services cannot exceed \$50,000; and
- (d) The Director of the Office of Public Finance must provide a report to the Clerk of the Board of Supervisors within 30 days of the closing, identifying the bank selected and interest costs.

The proposed resolution would ratify and approve potential future lease financing that meets the above criteria, provided that the Director of the Office of Public Finance submits the final negotiated agreement to the Clerk of the Board of Supervisors.

Ms. Jamie Querubin of the Controller's Office of Public Finance advises that their office received competitive bids through the State's Department of General Services' GS \$mart program for this potential lease financing. Through the State program, Bank of America offered the lowest interest rate of 1.599% over a ten-year term with no prepayment penalties.

FISCAL IMPACT**Motorola Purchase and Installation Agreement**

Table 5 below shows the major cost components for the Purchase and Installation Agreement with Motorola for \$48,000,000. Ms. Geddes notes that the proposed Agreement at not to exceed \$48,000,000 is greater than the Motorola bid of \$43,375,317 due to two added radio sites, additional software licenses, contingency and potential non-City agency purchases.

Table 5: Motorola Purchase and Installation Agreement

Motorola Infrastructure	\$27,854,829
Motorola Subscribers	28,521,462
Additional Options	4,216,000
Motorola Discount	(20,338,782)
Sales Tax (8.75% on equipment)	2,030,127
Bond	250,500
Total Motorola Contract	\$42,534,136
Contingency (6.1%)	2,600,000
Total Contract w Contingency	\$45,134,136
Non-City Agency Purchases ⁵	2,865,864
Total Motorola Not to Exceed Contract	\$48,000,000

To fund the up to \$48,000,000 agreement, non-City agencies that want to purchase radios and equipment under this Motorola agreement would fund up to \$2,865,864, leaving a City obligation of \$45,134,136 including contingencies, as shown in Table 5 above. The Board of Supervisors already appropriated \$11,000,000 of General Fund revenues in DEM's FY 2016-17 budget for this potential contract, such that \$34,134,136 remains. Table 6 below shows how the City intends to fund the balance of \$34,134,136 under a proposed lease financing.

Table 6: Financing Model Estimates

Estimated Project Amount to be Financed	\$34,134,136
Maximum Request for Lease Financing	35,000,000
Term of Financing	10 Years
Interest Rate	1.599%
Maximum Annual Debt Service Payments	3,806,248
Total Interest Costs Over Term	<u>3,062,472</u>
Total Maximum Payments over 10 Years	\$38,062,472*

*\$35,000,000 plus \$3,062,472

⁵ Non-City agencies would be able to purchase radios and related equipment under the City's agreement with Motorola, taking advantage of the \$20 million discount, at the agencies' own expense. DT would enter into separate agreements with these agencies specifying the terms, responsibilities and costs, including ongoing maintenance.

The proposed resolution would authorize up to \$35,000,000 of lease financing. Ms. Querubin advises that in addition to the \$34,134,136 of project financing, there will be bond counsel fees of approximately \$50,000 and possible bank fees of a maximum of 1% or \$341,000. Ms. Geddes advises that the annual debt service payments of \$3,806,248 over the next ten years would need to be funded with annual General Fund appropriations, subject to Board of Supervisors approval.

Other City Costs

In addition, an estimated \$17,660,806 of costs between FY 2016-17 and FY 2019-20, outside of the proposed Motorola contracts are anticipated to be needed to manage and implement the City’s Radio Replacement Project, as summarized in Table 7 below.

Table 7: Projected Additional City Costs

Project Management (4 FTE thru FY 20)	\$5,166,598
City Dept. Work Orders	2,849,000
Other Infrastructure Improvements	4,664,948
Subscriber Other Accessories	2,380,260
Contingency	<u>2,600,000</u>
Total	\$17,660,806

pMaintenance and Support Agreement

The proposed resolution would also authorize approval of a Maintenance and Support Agreement with Motorola for a not to exceed \$28,000,000 for approximately 18 years from July 1, 2017 through November 1, 2035. During the first four years of this Agreement from FY 2017-18 through FY 2020-21, the maintenance costs would be approximately the same as currently, or \$320,000 annually, as Motorola maintains the existing radio system. However, beginning in FY 2021-22 through FY 2034-35, the maintenance costs increase steadily to over \$1,000,000 annually.

In addition, the proposed Maintenance and Support Agreement includes a system upgrade and refresh component, which will require Motorola to upgrade all of the radio and equipment software and hardware to be compatible with new releases every two years. The costs for this upgrade provision are approximately \$800,000 per year, or a total of \$11 million over the term of the agreement. Ms. Geddes advises that these upgrade requirements will prevent the City from being in the current situation, in which all of the City’s existing radio equipment breaks down frequently and is obsolete with current technology.

Ms. Geddes advises that the City intends to use the same model as currently exists to fund the proposed Motorola Maintenance and Support Agreement. Currently, DT includes the cost for all maintenance and support in their annual budget and each City department and outside agency is charged their share of these costs, based on the number of radios and type of equipment used. DT estimates that approximately 75% of the total \$28,000,000 maintenance and support costs, or approximately \$21,000,000 would be General Fund expenses. These expenses would be included in future City department budgets, subject to appropriation approval by the Board of Supervisors.

Total City Radio Replacement Project Costs

The total estimated cost of the City’s Radio Replacement Project is \$105,946,396, as summarized in Table 8 below.

Table 8: Total Project Costs

Previous Appropriations (Table 3)	\$11,223,118
FY 2016-17 DEM Appropriation for Vendor Contract	11,000,000
Financing Costs for Motorola Contract (Table 6)	38,062,472
Projected Additional Costs (Table 7)	17,660,806
Maintenance and Support Agreement	<u>28,000,000</u>
Total	\$105,946,396

POLICY CONSIDERATION

In 2012, the SFMTA entered into a \$91,804,136 agreement with Harris Corporation for the SFMTA to purchase and install a new transit communications system. This system includes voice and data radio equipment for all revenue vehicles, a computer dispatch/vehicle location system, 704 portable radios, 900 fixed mobile radios and an underground communications system in the Market Street tunnel. The Harris Corporation agreement with SFMTA extends through March 2017.

Ms. Geddes advises that the SFMTA communications system, including the voice radios purchased from Harris Corporation and the proposed City voice radio system to be purchased from Motorola are compatible and interoperable as they use the same Project 25 technology standard and the same frequency band. This will allow SFMTA personnel the ability to communicate with SFPD, DEM and SFFD. In addition, Ms. Geddes reports that the SFMTA radio system would be used as a back-up emergency system for the City’s radio system.

RECOMMENDATION

Approve the proposed resolution.