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

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: April 20, 2017 Budget and Finance Sub-Committee Meeting

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Items 1 and 2 **Files 17-0200 and 17-0211**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

File 17-0200 is an ordinance appropriating $4,832,455,418 of Airport Capital Plan bonds, consisting of $4,358,694,227 in new Airport Capital Plan revenue bond authorization (File 17-0211) and $473,761,191 in previously authorized Airport Capital Plan bonds. The funds would be placed on Controller's Reserve pending sale of the bonds or commercial paper.

File 17-0211 is a resolution authorizing (1) the sale of $4,358,694,227 in Airport Capital plan revenue bonds; and (2) an increase in Airport Commercial Paper by $100,000,000, from $400,000,000 to $500,000,000.

Key Points

- In FY 2015-16, the Airport had a record 51.4 million passengers, leading to congestion in the Airport. The Airport is requesting (a) additional revenue bond authorization to implement capital projects to address airport congestion, and (b) additional commercial paper authorization to increase the Airport's capacity to issue short term, lower cost debt pending the sale of the bonds.
- Projects to be funded by the $4.8 billion in Airport Capital Plan bonds are included in the Airports Five-Year Capital Plan and consist of: (a) airfield improvements, including construction of a materials testing lab and a new advanced visual docking guidance system to assist pilots with safety information; (b) airport support improvements in technology and security; (c) groundside improvements to the AirTrain system, parking garages and other improvements; (d) terminal improvements to modernize Terminal 1; and (e) utility improvements.

Fiscal Impact

- The Airport proposes to sell the $4,832,455,418 Airport Capital Plan bonds through a competitive sale with a 30-year term at an estimated 6.5 percent fixed interest rate. The Airport expects to issue bonds twice per year through FY 2020-21, but the timing and sizing of each issue would be determined based on an assessment of capital plan cash flow requirements and market conditions. The bonds are expected to be fully repaid in 2050 from Airport revenues. The Airport estimates total debt service over 30 years of $10.8 billion, including $4.83 billion in principal and approximately $5.97 billion in interest. Average annual debt service is $327.3 million.
- Debt service on the Airport's Capital Plan bonds is paid from Airport revenues. Under the Lease and Use Agreement between the Airport and the airlines, the Airport has the authority to increase the landing and terminal fees charged to the airlines to meet its operating expenses, including annual debt service on outstanding Airport revenue bonds

Recommendation

- Approve the proposed resolution (File 17-0211) and ordinance (File 17-0200).

MANDATE STATEMENT

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

City Charter Section 4.115 states that the Airport Commission has exclusive authority to plan and issue Airport revenue bonds for Airport-related purposes, subject to the approval, amendment, or rejection of the Board of Supervisors.

BACKGROUND

Airport Revenue Bond Authorization

The San Francisco International Airport (Airport) issues Airport Capital Plan bonds, as authorized by the 1991 Master Bond Resolution. The 1991 Master Bond Resolution has been supplemented and amended nineteen times since its original publication. Since 2008, in preparation for the renovation of Terminal 2, Boarding Area E, Terminal 3 East, the Air Traffic Control Tower, and other capital projects, the Board of Supervisors has authorized $3.43 billion in Airport Capital Plan bonds. Currently, $1.14 billion remain unissued, including $243 million dedicated to the Airport Hotel Project.

The total amount of outstanding bond debt the Airport currently has is $4.965 billion, which includes the $2.29 billion of Airport Capital Plan bonds sold since 2008 and airport revenue bonds authorized prior to 2008 under other resolutions.

Commercial Paper Authorization

The Airport currently uses commercial paper as short term financing for capital projects, allowing the Airport to meet construction cash flow requirements prior to issuing longer-term bonds.[1] The Board of Supervisors authorized the Airport Commission in 1997 to issue up to $400 million in commercial paper as a source of interim financing for capital projects. The Airport currently has no outstanding commercial paper.

DETAILS OF PROPOSED LEGISLATION

File 17-0211: The proposed resolution would: (1) authorize the sale of $4,358,694,227 aggregate principal amount of San Francisco International Airport Second Series Revenue Bonds; (2) approve the issuance and re-issuance of up to an additional $100 million aggregate principal amount of Airport Subordinate Commercial Paper Notes; and (3) ratify, approve and confirm certain resolutions of the Board of Supervisors and Airport Commission related to the bonds.

[1] Commercial paper is short term debt for up to 270 days. Interest payments on commercial paper are lower than on longer term bonds.

File 17-0200: The proposed ordinance would appropriate $4,832,455,418 of General Airport Revenue Bonds for capital improvement projects to the Airport Commission for Fiscal Year 2016-2017. The funds would be placed on Controller's Reserve pending sale of the bonds or commercial paper.

Appropriation of $4,832,455,418 consists of $4,358,694,227 in new Airport Capital Plan revenue bond authorization (File 17-0211) and $473,761,191 in previously authorized Airport Capital Plan bonds.[2]

Basis of Request for Bond Authorization

In FY 2015-16, the Airport had a record 51.4 million total passengers.[3] The Airport's previous projections did not forecast this number of passengers until FY 2020-21, still five years out. According to Mr. Kevin Kone, the Airport's Managing Director of Finance, the passenger growth has led to an increase in congestion at terminal gates, demand for public parking, and ground transportation congestion. Additional passengers also result in increased security needs at the Airport. Therefore, the Airport is requesting (a) additional revenue bond authorization to implement capital projects to address airport congestion, and (b) additional commercial paper authorization to increase the Airport's capacity to issue short term, lower cost debt pending the sale of the bonds.

On December 12, 2016, the City's Capital Planning Committee recommended the authorization of up to $4,358,694,227 in Airport Capital Plan bonds, as well as an increase in the Airport's commercial paper program by $100,000,000, from $400,000,000 to $500,000,000.

The Airport's Capital Plan

The Airport prepares a Five-Year Capital Improvement Plan on an annual basis to prioritize essential capital projects and requirements. The approved Five-Year Capital Improvement Plan for the period FY 2016-17 through FY 2020-21 was adopted by the Airport Commission on June 1, 2016.

Airport Capital Plan bonds may only be used to fund:

- Construction costs of Capital Plan projects that either do not require environmental review or have already undergone all necessary environmental review, such as California Environmental Quality Act (CEQA) review, and received Commission approval to proceed
- Planning and development costs necessary to prepare other Capital Plan projects for environmental review and the necessary approvals

[2] $473,761,191 comes from the approximately $1,140,000,000 in Airport Capital Plan bonds previously authorized by the Board of Supervisors but not sold. If the Board appropriates the $473,761,191, the Airport will have approximately $666,000,000 in authorized but unsold bonds, of which approximately $243,000,000 is allocated to the Airport Hotel Project and approximately $423,000,000 is allocated to other Capital Improvement Projects.

[3] The number of passengers is based on the number of "enplanements" (departing passengers), "deplanements" (arriving passengers) and "in-transit" passengers (passing through).

Projects included in the Capital Plan that have not yet received environmental clearance can use other funding sources such as Small Capital Outlay or Commercial Paper to fund design and planning costs; however, construction costs cannot be funded until environmental clearance is obtained. Once environmental clearance is obtained, the Airport could seek Board of Supervisors approval to fund these projects with Airport revenue bonds.

Rating Agencies

The Airport engaged three rating agencies (Moody's, S&P Global and Fitch Ratings) in September 2016 to rate the proposed sale of Airport revenue bonds. All three agencies confirmed and rated the sale of the 2016B, 2016C and 2016D revenue and refunding bonds as strong, as shown in Table 1 below.

Table 1: Bond Rating Agencies Review of Airport Revenue Bonds

Rating Agency	Investment Grade	Description	Risks
Moody's	A1	Strong	- Large debt-funded Capital Improvement Plan - One airline, United Airlines, accounts for 21% of operating revenue and 45% of enplanements - Current airline agreement expire in 2021 just as airline costs will peak due to added debt for the CIP
S&P	A+	Strong	- Increased leverage and capital needs financed by bond proceeds - High cost structure - High concentration of one primary carrier - United Airlines
Fitch	A+	Strong	- Large debt-funded Capital Improvement Plan

The rating agencies identified some risks including: (1) a large debt-funded Capital Improvement Plan and (2) one primary airline carrier (United Airlines) which accounts for 21 percent of the Airport's operating revenue.

FISCAL IMPACT

Appropriation of Airport Capital Plan Revenue Bonds (File 17-0200)

The $4,832,455,418 in Airport Capital Plan revenue bond proceeds includes the requested appropriation of $4,358,694,227 in new bond authorization (File 17-0211) and $473,761,191 in prior Airport Capital Plan bonds authorized by the Board of Supervisors but not issued. The sources and uses of $4,832,455,418 are shown in Table 2 below.

Table 2: Sources and Uses of Funds

Sources	Amount
Proceeds from Proposed Sale of Airport Capital Plan Bonds	$4,358,694,227
Prior Authorized, Not Currently Appropriated of Airport Capital Plan Bonds	473,761,191
Total Sources	**$4,832,455,418**
Uses	
Airfield Improvements	$8,293,664
Airport Support Improvements	489,265,228
Groundside Improvements	382,773,947
Terminal Improvements	2,829,105,383
Utility Improvements	102,707,228
Subtotal Capital Project	3,812,145,450
CSA Auditor Allocation (0.2% of Capital Project)	7,624,291
Cost of Issuance [4]	14,892,437
Debt Service Reserve [5]	411,608,451
Capitalized Interest [6]	452,540,040
Contingency Account [7]	112,785,385
Underwriter Discount [8]	20,859,364
Subtotal Financing and Other	1,020,309,968
Total Uses	**$4,832,455,418**

Capital Improvement Projects

The proposed Airport Capital Plan projects to be funded by the subject Airport Capital Plan revenue bond proceeds are focused on meeting current and projected air traffic demand. The Capital Improvement Program Working Group evaluates and ranks new and existing capital projects using an established criteria matrix. The Capital Project Review Committee then reviews and approves the selection of projects, and submits its recommendations to the Airport Director. If the Airport Director approves the Capital Plan, it is submitted to the Airport

[4] Costs of Issuance consist of expenses associated with the sale of a bond, including fees for financial advisors, counsel, the trustee and rating agency fees and other expenses.

[5] Debt Service Reserve is a fund in which an issuer sets aside money in case its regular debt service fund is insufficient to make a future debt service payment as required by the Airport Commission's master bond indenture.

[6] Capitalized Interest is the portion of the proceeds of a bond issue that is set aside to pay interest on the bonds for a specified period of time. Interest is commonly capitalized for the construction period of a revenue-producing project, and sometimes for a period thereafter, so that debt service expense does not begin until the project is expected to be operational and producing revenues.

[7] The Contingency Account holds Airport funds that may be used for operating or capital purposes, but are also used each year to help the Airport meet its bond covenant requirement to have the sum of annual net operating revenues plus the balance in the Contingency Account equal at least 125% of annual debt service, as required by the Airport Commission's master bond indenture.

[8] The Underwriters Discount is the difference between the price paid by the underwriter to the issuer for the new bond issue and the prices at which the securities are initially offered to the investing public. This difference provides the underwriter with compensation for the transaction, as well as reimbursement for expenses.

Commission and then to the Board of Supervisors through the City's Capital Plan approval process. Additionally, all capital projects above $704,000 must be approved by the airlines, per the Airport's Lease and Use Agreement.

According to Ms. Kaitlyn Connors, Airport Budget Director, capital improvement project budgets are developed by project managers within the Airport divisions proposing the projects. Airport Finance staff reviews the projects and evaluates available funding sources. The project manager is responsible for developing an individual project's schedule.

The major projects to be funded by the subject bond proceeds are described below. Appendix I provides budget details.

Airfield Improvements: $8,293,664

The two major projects for the Airfield are (1) the Advanced Visual Docking Guidance System, project and (2) the construction of a new materials testing lab. The Airport plans on installing an Advanced Visual Docking Guidance System that will provide pilots with increased safety information, such as equipment and foreign object debris location or stopping distance to the gate. The project is currently underway and is expected to be completed in FY 2018-19. The New Materials Testing Lab will replace and relocate the existing materials testing lab trailer. Existing trailer units have been in service for over 15 years and test equipment is aged, worn, and deficient. A new lab will help address the anticipated work load increase expected in the upcoming years. The project is anticipated to be completed in FY 2018-19.

Airport Support Improvements: $489,265,228

The Airport is currently implementing a wide range of security and technology, including improvements to Airport security data and video systems including the expansion and upgrading of closed circuit television (CCTV) cameras and infrastructure to increase monitoring capability and the conversion of existing CCTV cameras to digital internet protocol (IP). Other security measures include replacement of rolling gates at the Coast Guard facility, and infrastructure improvements for the Airport Communications Center. Also included in this category is a new project to install a Perimeter Intrusion Detection System (PIDS) along the entire water perimeter and fence line of the Airfield Operations Area. This project is estimated to be completed in FY 2019-20.

Groundside Improvements : $382,773,947

Groundside improvements include improvements to the AirTrain system, including upgrading its existing control system, extending the current system and adding a new station at the long term parking garages, and completion of the construction of a second multi-level long-term parking structure for approximately 3,000 spaces. These projects are expected to be completed in FY2019-20 and FY 2018-19, respectively.

Terminals Improvements: $2,829,105,383

The Terminal 1 Redevelopment Program will modernize Terminal 1 and Boarding Areas B and C. The program is currently being implemented in phases and is estimated to be completed by FY 2022-23, and contains the following program elements:

- Demolition of the existing Boarding Area B, replacing it with a new boarding area configured to accommodate modern aircraft requirements, larger hold rooms, and improved concessions. The new Boarding Area B will be expanded to include 24 gates. The program will renovate Terminal 1, including a complete replacement of the architectural building envelope, upgrades of all mechanical systems and special systems replacements, interior architectural renovations, facility upgrades such as a new consolidated passenger screening checkpoint, new airline ticket counters, and new concessions program, all consistent with the Terminal 2 standard.
- A new consolidated baggage handling system (BHS) and checked baggage inspection screening (CBIS) system.
- Renovation of Boarding Area C to current Airport standards.
- Various Airport, airline and governmental agency relocations and improvements.

The Terminal 3 West Improvement project will begin in FY 2017-18, with an estimated completion date of FY 2022-23. The project will reconfigure the western side of the Terminal 3 to extend the building's useful life with upgrades to infrastructure, improvements in building and technology systems, compliance with the latest building fire and life safety code requirements, reconfiguration of security checkpoints, and added concessions space. The redesigned layout will improve passenger flow and improve customer service. The Terminal 3 West project includes improvements to the Boarding Area F plaza.

Utility Improvements: $102,707,228

The major utility upgrades are currently underway and include (a) power and lighting improvements and (b) waste water system improvements. Power and lighting improvements will ensure a reliable power supply for Airport facilities and increase the capacity to meet current and future projected demand. Specific projects include upgrades to Substation TV and Station BP, replacement of the 400 hertz system in Boarding Area A in the International Terminal, and infrastructure to support electric vehicle charging stations within parking garages and other Airport facilities. The power and lighting improvements are expected to be completed in FY 2019-20. The Airport will also upgrade and replace the Airport sewage and industrial waste systems. The Airport will continue construction on the new Industrial Waste Treatment Plant, undertake a major water conservation effort to design and construct infrastructure to expand the use of reclaimed water, construct a new sewer outfall to South San Francisco, and upgrade and replace aging pipelines. The wastewater system improvements are expected to be completed in FY 2020-21.

Airport Revenue Bonds Debt Service (File 17-0211)

The Airport proposes to sell the $4,832,455,418 Airport Capital Plan bonds, including $4,358,694,227 in new revenue bond authorization and $473,761,191 in prior revenue bond authorization, through several competitive sales with a 30-year term at an estimated 6.5 percent fixed interest rate. The actual interest rate will not be known until the time of bond sale. According to Ms. Connors, the Airport expects to issue bonds twice per year through FY 2020-21, but the timing and sizing of each issue would be determined based on an assessment of capital plan cash flow requirements and market conditions. The bonds are expected to be fully repaid in 2050 from Airport revenues.

The Airport estimates total debt service over 30 years of $10.8 billion, including $4.83 billion in principal and approximately $5.97 billion in interest. Average annual debt service is $327.3 million.

Debt service on the Airport's Capital Plan bonds is paid from Airport revenues. Under the Lease and Use Agreement between the Airport and the airlines, the Airport has the authority to increase the landing and terminal fees charged to the airlines to meet its operating expenses, including annual debt service on outstanding Airport revenue bonds. According to Ms. Connors, each year, the Airport updates the terminal and landing fees. To do so, the Airport forecasts the total annual expenses and the total non-airline revenues. The difference between the annual expenses and non-airline revenues must be paid from airline landing and terminal fees, which are adjusted by the Airport to fil the gap.

The additional debt service costs have been factored in the Airport's financial plans, including the Airport's FY 2016-17 and FY 2017-18 operating budgets, approved by the Board of Supervisors in July 2016, the Airport's 5-Year Capital Improvement Plan (June 2016), the Airport's Bond Series 2016BCD financial forecast for the Airport (September 2016), and the Airport's FY 2016-17 rates and charges (May 2016).

Increase in Commercial Paper Authorization

Under most market conditions, commercial paper interest rates, which are short-term rates, are significantly lower than the interest rates on long-term bonds. As of today, the short-term rate on commercial paper notes is about one percent, compared to a long-term bond rate of four percent. According to Ms. Connors, the Airport's financial advisors estimated that the additional $100 million increase in commercial paper authorization could reduce the Airport's debt service expenses by up to $20 million over the next five years due to lower borrowing costs as compared to traditional fixed rate bonds. Ms. Connors estimates that the next commercial paper issuance is slated for April 2017.

RECOMMENDATION

Approve the proposed resolution (File 17-0211) and ordinance (File 17-0200).

Projects Funded by Appropriation

Airport Program	Project Name	Supplemental Project Total
Miscellaneous Airfield Improvements	10507 Advanced Visual Docking Guidance System (A-VDGS)	$3,993,664
Miscellaneous Airfield Improvements	11117 Materials Testing Lab	2,600,000
Capital Equipment	11234 Airfield Buses	1,200,000
Capital Equipment	11221 Airfield Striper Equipment	500,000
Airfield Total		**8,293,664**
Security Improvements	10511 Security Infrastructure Program	184,252,358
Air Traffic Control Tower Program	9034 Design Build for Demo of T2 ATCT and Terminal Improvements	43,702,000
Superbay Renovation Program	11160 Superbay Hangar Renovation Project	29,850,000
Support Facility Improvements	11174 Renovation of Cargo Buildings 606 and 730	25,000,000
Wayfinding Program	11001 Wayfinding Program	22,706,250
Cargo and Hangar Improvements	9322 Renovation of Cargo Buildings 900 and 944	12,701,000
Technology Improvement Projects	11139 Dense Wavelength Division Multiplexing Transport	11,600,000
Airport Support Miscellaneous Improvements	11047 Airport Solid Waste Management Program	11,000,000
Shuttle Bus Replacement	9281 CNG Shuttle Bus Vehicle Replacement Phase 2	9,000,000
South Field Redevelopment Program	10051 South Field Tenant Relocations	8,966,911
Airport Support Miscellaneous Improvements	11150 Computer Aided Dispatch (CAD) Replacement	8,000,000
Airport Support Miscellaneous Improvements	11104 Virtual Design & Construction Implementation Program	7,400,000
Support Facility Improvements	10574 Police Training Support Facility	7,200,000
Technology Improvement Projects	11155 Mobile Application Development and Delivery	5,100,000
Technology Improvement Projects	10674 Information Technology Enterprise Information Architecture Initiative (IT-EIAI)	5,050,000
Technology Improvement Projects	11130 Multi-Use Flight Information Display Upgrade	5,000,000
Superbay Renovation Program	8877B Superbay Hangar Door Retrofit Phase B	4,770,000
Technology Improvement Projects	9120 Metro Ethernet (Metro-E)	4,700,000
Airport Support Miscellaneous Improvements	8717 Modify and Refurbish ITC Check In Counters and Gate Podiums	4,650,000
Superbay Renovation Program	11189 Superbay 6th Floor Asbestos Abatement	4,330,000
Noise Insulation Program	8846D Noise Insulation Improvements	4,160,000
Support Facility Improvements	9238 ITB Conference Center	3,800,000
Technology Improvement Projects	11149 Access Layer Refresh 10 Gbps	3,700,000
Support Facility Improvements	9321 Emergency Response Facilities Improvements	3,600,000
Security Improvements	11159 Replacement of Badging Identity Management System	3,500,000
Support Facility Improvements	10610 ITT and Accounting Work Area Renovations	3,421,600
Technology Improvement Projects	9170 Network Improvements	3,150,000

Airport Program	Project Name	Supplemental Project Total
Energy and Efficiency Improvements	9188 Airport Wide Lighting Retrofit	3,000,000
Technology Improvement Projects	11156 Comprehensive Support Plan	2,850,000
Airport Support Miscellaneous Improvements	11161 Building Information Technology Upgrade	2,780,000
Support Facility Improvements	10578 Building 710 Chiller and Cooling Tower Replacement	2,480,000
Airport Support Miscellaneous Improvements	11073 Ramp Lighting Glare Reduction	2,400,000
South Field Redevelopment Program	10052 South Field Abatement, Demolition, and Hazmat	2,379,222
Technology Improvement Projects	10678 Avaya Communication Manager Upgrade 7.0	2,250,000
Consolidated Administration Campus	8872 CAC Planning & Program Management	1,750,000
Fire Equipment Program	9302 Replace ARFF Rescue 88	1,750,000
Airport Support Miscellaneous Improvements	10630 Airport Facilities Fall Protection System (formerly 8206B)	1,570,000
Airport Support Computer System Improvements	10535 Capital Planning System (CPS) Phase III	1,555,200
Airport Support Miscellaneous Improvements	11136 Ground Transportation Management System (GTMS) Phase II	1,500,000
Technology Improvement Projects	11157 Single Sign On Implementation	1,500,000
Technology Improvement Projects	11154 ITIL/ISO Certification	1,450,000
Security Improvements	11151 Water Perimeter Intrusions Detection System	1,300,000
Airport Support Computer System Improvements	11216 ISO27001 Information Security Management System	1,300,000
Technology Improvement Projects	11158 Data Analytics Compute Processing	1,293,000
Security Improvements	10538 Physical Security Information Management (PSIM)	1,000,000
Security Improvements	10541 License Plate Recognition (LPR) System	1,000,000
Support Facility Improvements	9329 IT Museum Aviation Annex	870,000
Technology Improvement Projects	11132 Digital Signage Software System Enhancement	800,000
Capital Equipment	10565 Portable Generators	753,000
Capital Equipment	9293 Grinder	750,000
Airport Support Computer System Improvements	8399A Property Management & Billing System (PMBS) Phase 2	708,884
Technology Improvement Projects	11153 Internet Hardware Upgrade	700,000
Airport Support Computer System Improvements	9044 Document Management System (DMS)	670,000
Superbay Renovation Program	11172 Superbay Hangar Infrared Heating System Replacement	660,000
Technology Improvement Projects	8411A SharePoint ERP Phase 1, Integrated Time and Labor Accounting (ITA) Program	640,000
Capital Equipment	11097 Boom and Scissor Lifts II	600,000
Fire Equipment Program	10545 Haz Mat Emergency Response Trailer	600,000
Airport Support Computer System Improvements	10501 Contract Management Compliance System (CMCS) (previously 9225)	540,000
South Field Redevelopment Program	11044 BICE Office Relocation	517,000
Security Improvements	11095 Video Wall Refresh Program	500,000

Airport Program	Project Name	Supplemental Project Total
Technology Improvement Projects	11217 Managed Security Upgrade	500,000
Technology Improvement Projects	9134A IT Security Mitigation	450,000
Airport Support Computer System Improvements	9051 Operating Budget System (OBS)	450,000
Capital Equipment	9164 Semi Truck	440,000
Consolidated Administration Campus	8872A Phase 1 - Administration Building 1 (D&C, Museum, ITT & Planning)	438,372
Capital Equipment	9163 Grandall Excavator	425,000
Noise Insulation Program	8846C Noise Insulation Improvements	420,000
Technology Improvement Projects	11222 SFO Data Storage System	420,000
Capital Equipment	11110 CNG High Speed Sweeper	420,000
Technology Improvement Projects	9171 Network Monitoring & Management	400,000
Capital Equipment	11094 Mower	360,000
Capital Equipment	9145B Mower	325,000
Capital Equipment	9162 CNG Emulsion Truck	260,000
Security Improvements	11099 CTX Remote Start-Stop System	250,000
Capital Equipment	11162 Motorized Aircraft Passenger Air Stairs	195,000
Support Facility Improvements	9330 IT Museum Public Video Screening	150,000
Technology Improvement Projects	8868 Business Continuity of Operations	110,000
Capital Equipment	9153 Asphalt Drum Roller	85,000
Technology Improvement Projects	8968 Network Security	67,000
Capital Equipment	11092 Flatbed (2)	(5,000)
Capital Equipment	9155 CNG High Speed Air Sweeper	(20,000)
Capital Equipment	11098 Gradall Material Handler	(110,000)
South Field Redevelopment Program	10050 Fire House No. 3 (FH3) and South Field Checkpoint Relocation	(1,491,569)
Airport Support Total		**489,265,228**
Airtrain Extension	10504 AirTrain Extension	172,075,000
Additional Long Term Parking Garage	9273 Second Long Term Parking Garage	101,613,947
Roadway Improvements	10670 Intersection Improvements	26,800,000
Parking & Garage Improvements	10561 Central Garage Elevators, Escalators, and Moving Walks	19,000,000
AirTrain Improvements	10509 AirTrain Control Systems Upgrade	8,000,000
Roadway Improvements	9049 Variable Message Signs Replacement	7,900,000
Viaduct Improvements	4106 Terminal Upper Level Viaduct Improvements, Phase II	6,350,000
Viaduct Improvements	4105 Terminal Upper Level Viaduct Improvements, Phase I	6,120,000
Parking & Garage Improvements	10576 New Emergency Generator for Central Garage	4,000,000
Roadway Improvements	10566 North Link Road Traffic Signal Improvements	3,800,000

Airport Program	Project Name	Supplemental Project Total
Parking & Garage Improvements	8602 Domestic Garage Improvements	3,100,000
Parking & Garage Improvements	11145 Central Garage 5th Level ADA Doors	2,900,000
Parking & Garage Improvements	10648 Long Term Parking Guidance and Security System	2,750,000
Parking & Garage Improvements	10643 Tear Drop Lot Redevelopment in South McDonnell Road	2,740,000
Roadway Improvements	11137 Roadway Lighting Upgrades (TBDP002)	2,650,000
Parking & Garage Improvements	10516 West Field Garage Top Level Repairs and Coating	2,300,000
Parking & Garage Improvements	10513 Building 710 Parking Improvements	2,300,000
Security Improvements	9054 Coast Guard Rolling Gates 105 and 106 Replacement	2,200,000
Parking & Garage Improvements	8879B Central Garage CO Monitoring System Replacement	1,825,000
Parking & Garage Improvements	11144 Central Garage Tunnel Doors	1,650,000
Parking & Garage Improvements	10512 Lot D Improvements and PARCS Automation	1,100,000
Support Facility Improvements	8852 RAC First Floor Remodel	850,000
Parking & Garage Improvements	11207 Restripe of Lots C, D and DD	750,000
Groundside Total		**382,773,947**
Terminal 3 Redevelopment Program	10071 Terminal 3 West Improvements	752,000,000
Terminal 1 Program	10011 T1 - Central Area	638,478,848
Terminal 1 Program	10010 T1 - Boarding Area B Redevelopment	617,734,743
Terminal 1 Program	10012 T1 - Baggage Handling System	156,726,204
Net Zero Energy Program	11168 Net Zero Energy Program Support	100,000,000
International Terminal Refresh Program	11118 ITB Arrivals Level System Improvements	92,775,157
International Terminal Baggage Handling System	11002 ITB CBIS and BHS Modernization	91,950,000
Gate Capacity Enhancements	9302 Replace ARFF Rescue 88	91,217,500
CIP Program Support	10401 CIP Programmatic Support	47,300,000
Revenue Enhancement and Customer Hospitality (REACH) Program	9350 REACH Phase I	42,619,616
Terminal 3 Redevelopment Program	10076 Terminal 3 B/A F Passenger Boarding Bridges & Capacity Improvements	35,340,000
Revenue Enhancement and Customer Hospitality (REACH) Program	11123 Concession Improvements (REACH)	27,838,600
Terminal 1 Program	10005 T1 - Taxilanes H&M Relocation	24,286,707
Technology Improvement Projects	11211 Terminal Management System Upgrade	17,800,000
Technology Improvement Projects	9304 Public WiFi - Terminals	9,490,000
Terminal 1 Program	10003 T1 - Interim Boarding Area B & SSCP	8,389,276
International Terminal Improvements	10553 IT Fire Alarm System Upgrade	6,200,000
Miscellaneous Terminal Improvements	11071 Airport Terminals Public Address System Upgrades	5,920,000

Airport Program	Project Name	Supplemental Project Total
Terminal 1 Program	9185 T1 - Program Management Support	5,701,131
Miscellaneous Terminal Improvements	11054 New Boarding Area C Restrooms	5,600,000
International Terminal Improvements	10577 Upgrade ITB PC Air System	5,000,000
International Terminal Improvements	8519B B/A G A380 Improvements, Phase B	4,880,000
Revenue Enhancement and Customer Hospitality (REACH) Program	11124 Service Animal Relief Areas (REACH)	4,520,000
Miscellaneous Terminal Improvements	11200 All-Terminals Meet & Greet Improvements	4,520,000
International Terminal Improvements	10667 IT Boarding Areas A & G Holdroom Furniture	4,500,000
Revenue Enhancement and Customer Hospitality (REACH) Program	9301 International Terminal Mini Parks (REACH)	4,050,000
Security Improvements	10568 Airport Domestic Terminals Fire Alarm System Upgrade	3,900,000
Miscellaneous Terminal Improvements	10666 Terminal 3 Boarding Area F Holdroom Furniture	3,300,000
Revenue Enhancement and Customer Hospitality (REACH) Program	10671 Boarding Area A Corridor Improvements	3,220,000
Miscellaneous Terminal Improvements	11009 Garage Lobby Tunnel Renovation Phase III (8579A)	3,200,000
Security Improvements	10559 Communication Center Infrastructure Improvements	3,100,000
Miscellaneous Terminal Improvements	11148 Installation of Airport Magnetic Stanchions	1,500,000
Miscellaneous Terminal Improvements	11107 HVAC Automation/Optimization Study	1,500,000
Technology Improvement Projects	10563 Common Use Self Service (CUSS) Ticketing Kiosks	1,380,000
International Terminal Improvements	10546 Automated Passenger Wait Time Technology	1,200,000
Technology Improvement Projects	11128 Common Use Self Service (CUSS) Check-in Kiosk Expansion	1,100,000
International Terminal Improvements	11165 IT Media Room	460,000
International Terminal Improvements	11170 B/A "A" Security Checkpoint Expansion	250,000
International Terminal Improvements	11208 Global Entry Office Expansion	151,601
Technology Improvement Projects	10622 Operational WiFi Improvements	31,000
International Terminal Improvements	11173 ITB Passenger Boarding Bridge Carpet Replacement (9159 addl scope)	(25,000)
Terminals Total		**2,829,105,383**
Net Zero Energy Program	11068 Energy Management & Control System (EMCS) Program	67,980,000
Power & Lighting Improvements	11214 Boarding Area 'A' 400 Hertz System Upgrade	8,000,000
Power & Lighting Improvements	11215 Utility Infrastructure Improvement Program	5,900,000
Power & Lighting Improvements	11198 Airport wide UPS Replacement and Upgrade	3,720,000
Central Plant Improvements	10523 Central Plant Renovation	3,344,228
Energy and Efficiency Improvements	11101 Airport Wide Power Distribution System Study	3,000,000
Energy and Efficiency Improvements	9165 Electric Vehicle Chargers Infrastructure at Cell Phone Lot	3,000,000

Airport Program	Project Name	Supplemental Project Total
Energy and Efficiency Improvements	11163 Energy Bench Marking and Building Integration Program	2,170,000
Storm Drain Improvements	8587B Storm Drain Pump Stations 1B and 1C Imp	2,143,000
West of Bayshore Improvements	8620 West of Bayshore Drainage Improvements	1,600,000
Water System Improvements	8704 West of Bayshore Water Mains Imp	1,250,000
Power & Lighting Improvements	11127 Solar Power Generation Feasibility Study	600,000
Utilities Total		**102,707,228**
Grand Total		**$3,812,145,450**

Note: Negative project budgets for five projects are based on the difference between the original and revised budgets to ensure the appropriation amount tied back to the previously approved Capital Improvement Plan.

Item 3 **File 17-0264**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would authorize the fifth amendment to the contract between the San Francisco Public Utilities Commission (SFPUC) and Hatch Mott MacDonald, to continue providing construction management services for the New Irvington Tunnel Project. The amendment would increase the contract not-to-exceed amount by $350,000 from $20,750,000 to $21,100,000, and extend the term for one year to April 14, 2018.

Key Points

- The New Irvington Tunnel Project will construct a new seismically-designed tunnel parallel to the existing Irvington Tunnel that would provide greater reliability to the system's water demands. The Project is nearing completion.
- In 2009, the Board of Supervisors approved a contract between SFPUC and Hatch Mott MacDonald to provide construction management services for the Project, following a competitive Request for Proposals process. The contract was for an amount not-to-exceed $15,000,000 with a five year term, concluding on July 31, 2014. Construction began in 2009. The Board of Supervisors subsequently approved three amendments to the contract between SFPUC and Hatch Mott MacDonald for construction management services.
- In October 2016, SFPUC approved the fourth amendment to the contract with Hatch Mott McDonald to further extend the agreement and increase the contract by $250,000 in order to deal with protracted negotiations of final construction change orders and support for settlement of potential claims between SFPUC and the construction contractor. However, these disputes were not settled in the expected timeframe and are currently going before the Dispute Resolution Board.
- The additional $350,000 in the fifth amendment to the contract is necessary for Hatch Mott MacDonald to provide construction management services during the dispute resolution process, assist negotiations for settlement of disputed claims after receiving recommendations from the dispute board, and support the close out of the project.

Fiscal Impact

- Funds for the contract between SFPUC and Hatch Mott MacDonald for construction management services, including the proposed fifth amendment, are included in the New Irvington Tunnel Project budget, which is funded by water revenue bond funds previously appropriated by the Board of Supervisors. The current total projected budget for construction and related costs for the New Irvington Tunnel Project is $345,903,023.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

The New Irvington Tunnel Project (Project) will construct a new seismically-designed tunnel parallel to the existing Irvington Tunnel. The tunnel is located between the Calaveras and Hayward Faults and supplies the majority of the drinking water to the San Francisco Public Utilities Commission's (SFPUC) 2.6 million customers. The Project would allow SFPUC to take the existing Irvington Tunnel out of service for needed inspection and repairs and provide for additional seismic stability that will provide greater reliability to the system's water demands. The Project is part of the SFPUC's Water System Improvement Program (WSIP), a $4.8 billion program to repair, replace, and seismically upgrade SFPUC's water infrastructure.

The original approved budget for the Project in 2005 was $214,650,000. Construction began in 2010 with an original project completion date of 2013. The current total approved project budget is $347,128,023.

Construction Management Contract

In 2009, the Board of Supervisors approved a contract between SFPUC and Hatch Mott MacDonald to provide construction management services for the Project, following a competitive Request for Proposals process. The contract was for an amount not-to-exceed $15,000,000 with a five year term, concluding on July 31, 2014. Construction began in 2009.

In 2011, the Board of Supervisors approved the first amendment to the contract between SFPUC and Hatch Mott MacDonald to: (1) extend the agreement for one year, for a total of six years, ending July 31, 2015, and (2) increase the not-to-exceed amount by $2,500,000, from $15,000,000 to $17,500,000. The first amendment was in response to a major change in tunnel design proposed by the construction contractor, Southland/Tutor Perini Joint Venture, which called for the addition of 15,000 linear feet of new welded steel pipe liner inside the finished tunnel to add protection from groundwater seepage and water quality issues.

In the fall of 2014, two sections of the new tunnel liner failed. The repairs to these failed sections and project changes due to unforeseen site conditions required the Project schedule to be extended. In 2015, the Board of Supervisors approved the second amendment to the contract between SFPUC and Hatch Mott MacDonald to: (1) extend the agreement for one additional year, ending on July 31, 2016, and (2) increase the not-to-exceed amount by $2,000,000, from $17,500,000 to $19,500,000. The tunnel was placed into service in 2015.

In the beginning of 2016, the Board of Supervisors approved the third amendment to the contract between SFPUC and Hatch Mott MacDonald to: (1) extend the agreement for three months through October 31, 2016, and (2) increase the not-to-exceed amount by $1,000,000, from $19,500,000 to $20,500,000. The requested additional $1,000,000 in funding for the construction management contract was needed because the repairs to the tunnel liner required an increase to the number of inspectors and multiple work shifts used by Hatch Mott MacDonald to verify that the work by the construction contractor had been performed properly.

In October 2016, the San Francisco Public Utilities Commission approved the fourth amendment to the contract with Hatch Mott McDonald to: (1) extend the agreement for five and a half months until April 14, 2017, and (2) increase the not-to-exceed amount by $250,000, from $20,500,000 to $20,750,000. The fourth amendment continued construction management services for protracted negotiations of final construction change orders and support for settlement of potential claims between SFPUC and the construction contractor, Southland/Tutor Perini Joint Venture, before going to the Dispute Resolution Board (DRB). The construction change orders were for (1) additional tunnel excavation of rock by the construction contractor that was harder than indicated in the construction documents, and (2) repairs by the construction contractor of newly-installed steel liner that buckled inside the tunnel at two locations.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the fifth amendment to the contract between the SFPUC and Hatch Mott MacDonald, to continue providing construction management services for the New Irvington Tunnel Project. The amendment would increase the contract not-to-exceed amount by $350,000 from $20,750,000 to $21,100,000, and extend the term for one year through April 14, 2018, for a total contract term of eight years and eight and a half months.

According to Ms. Noreen Ambrose, Deputy City Attorney, Board of Supervisors approval of the fifth amendment is required because the cumulative increase in the contract in the fourth amendment of $250,000 and the fifth amendment of $350,000, totaling $600,000, exceeds the threshold of $500,000 for contract amendments established by City Charter Section 9.118.

FISCAL IMPACT

Table 1 below shows the budget and remaining scope of work for the requested increased amount of $350,000 to the Hatch Mott MacDonald contract.

Table 1: Hatch Mott MacDonald Construction Management Contract Fifth Amendment Budget

Scope of Work	Proposed Budget
Additional Dispute Resolution Board (DBR) preparations	$97,000
Finalize DRB decisions and cost estimates	36,000
Finalize all outstanding costs and process change orders	45,000
Project closeout	152,000
Other direct cost reimbursements*	20,000
Total	**$350,000**

* Other direct cost reimbursements include travel, lodging, and per diem expenses of out-of-Bay Area expert witnesses participating in the preparation for the Dispute Resolution Board hearing process.

According to Mr. David Tsztoo, Sunol/San Joaquin Regional Project Manager at SFPUC, the additional $350,000 in funding is necessary for Hatch Mott MacDonald to provide construction management services during the dispute resolution hearing process, assist negotiations for settlement of disputed claims after receiving recommendations from the dispute board, and support the close out of the project. According to Mr. Tsztoo, SFPUC is disputing (1) the amount of the claim by the construction contractor for work related to additional tunnel excavation of rock, and (2) the adequacy and amount of the claim for the construction contractor's methods for the steel pipe liner placement.

According to Mr. Tsztoo, at the time the SFPUC approved the fourth amendment with Hatch Mott MacDonald, the City and the construction contractor were still optimistic of a settlement and closing of the project by March 2017. However, by December 2016, it was apparent that the City and the construction contractor were not going to reach a settlement and the dispute was going to have to go before the Dispute Resolution Board, which will take added time. SFPUC now expects the construction phase to be completed in September 2017 with the settlement of the construction claims, and to close out the project by March 2018.

Project Funding

Funds for the contract between SFPUC and Hatch Mott MacDonald for construction management services, including the proposed fifth amendment, are included in the New Irvington Tunnel Project budget, which is funded by water revenue bond funds previously appropriated by the Board of Supervisors. The current total projected budget for construction and related costs for the New Irvington Tunnel Project is $345,903,023, as shown below in Table 2. This budget includes the previously approved Hatch Mott MacDonald construction management contract for $20,750,000 and the proposed requested $350,000 amendment for a total construction management services contract amount of $21,100,000.

Table 2: New Irvington Tunnel Project Actual and Projected Expenditures

Category	Amount
Expenditures as of 04/3/17	$329,078,939
Remaining Project Budget	
Construction	$15,324,731
Construction Management*	937,613
Project Management	179,176
Closeout	382,564
Remaining Project Budget Subtotal	$16,824,084
Total Projected Project Budget	**$345,903,023**

* $937,613 includes the requested $350,000 construction management services provided by Hatch Mott McDonald, SFPUC staff and other contractors.

Of the $329,078,939 in expenditures to date, $20,445,865 were for the construction management services contract between SFPUC and Hatch Mott MacDonald, which is $304,135 less than the current contract amount of $20,750,000. Upon approval of the proposed fifth amendment, SFPUC would have remaining spending authority under the contract with Hatch Mott McDonald of $654,135, including $304,135 not yet spent under the existing contract and the requested $350,000 in new spending authority under the proposed fifth amendment. According to Mr. Tsztoo, construction management funds of $937,613 shown in Table 2 above are sufficient to meet these expenditures.

According to Mr. Tsztoo, the remaining construction budget of $15,324,731 shown in Table 2 above includes $9,525,000 in funds to pay claims pending before the Dispute Resolution Board.

The current estimated project budget of $345,903,023 is $1,225,000 less than New Irvington Tunnel Project budget of $347,128,023, previously approved by the SFPUC and appropriated by the Board of Supervisors. According to Mr. Tsztoo, the current estimated project budget is less than the approved budget due to the transfer of some job order contracts that were previously funded by the New Irvington Tunnel Project to the WSIP Closeout Project. These miscellaneous jobs were small projects on adjoining property that would not be completed along the same timeline as the New Irvington Tunnel Project.

POLICY CONSIDERATION

The New Irvington Tunnel Project budget increased by $131,253,023, or approximately 61 percent, from $214,650,000 in 2005 to $345,903,023. According to Mr. Tsztoo, the New Irvington Tunnel Project is substantially complete and SFPUC does not expect additional project costs. The current approved overall WSIP budget is $4,845,000,000, an 11.6 percent increase over the 2015 baseline budget of $4,343,000,000. To date, SFPUC has spent $4,253,000,000, and expects to spend the remaining $592,000,000 by December 20, 2019.

RECOMMENDATION

Approve the proposed resolution.

Item 4 File 17-0210	Department: Office of the City Administrator

EXECUTIVE SUMMARY

Legislative Objectives

- Ordinance amending the City's Administrative and Environment Codes to require that any new passenger vehicles and light duty trucks procured for the City fleet be a Zero Emission Vehicle, such that all light duty vehicles in the City's fleet are Zero Emission Vehicles by December 31, 2020, unless a waiver is obtained, and encouraging selection of Zero Emission Vehicles in other vehicle classes as technology improves.

Key Points

- A Zero Emission Vehicle is a vehicle that produces no emissions from the on-board source of power, as determined by the California Air Resources Board.
- The ordinance provides exemptions for (a) emergency vehicles if the purchase of Zero Emission emergency vehicles is not feasible or would otherwise interfere with the department's public safety mission, (b) Municipal Transportation Authority buses, (c) response to emergency needs, and (d) If exempt from the requirements, a vehicle is selected with as low emissions and high efficiency ratings as practicable.

Fiscal Impact

- This ordinance would necessitate the replacement of between 759 and 1,550 existing passenger vehicles with Zero Emissions Vehicles by December 2020 at a total cost of between $20,872,500 (759 vehicles x $27,500 per vehicle for the Smart Electric Drive) to $72,307,500 (1,550 vehicles x $46,650 for the BMWi3) over the next two and a half years.
- The average cost of installing a level-two charger is $16,000. To install between 636 and 1,427 chargers will cost between $10,176,000 and $22,832,000.
- The total estimated initial cost to purchase between 759 and 1,550 new electric passenger vehicles and install between 636 and 1,427 electric chargers would range from $31,048,500 to $95,139,500. Additional costs would be incurred for the operation, maintenance and replacement of the electric vehicles and charging stations.

Policy Consideration

- There are various policy and implementation issues to consider with the proposed ordinance, including the (a) expedited 2020 deadline, (b) lease and grant unknowns, (c) issues arising from operational needs and (d) aligning of City goals.

Recommendation

- Approval of the proposed ordinance is a policy decision for the Board of Supervisors.

MANDATE STATEMENT

According to Charter Section 2.105, all legislative acts shall be by ordinance and require the affirmative vote of at least a majority of the members of the Board of Supervisors.

BACKGROUND

All City departments are restricted to using the Vehicle Selector List[1] issued by the City Administrator when purchasing sedans, light duty pickup trucks, and vans with a gross vehicle weight under 8,500 pounds.

On July 15, 2015, the Board of Supervisors approved an ordinance (File 14-0950) amending the City's Environment and Administrative Codes to provide for a reduction in average per-mile greenhouse gas emissions from the City's light duty trucks or passenger vehicles. These Code amendments specified a reduction in gas emissions of four percent by the end of fiscal year 2017, and 15 percent by the end of fiscal year 2021. The ordinance also included a review of the implementation of these policies after one year, which was submitted to the Board of Supervisors on November 30, 2016.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the City's Administrative and Environment Codes to require that any new passenger vehicles and light duty trucks procured for the City fleet be a Zero Emission Vehicle, such that all light duty vehicles[2] in the City's fleet are Zero Emission Vehicles by December 31, 2020, unless a waiver is obtained. Such waivers could be granted by the City Administrator if

(a) There is no passenger vehicle or light duty truck approved by the Vehicle Selector List that meets all applicable safety standards and requirements,

(b) The passenger vehicle or light duty truck will be used primarily outside the geographic boundaries of San Francisco, or

(c) The common intended use for the vehicle is to regularly travel more than 100 miles without access to an electric charging station.

The proposed ordinance would also amend the City's Environment Code to encourage the selection of Zero Emission Vehicles in other vehicle classes, as technology improves. In accordance with the proposed ordinance, a Zero Emission Vehicle is a vehicle that produces no emissions from the on-board source of power, as determined by the California Air Resources Board.

The proposed ordinance also provides exemptions for

[1] The Vehicle Selector List is a document issued by the City Administrator, in consultation with the Department of the Environment. The Vehicle Selector List is compliant with the Healthy Air and Clean Transportation Ordinance (HACTO) and takes into account environmental considerations with the goal of reducing greenhouse gas emissions.
[2] Light duty vehicles are not defined in the proposed legislation but appear to include passenger vehicles, sedans and light duty trucks.

(a) Emergency vehicles if the public safety department purchasing the vehicles concludes, after consultation with the City Administrator, that the purchase of Zero Emission emergency vehicles is not feasible or would otherwise interfere with the department's public safety mission,

(b) San Francisco Municipal Transportation Authority buses,

(c) Response to emergency needs, and

(d) If exempt from the requirements, a vehicle is selected with as low emissions and high efficiency ratings as practicable.

FISCAL IMPACT

New Vehicle Purchases and Leases

As of March 2017, the City leased and owned a total of approximately 5,876 vehicles across 70 City departments. Of the total 5,876 vehicles, which include buses, tractors, and heavy duty trucks, 2,778 are light duty vehicles that would be impacted by the proposed ordinance.

The proposed ordinance specifically changes the Administration Code to require all light duty vehicles in the City fleet to be Zero Emission Vehicles in compliance with Environment Code Section 404, and does not provide an automatic exemption for light duty trucks, Sport Utility Vehicles (SUVs) or passenger vans. However, there currently is no Zero Emission Vehicle light duty truck, SUV or passenger van option for lease or purchase on the market. According to Mr. Bruce Robertson, Finance Manager at the Department of Public Works, Public Works received a quote from a vendor regarding the costs to retrofit a light duty truck or passenger van to become a plug-in hybrid for $95,690 per vehicle. However, such an option would still not be compliant with the proposed ordinance.

If exemptions were provided for light duty trucks, SUVs and vans, the proposed ordinance would still apply to the City's 1,586 passenger vehicles, of which only 36 are currently electric. Table 1 below shows the total 1,586 passenger vehicles and their corresponding City departments.

Table 1: Passenger Vehicles by Department

Department	Compressed natural gas	Electric	Gasoline	Hybrid	Plug-in hybrid	Total
Airport	14		44	39	1	98
Building Inspection	23	10	2	69	3	107
Courts[3]	7		53	38		98
Public Works	7	10	3	71	5	96
Fire			25	49		74
General Services Agency		5	3	18	2	28
Health	27		15	36		78
Human Services	3	2	6	54		65
Library		2		1	1	4
Muni	5		52	67		124
Other	1		4	10		15
Police	8		509	46		563
Port		1	4	12		17
Public Utilities Commission	7		24	99	3	133
Recreation and Park	8	6		11		25
Sheriff	7		36	13		56
Technology				5		5
Grand Total	**117**	**36**	**780**	**638**	**15**	**1,586**

Given that the City currently has 36 electric vehicles, of the total 1,586 passenger vehicles shown in Table 1 above, the City would need to replace 1,550 passenger vehicles with Zero Emission Vehicles. However, the proposed ordinance allows public safety departments with emergency vehicles to apply for exemptions on a case-by-case basis if the purchase of Zero Emission emergency vehicles is not feasible, would otherwise interfere with the department's public safety mission or to respond to emergency needs. If all potential public safety departments applied for and received such exemptions, this could include up to 791 passenger vehicles[4], resulting in a balance of 759 passenger vehicles that at a minimum would be subject to the proposed ordinance.

Currently there are three main options for Zero Emission Vehicles, including: battery electric vehicles, long-range electric vehicles, and hydrogen fuel cell vehicles. These three types and models, including prices and fuel ranges are summarized in Table 2 below.

[3] Court vehicles include District Attorney, Public Defender, Juvenile Probation and Adult Probation.

[4] 98 passenger vehicles in the Courts, 74 passenger vehicles in the Fire Department, 56 passenger vehicles in the Sheriff's Department, and 563 passenger vehicles in the Police Department.

Table 2: Current Zero Emissions Vehicles on the Market

Car Make and Model	Price[1]	Fuel Range
Battery Electric Vehicle (BEV)		
Smart Electric Drive	$27,500	68 miles
Ford Focus Electric	32,032	100
Nissan Leaf	33,748	107
BMWi3	46,650	114
Long Range Electric Vehicle		
Tesla Model 3	38,500	200
Chevy Bolt	40,282	238
Hydrogen Fuel Cell EV[2]		
Toyota Mirai	63,250	312

1. The prices come from the manufacturer's suggested retail price of the product plus ten percent for taxes, fees, and closing costs.
2. Currently, hydrogen fuel cells can only be fueled at stations at the Airport. Due to its limited fueling capacity, high initial price and expensive fueling cost, the hydrogen fuel cell is not included in our financial analysis.

As noted above, the proposed ordinance would necessitate the replacement of between 759 and 1,550 passenger vehicles with Zero Emissions Vehicles by December 2020. Therefore, the total cost of the replacement vehicle procurement would range from $20,872,500 (759 vehicles x $27,500 per vehicle for the Smart Electric Drive) to $72,307,500 (1,550 vehicles x $46,650 for the BMWi3) over the next two and a half years.

As the City would need to replace between 759 to 1,550 passenger vehicles with such electric vehicles by December 2020, it is anticipated that the City would sell or terminate leases on its existing fleet of passenger vehicles. According to Mr. Wyatt Donnelly-Landolt, Senior Budget and Planning Analyst in the City Administrator's Office, the City usually replaces and then sells between 75 and 100 vehicles per year. It is possible that increasing the number of vehicles sold by the City in a given year would decrease the future sales price of each vehicle as the vehicles flood the market. The revenue realized from such vehicle sales has not been calculated because of the uncertainty under these conditions to predict the sale price and the number of leases on vehicles to be terminated. However, these revenues would offset a portion of the new electric vehicle purchase cost.

Charger Purchase and Installation

In addition to replacing between 759 to 1,550 existing City vehicles with Zero Emissions Vehicles, the City will also have to install electric vehicle infrastructure for charging the entire passenger fleet. The City currently has 249 level-two chargers.[5] However, these chargers are not evenly distributed throughout the City. According to Mr. Derrick Leung, Retail Services at the San Francisco Public Utilities Commission, 120 of the City's 249 electric chargers are located

[5] There are three levels of chargers available for Zero Emission Vehicles. The first is level-one, and requires 7 to 29 hours to charge a single car. A level-two charger supplies 240V and averages from 2-10 hours to charge a single vehicle. A level–three charger is a fast-charge and can charge an entire car in about 30 minutes. According to Mr. Donnelly-Landolt, a fully electric vehicle requires a level-two or level-three chargers for practical use.

at the Airport for public use, and an additional six chargers are located on Treasure Island. Therefore, the City only has 123 chargers (249 less 126) currently located within the City proper.

According to Mr. Donnelly-Landolt, the average cost of installing a level-two charger is $16,000.[6] As most City vehicles are used during the day, it is assumed that each vehicle would need to be fully charged overnight while the vehicle is parked. If every vehicle had access to a level-two charger, the City would need to install between 636 and 1,427 chargers at an estimated cost between $10,176,000 and $22,832,000 over the next two and a half years.

Total Initial Costs

The total estimated initial cost to purchase between 759 and 1,550 new electric passenger vehicles and install between 636 and 1,427 electric chargers would range from $31,048,500 (759 Smart Electric Cars, 636 chargers) to $95,139,500 (1,550 BMWi3 and 1,427 chargers). These costs would be incurred between the effective date of the proposed ordinance, or 30 days after approval of the subject ordinance, through December 2020, a period of approximately 2.5 years.

Ongoing Costs

Additional costs would be incurred for the operation, maintenance and replacement of the electric vehicles and charging stations, although the amount of such annual costs cannot be estimated at this time.

POLICY CONSIDERATION

There are various implementation issues to consider with the proposed ordinance.

Issues arising from the 2020 deadline

- The City currently purchases approximately 100 new passenger vehicles a year. This ordinance would require the purchase or lease of at least approximately 759 vehicles over the next 2.5 years, or at least 304 vehicles per year.
- Market availability may hinder the ability of the City to comply with the expedited 2020 deadline as market share of Zero Emission Vehicles is currently less than one percent nationally. Furthermore, recent City ordinances prohibit the City from entering into contracts with companies based in states that bar civil-rights protections for lesbian, gay, bisexual and transgender people, such as the state of Tennessee which currently produces the Nissan Leaf.
- The City would have to replace a minimum of 759 vehicles in order to meet the goals of the ordinance. Selling this many vehicles within the timeline provided would be challenging and the City may not receive the full value of these vehicles.

[6] According to Mr. Robertson, the Department of Public Works estimates that the installation costs of a level-two charger in an area that already has power capacity, trenched lines, and appropriate conduits is $13,000.

- The City currently has 653 hybrid or plug-in hybrid vehicles, representing over one-third of the City's existing fleet of passenger vehicles. In addition, 356 of these hybrid or plug-in hybrid vehicles have been purchased in the past five years. According to Mr. Steven Lee, Senior Manager of Finance and Information Technology at the San Francisco Municipal Transportation Agency, the average useful life of a City vehicle is approximately eight years. Therefore, the proposed ordinance would result in the early replacement of 356 hybrid or plug-in hybrid vehicles at potentially significant but unknown cost to the City.
- It is not known whether Public Works has the capacity to plan, design and implement the installation of all the required level-two electric chargers and related infrastructure.

Lease and Grant unknowns

- According to Mr. Donnelly-Landolt, the City leases parking for approximately half of the City's entire fleet of passenger vehicles. As electric vehicles will likely need to be charged daily, the City would need to install charging stations on these leased properties. This may create future unknown issues of trying to install level-two chargers and the related electrical infrastructure on leased land.
- The City owns a number of grant-funded vehicles and may not be able to replace these vehicles by the ordinance's deadline due to grant requirements.

Issues arising from operational needs

- Fully electric vehicles purchased in order to pursue the proposed Zero Emissions Vehicles ordinance would limit the City's ability to respond to a disaster. Electric vehicles provide a limited travel range before needing to recharge, which can take ten hours or more. Partial Electric Vehicles and hybrid vehicles provide more flexibility for long distance travel and rapid refueling during a disaster.
- Central Shops has limited capacity to support Zero Emission Vehicles and charger maintenance and repairs and currently has few staff who can work on Zero Emission Vehicles. With fewer combustion engine sedans, the need for maintenance and repairs on these vehicles would decrease, likely leading to layoffs in Central Shops unless these employees can be retrained to maintain Zero Emission Vehicles. In place of current employees, Central Shops may need to outsource maintenance and repairs on Zero Emission Vehicles and associated infrastructure unless existing employees can be retrained to handle electric vehicles. According to Mr. Donnelly-Landolt, current outsourcing of Zero Emission Vehicles takes approximately three weeks, as there are a limited number of certified dealerships and mechanics to work on Zero Emission Vehicle.
- The City is currently relocating Central Shops to recently purchased City property in the southern part of the City, at considerable expense. The proposed Zero Emission Vehicles requirements have not been included in the planning, design and construction of this new Central Shops facility.
- Some departments use vehicles for occasional long-distance travel. These vehicles are not currently sorted or determined to be long-range vehicles. Zero Emission Vehicles

would not meet this operational requirement, and employees would have to use personal or rental vehicles at higher costs.

- Employees sometimes park vehicles on the street or away from the City's parking facilities overnight. With Zero Emission Vehicles, all vehicles would need to park at City parking facilities overnight to receive the necessary electric charging.

Issues arising from aligning City goals

- San Francisco City Charter Section 8A.100 requires that all City Departments pursue a Transit-First Policy. Transit-First states that the City should advocate travel within San Francisco by public transit, bicycle and on foot as an attractive alternative to travel by individual automobiles. According to Mr. Lee, any policy regarding the replacement of passenger vehicles should ensure consistency with the goals of Transit-First.

RECOMMENDATION

Approval of the proposed ordinance is a policy decision for the Board of Supervisors.

Items 5 and 6 Files 17-0268 and 17-0267	Department: Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- File 17-0268 is a resolution to authorize DPH to enter into a new two-year intergovernmental agreement with the State for the State to reimburse DPH for providing substance use disorder services to Medi-Cal beneficiaries. The total reimbursement amount for this proposed agreement is $128,849,925 for the two-year term from June 15, 2017 through June 30, 2019.
- File 17-0267 is a resolution to retroactively authorize the Fifth Amendment to the existing contract between the City and the California Department of Health Care Services (DHCS) for the Department of Public Health (DPH) to accept State reimbursement funding for substance use disorder services to Medi-Cal beneficiaries. The amendment increases total contract funding to DPH from the State by $12,497,082 from $46,007,303 to $58,504,385 for the term of July 1, 2014 through June 30, 2017.

Key Points

- The Board of Supervisors retroactively approved the original contract between DPH and the State in December 2014, authorizing DPH to accept partial reimbursement funding from the State for substance use services (File 14-1108). The original contract was for three years from July 1, 2014 through June 30, 2017, and the reimbursement funding from the State to DPH was $33,250,026. The contract has been amended four times to modify contract terms and increase net reimbursement funding to $46,007,303.
- The increased reimbursement funding as compared to the existing State contract (File 17-0267) is primarily related to the federal share of Drug Medi-Cal services, due to the expansion of eligibility for Medi-Cal, a public health insurance program for low-income Californians. Under the proposed new agreement with the State (File 17-0268), DPH will be able to bill for more Drug Medi-Cal services than provided under the existing State contract.

Fiscal Impact

- DPH's total FY 2016-17 budget for substance use disorder services is $59,834,982, including additional reimbursements of $12,497,082 in FY 2016-17 by the State to DPH under the proposed Fifth Amendment to the existing contract (File 17-0267). The proposed new agreement between DPH and the State would provide State reimbursement of up to $128,849,925 to DPH for substance use disorder services to Medi-Cal beneficiaries in FY 2016-17 through FY 2018-19 (File 17-0268).

Recommendations

- Amend File 17-0268 to state that the proposed new agreement between DPH and the State is effective as of June 15, 2017.
- Amend File 17-0267 to state that the existing contract between DPH and the State terminates as of June 14, 2017 when the new agreement between DPH and DHCS becomes effective.
- Approve the proposed resolutions as amended.

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

Under California State law, San Francisco is reimbursed by the California Department of Health Care Services (DHCS) for some of the County's costs to provide substance use services. In order to receive this reimbursement, the City and County of San Francisco (City) must enter into a multi-year contract with the State for substance use disorder services. This contract is a combined agreement that includes (a) pass-through funding from the State and Federal governments for Drug Medi-Cal services, and (b) the federal Substance Abuse Prevention and Treatment (SAPT) block grant.

The Department of Public Health (DPH) Community Behavioral Health Services currently funds approximately 100 different substance use treatment and prevention programs provided by approximately 31 organizations. The City negotiates with the State to determine rates for different types of substance use services, and these rates are then incorporated into the multi-year contract between the State and the City.

The Board of Supervisors retroactively approved the original contract between DPH and the State in December 2014, authorizing DPH to accept partial reimbursement funding from the State for substance use services (File 14-1108). The original contract was for three years from July 1, 2014 through June 30, 2017, and the reimbursement funding from the State to DPH was $33,250,026. The contract has been amended four times to modify contract terms and increase net reimbursement funding to $46,007,303.

DETAILS OF PROPOSED LEGISLATION

File 17-0267 is a resolution to retroactively authorize the Fifth Amendment to the existing contract between the City and the California Department of Health Care Services (DHCS) for the Department of Public Health (DPH) to accept State reimbursement funding for substance use disorder services to Medi-Cal beneficiaries. The amendment increases total contract funding to DPH from the State by $12,497,082 from $46,007,303 to $58,504,385 for the term of July 1, 2014 through June 30, 2017.

File 17-0268 is a resolution to authorize DPH to enter into a new two-year intergovernmental agreement with the State for the State to reimburse DPH for providing substance use disorder services to Medi-Cal beneficiaries. The total reimbursement amount for this proposed agreement is $128,849,925 for the two-year term from approximately June 15, 2017 through June 30, 2019.

Existing DHCS Contract (File 17-0267)

The increased reimbursement funding as compared to the existing State contract is primarily related to the federal share of Drug Medi-Cal services, due to the expansion of eligibility for Medi-Cal, a public health insurance program for low-income Californians, which went into effect in 2014 under the Affordable Care Act. The Federal government pays for 100 percent of the services provided to the new Medi-Cal beneficiaries, and DPH is reimbursed for the services by the State. According to Ms. Laurel Snead, Principal Administrative Analyst at DPH, the State added the majority of the federal share of Drug Medi-Cal funding for FY 2016-17.

Funding for the federal Substance Abuse Prevention and Treatment (SAPT) Block Grant is unchanged. Table 1 below shows the changes in funding under the proposed Fifth Amendment to the existing contract between DPH and the State

Table 1: Changes in Reimbursement Funding from the State to DPH for FY 2016-17 for the Existing State Substance Use Disorder Services Contract

Funding Source	Current Funding Amount	Proposed Fifth Amendment	Change
Drug Medi-Cal			
State General Fund	$278,864	$278,864	$0
Federal Share - Non-Perinatal	673,803	13,151,388	12,477,585
Federal Share - Perinatal	70,659	90,156	19,497
Subtotal Drug Medi-Cal	1,023,326	13,520,408	12,497,082
Substance Abuse Prevention and Treatment (SAPT) Block Grant			
Discretionary	5,928,375	5,928,375	0
Prevention Set Aside	2,184,472	2,184,472	0
Friday Night Live/ Club Live	30,000	30,000	0
HIV Set Aside	0	0	0
Perinatal	303,190	303,190	0
Adolescent/ Youth	398,915	398,915	0
Subtotal SAPT Block Grant	8,844,952	8,844,952	0
Total	**$9,868,278**	**$22,365,360**	**$12,497,082**

DPH would continue to subcontract with community-based non-profit organizations to deliver substance use disorder services through this amended contract. The following services would be delivered through this amended contract:

1. Outpatient drug-free treatment;
2. Narcotic replacement therapy;
3. Naltrexone treatment;
4. Intensive Outpatient Treatment; and
5. Perinatal Residential Substance Use Services.

The contract is being amended for retroactivity to reflect the fact that the State is encumbering additional funds for this contract after July 1, 2014, the original start date of the contract.

According to Ms. Snead, DPH will expend all funds for this contract by the end of its term through June 30, 2017.

New DHCS Contract (File 17-0268)

According to Ms. Snead, under the proposed new agreement with the State, DPH will be able to bill for more Drug Medi-Cal services than provided under the existing contract. The proposed agreement will continue to provide current Medi-Cal services of narcotic treatment programs, outpatient treatment and residential perinatal services. The proposed new agreement will also allow DPH to bill for additional services including case management, physician consultation, withdrawal management, and medication assisted treatment, as well as the expanded ability to bill residential, outpatient and intensive outpatient treatment.

The proposed resolution allows DPH to approve amendments to the proposed agreement for less than 10 percent of the contracted amount without further Board of Supervisors approval. This provision is the same as under the existing contract between DPH and the State.

FISCAL IMPACT

Existing Contract between the State and DPH (File 17-0267)

DPH's total FY 2016-17 budget for substance use disorder services is $59,834,982, including additional reimbursements of $12,497,082 in FY 2016-17 by the State to DPH under the proposed Fifth Amendment to the existing contract, as shown in Table 1 above.

New Agreement between the State and DPH (File 17-0268)

The proposed new agreement between DPH and the State would provide State reimbursement of up to $128,849,925 to DPH for substance use disorder services to Medi-Cal beneficiaries in FY 2016-17 through FY 2018-19. Although the proposed new agreement between DPH and DHCS provides for a budget of $34,838,661 in FY 2016-17 as of July 1, 2016, as shown in Table 2 below, according to Ms. Snead, the actual contract start date is June 15, 2017 rather than July 1, 2016. Therefore, the actual reimbursement amount by the State to DPH in FY 2016-17 for eligible substance use services provided by DPH will be less than the contract budget of $34,838,661. The table below shows the estimated allocation of Federal and State funds by fiscal year.

Table 2: Sources of Funds for New Agreement between the State and DPH from FY 2016-17 through FY 2018-19

Funding Source	FY 2016-17 (as of June 15, 2017)[1]	FY 2017-18	FY 2018-19	3-Year Total
Drug Medi-Cal State General Fund	$878,311	$13,045,282	$13,045,282	$26,968,875
Federal Substance Abuse Prevention and Treatment (SAPT) Block Grant	8,844,952	8,844,952	8,844,952	26,534,856
Federal Drug Medi-Cal Reimbursement Funds	25,115,398	25,115,398	25,115,398	75,346,194
Total	**$34,838,661**	**$47,005,632**	**$47,005,632**	**$128,849,925**

According to Ms. Snead, the federal SAPT Block Grant includes Federal funds awarded to the State and then distributed to the counties based on an agreed upon formula. The federal Drug Medi-Cal reimbursement funds and State general fund monies are estimated amounts for the substance use disorder services DPH plans to provide, which are calculated by using historical demand for substance use treatment services and the characteristics of the Medi-Cal eligible residents. The funds will be drawn down as earned and billed to the State.

Funding to support the State agreement is subject to appropriation by the State and Federal governments, and is not guaranteed for any future years. Any reductions to these amounts would require supplemental funding from the San Francisco General Fund or a reduction in substance use services.

Overlapping Contract Dates

DPH has an existing contract with the State to provide substance use disorder services in FY 2016-17 through June 30, 2017, as noted above, and is proposing to enter into a new contract with DHCS to provide substance use disorder services in FY 2016-17 from June 15, 2017 through June 30, 2019. According to Ms. Snead, the existing contract will terminate when the new contract is certified. Consequently, the proposed resolutions should be amended as follows:

1. File 17-0267 should be amended to state that the existing contract between DPH and DHCS terminates as of June 14, 2017 when the new agreement between DPH and the State becomes effective; and

[1] According to Ms. Snead, DHCS did not pro-rate the FY 2016-17 funding amount for the contract because DPH will be able to bill for and get reimbursed for Medi-Cal services provided by substance use disorder treatment programs after they are reviewed by DHCS for compliance. The amount is based on implementation of Drug Medi-Cal services at maximum capacity. However, according to Ms. Snead, DPH is planning a gradual roll-out of the additional Medi-Cal services as programs are certified and deemed ready to bill.

2. File 17-0268 should be amended to state that the proposed new agreement between DPH and the State is effective as of June 15, 2017.

RECOMMENDATIONS

1. Amend File 17-0268 to state that the proposed new agreement between DPH and the State is effective as of June 15, 2017.
2. Amend File 17-0267 to state that the existing contract between DPH and the State terminates as of June 14, 2017 when the new agreement between DPH and DHCS becomes effective.
3. Approve the proposed resolutions as amended.

Item 8 **File 17-0201** *Continued on April 13, 2017*	**Departments:** General Services Agency - Department of Public Works (DPW), Controller's Office, Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would appropriate (a) $122,000,000 sales proceeds from the sale of City property and (b) $321,765,000 of proceeds from Certificates of Participation (COPs) to fund the (c) retirement and defeasance of Series 2001A and 2007A COPs and (d) development costs for a potential office building at 1500 Mission Street and related furniture, fixtures and equipment, technology and moving costs in FY 2016-17, placing the total $443,765,000 on Controller's Reserve pending the sale of the buildings and sale of the COPs**.**

Key Points

- On December 9, 2014, the Board of Supervisors approved a Conditional Land Disposition and Acquisition Agreement with Related to develop a City-owned office building at 1500 Mission Street, subject to environmental approval, at a total project cost of $338,989,353, including $326,690,953 for development costs and $12,298,400 for FF&E, technology and moving expenses. The City intended to sell three City-owned buildings and finance the balance of these costs with commercial paper and Certificates of Participation (COPs).
- On March 21, 2017, the Board of Supervisors approved the sale of three City-owned properties at (a) 1660 and 1680 Mission Street for $52,000,000 and (b) 30 Van Ness for $70,000,000 for total sales proceeds of $122,000,000.
- On March 23, 2017, the Planning Commission approved actions, which are subject to Board of Supervisors approval regarding a new City office building at 1500 Mission Street.
- A 2014 report projected consolidating office space for: (a) Public Works, (b) Building Inspection (DBI), (c) Planning, (d) Retirement and (e) Health Service System, currently in City-owned or leased space. This new City office building was anticipated to add approximately 100,000 square feet of new City-owned office space and reduce the amount of leased space in the Civic Center. However, the use plan has now changed, such that Public Works, DBI and Planning will expand to primarily occupy the new City building.

Fiscal Impact

- The ordinance would appropriate $122,000,000 from the sale proceeds from three City office buildings, net of commission, fees and defeasance of existing bonds. The net remaining proceeds together with $321,765,000 of COP proceeds would fund $326,690,953 for the development of the new City office building at 1500 Mission Street, $29,397,433 for FF&E, technology and moving expenses and related issuance costs.

Policy Consideration

- To approve funds to develop a project that has not yet been approved by the Board of Supervisors is premature, and should not be approved at this time.

- The proposed square footage use and City departments that would occupy the new City office building is not consistent with the information provided to the Board of Supervisors in 2014, when the Board approved this project.
- The requested $29,397,433 for FF&E, technology and moving expenses is $17,117,865 or 139% more than previously estimated, with no details or bids provided.

Recommendations

- Amend the ordinance to approve $122,000,000 of the total requested $433,765,000 as shown in Table 5 below, and place on Controller's Reserve pending sale of the buildings.
- Continue the balance of $321,765,000 to the Call of the Chair, pending approval of all legislative actions by the Board of Supervisors. When the Controller, Public Works and Real Estate request these funds, FF&E, technology and moving expenses should be significantly reduced, justified and detailed and the COPs commensurately reduced. Real Estate and Public Works should also report to the Board of Supervisors before approving FF&E, technology and moving expenses, regarding the specific use of the new City office building, identifying specific reductions of leases and related savings to the City.

MANDATE STATEMENT

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

BACKGROUND

Development of City Office Building at 1500 Mission Street

Board of Supervisors Approvals

In July 2014, the Board of Supervisors approved a resolution authorizing the City to enter into an Exclusive Negotiation Agreement and Letter of Intent with Related California Urban Housing, LLC (Related)[1] to develop a new City-owned office building at an estimated cost of $253 million (Resolution No. 312-14). On December 9, 2014, the Board of Supervisors approved a Conditional Land Disposition and Acquisition Agreement (Agreement) with Related to develop this City-owned office building at 1500 Mission Street, subject to environmental review and approval based on a total estimated project cost of $338,989,353. Related plans to develop this site to include (a) an approximately 463,300 gross square foot 16-story City-owned office building along 11th Street and (b) a 39-story, 550 residential unit development with ground floor retail, at Mission Street and South Van Ness Avenue (Ordinance 254-14).

When the Board of Supervisors approved this Agreement, the total estimated cost of the project was $338,989,353, including a guaranteed maximum cost of $326,690,953 for land acquisition, architecture, engineering and construction expenses and $12,298,400 for furniture, fixtures and equipment (FF&E), technology and moving expenses. To fund these costs, the City intended to use the proceeds from the sale of three City-owned buildings and finance the balance with commercial paper and Certificates of Participation (COPs).

On March 21, 2017, the Board of Supervisors approved the sale of three City-owned properties at (a) 1660 and 1680 Mission Street for $52,000,000 (File 17-0213) and (b) 30 Van Ness for $70,000,000 (File 17-0214) for total sales proceeds of $122,000,000. According to Mr. John Updike, Director of Real Estate, escrow will close on these three City properties on May 1, 2017. The City will receive the net proceeds from the sales, immediately upon closing.

Planning Commission Approvals

On March 23, 2017, the Planning Commission

(a) Certified the Final Environmental Impact Report (FEIR) and adopted California Environmental Quality Act (CEQA) findings for the 1500 Mission Street projects;

(b) Recommended a General Plan Amendment to revise the height and bulk limits, allow for additional office use parking and permit office uses above the fourth floor for non-City occupancy for this project;

[1] Related California Urban Housing LLC created a subsidiary, Goodwill SF Urban Development, to acquire and develop this site.

(c) Recommended a Planning Code Amendment to create the 1500 Mission Street Special Use District to modify the height and bulk limits and related office enhancements while requiring the developer to provide 20% affordable housing units, instead of the required 13.5%;

(d) Adopted Shadow Findings that would not adversely affect public open space; and

(e) Approved a Downtown Project Authorization, which approves the office and residential development projects as proposed, subject to a lengthy list of conditions of approval and the Board of Supervisors approval of the General Plan Amendment and the Special Use District.

Future Board of Supervisors Actions Required

The Planning Commission's approval of the Amendment to the General Plan and creation of a 1500 Mission Street Special Use District also require separate ordinances to be approved by the Board of Supervisors. The adopted CEQA findings by the Planning Commission will also be included as approval actions within each of these ordinances. These ordinances were introduced on April 4, 2017 and are anticipated to be heard by the Board of Supervisors in May 2017.

In addition, the Board of Supervisors still must ratify the previously approved conditional Purchase and Sale Agreement with Related for the entitled land at 1500 Mission Street. Mr. Updike advises that this legislation will be forwarded to the Board of Supervisors in April of 2017, such that the City would acquire the property by July 1, 2017. According to Mr. Updike, there will be no changes to the conditional Purchase and Sale Agreement that was previously approved by the Board of Supervisors in 2014.

As discussed above, to fund the development of the new 1500 Mission Street office building, the City would use the net proceeds from the sale of three City-owned buildings and finance the balance with commercial paper and Certificates of Participation (COPs). However, the Board of Supervisors has not yet approved the issuance of any COPs for this project. According to Ms. Nadia Sesay, Director of the Office of Public Finance, the Office of Public Finance anticipates requesting authorization from the Board of Supervisors for the issuance of a not-to-exceed $321,765,000 of COPs in May of 2017.

If the Board of Supervisors approves all of the above-noted legislation, construction of the 1500 Mission Street City office development project is anticipated to begin in October 2017 and extend for two years. The development is anticipated to be substantially complete by November 2019. City staff would then move into this building through the spring of 2020.

Relocation of City Departments and Use of Space at 1500 Mission Street

As noted above, in July 2014, the Board of Supervisors approved Resolution No. 312-14 authorizing the City to enter into an Exclusive Negotiation Agreement and Letter of Intent with Related to develop a new City-owned office building. Resolution No. 312-14 also authorized the Director of Property to provide a report detailing City office space requirements, the specified projected uses and staffing of the new City office building and the City's overall plan for Civic Center office space. In response, working with Real Estate, the Controller's Office provided a report to the Board of Supervisors in the fall 2014 that projected potential City staff and square footage space requirements in a new office building for FY 2018-19.

This 2014 report projected consolidating office space for five City departments, including (a) Public Works, (b) Department of Building Inspection, (c) City Planning, (d) Retirement and (e) Health Services System, which are currently in City-owned space or leasing office space in the Civic Center. At the time, the Board of Supervisors was advised that this new City office building was anticipated to add approximately 100,000 square feet of new City-owned office space and reduce the amount of leased space in the Civic Center[2]. With the information contained in this report, the Board of Supervisors on December 9, 2014 approved the conditional Agreement with Related to develop the City-owned office building at 1500 Mission Street.

Table 1 below compares the square footage requirements specified in this 2014 report projected for FY 2018-19 to what Public Works and Real Estate are now reporting will be City department square feet requirements for the new City office building at 1500 Mission Street. Although the size of the new City office building has not changed, the total 463,300 square feet in 2014 represents the gross square feet and the total 430,845 square feet in 2017 represents the rentable square feet, with the difference in the total square footage primarily due to the space for an exterior concourse, elevators, stairwells, emergency exits, life-safety systems, etc. But if the total amounts in the 2014 report reflected gross square feet, the amounts for each City department should have decreased to reflect the net square footage requirements in 2017. However, the square feet allocated to Public Works, Planning and DBI actually increased.

Table 1: Comparison of Square Footage Use of 1500 Mission Street

Departments	2014 Gross Square Feet	2017 Rentable Square Feet	Increase/(Decrease) Square Feet
Public Works	193,257	194,279	1,022
Building Inspection	67,351	56,819	(10,532)
Planning	52,926	59,910	6,984
Health Service System[3]	19,945	-	(19,945)
Retirement[4]	37,751	-	(37,751)
Other Tenants (TBD)	5,770	24,682	18,912
Permit Center[5]	30,738	38,960	8,222
Common Areas and Building Support	42,962	56,195	13,233
Exterior concourse open to the public	12,600	-	(12,600)
TOTAL	**463,300**	**430,845**	**(32,455)**

[2] According to Mr. John Updike, Director of Real Estate, the net increase in square feet of City office space is now estimated at 154,760 square feet.

[3] Health Service System currently occupies 19,500 square feet of leased office space at 1145 Market Street, a ten-year lease, which commenced in 2013 and terminates in 2023, at a current rental rate of approximately $42 per square foot, or total annual costs of $826,000 in FY 2017-18, with 3% annual rent increases.

[4] San Francisco Employees Retirement System currently occupies 35,579 square feet of leased office space at 1145 Market Street, under a ten-year lease which commenced in 2014 and terminates in 2024, at a current rental rate of approximately $42 per square foot, or total annual rental costs of $1,488,000 in FY 2017-18, with 3% annual rent increases.

[5] Of the 38,960 square feet proposed, approximately 22,000 square feet, or 56% will be used by DBI.

Regarding the differences in square footage for the various City departments, Mr. Samuel Chui, Project Manager at Public Works advises that Building Inspection's 10,532 square foot reduction in space is more than offset by the estimated 22,000 square feet of space that DBI will occupy in the new one-stop permit center, in which Building Inspection will be the anchor tenant, along with at least 11 other City departments. Mr. Chui also notes that the 6,984 square foot increase in Planning's space may enable another tenant to occupy a portion of this space. The Common Areas and Building Support include the lobby, conference center, childcare facilities, potential wellness center and other building support functions. According to Mr. Updike, the square footage requirements for the common areas and building support increased by 13,233 square feet because the entire first floor will now be common areas, with additional conference and training rooms and facilities.

However, the most notable change in the proposed plans is the elimination of Health Service System for 19,945 square feet and Retirement System for 37,751 square feet or a total of 57,696 square feet from the new City office building. Currently, both of these City departments rent space at 1145 Market Street at an annual rental cost of approximately $2,314,000, with leases that expire in 2023 and 2024 respectively. In addition, the previous plan provided for an additional 5,770 square feet for other potential tenants, or 63,466 square feet total. Instead, the current proposal only allows for 24,682 square feet for other City departments to potentially relocate to 1500 Mission Street, a reduction of 38,784 square feet of space or 61%.

Based on information provided by Real Estate, Table 2 below shows the number of rentable square feet currently occupied by the three main City departments (Public Works, Building Inspection (DBI) and Planning) that are proposed to occupy the new City office building at 1500 Mission Street. As shown in Table 2 below, all three City departments would increase their amount of rentable space in the new City office building by a combined total of 27,667 square feet. At the same time, two City departments, notably Health Service System and Retirement System, which were originally to have moved into 1500 Mission, will not relocate into this new City office building.

Table 2: Current and Proposed Square Footage for 3 City Departments

Location	Public Works	DBI	Planning	Total
30 Van Ness	101,144			101,144
1650 Mission		4,280	48,704	52,984
1660 Mission	748	68,821	543	70,112
1680 Mission	36,753			36,753
City Hall	5,426			5,426
1155 Market	38,922			38,922
Total	**182,993**	**73,101**	**49,247**	**305,341**
Proposed	**194,279**	**78,819**	**59,910**	**333,008**
Increased Space	**11,286**	**5,718**	**10,663**	**27,667**

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (1) appropriate $122,000,000 of sales proceeds from three City-owned buildings and $321,765,000 from the sale of Certificates of Participation, for a total of $443,765,000, to fund the retirement and defeasance of Series 2001A and 2007A Certificates of Participation, the development of a pending new office building at 1500 Mission Street and related furniture, fixture and other equipment (FF&E), technology, and moving costs, and (2) place the total $443,765,000 on Controller's Reserve pending the sale of the buildings and sales of the Certificates of Participation.

FISCAL IMPACT

Table 3 below identifies the sources and uses included in the proposed supplemental appropriation.

Table 3: Sources and Uses for Requested $443,765,000

Sources and Uses	Total
Sources	
Gross sales proceeds from 30 Van Ness and 1660 and 1680 Mission Street	$122,000,000
Proceeds from Certificates of Participation	321,765,000
Total Sources	**$443,765,000**
Uses	
Building, Structures and Improvement Development Costs	$325,440,953
FF&E, Technology Equipment and Moving Costs	29,397,433
Controller's Internal Audit Fund (0.2%)	653,382
Bond Reserve	21,832,100
Capitalized Interest and Fees	31,051,471
Bond Issuance Costs	603,807
Underwriter's Discount Fee	2,220,855
Reserve for Market Uncertainty	4,500,000
Sales Commissions and Expenses	1,000,000
Defeasance of Series 2001A and 2007A COPs	27,065,000
Total Uses	**$443,765,000**

Sources of Funds

Property Sale Proceeds

As noted above, on March 21, 2017, the Board of Supervisors approved the sale of 1660 and 1680 Mission Street for $52,000,000 and 30 Van Ness for $70,000,000, for total sales proceeds of $122,000,000, which is anticipated to be received on May 1, 2017.

Certificates of Participation

The balance of the cost for the proposed new City office building is anticipated to be funded with Certificates of Participation (COPs), shown in Table 3 above as totaling $321,765,000. Ms.

Sesay advises that their office will request authorization to issue these COPs from the Board of Supervisors in May 2017. The Office of Public Finance anticipates issuing this transaction on a competitive basis however, the underwriter has not yet been selected. According to Ms. Sesay, the City's plan is to finance the initial acquisition and development of the 1500 Mission Street building's expenses from the City property net sales proceeds and then to issue commercial paper as interim funding for up to two years, while the project is being constructed, before issuing the COPs.

Ms. Jamie Querubin in the Controller's Office of Public Finance advises that the COPs are anticipated to be issued in the fall of 2019 at a par amount of $317,265,000. Assuming a 30-year term and an estimated interest rate of 5.5%, the total estimated debt service to the City will be $660,705,075[6], which includes $317,265,000 principal and $343,440,075 of interest expense. The estimated average annual debt service on the COPs is $21,044,000, which would be repaid by the City over the 30-year term, subject to Board of Supervisors annual appropriation approval.

Ms. Querubin estimates the cost per square foot will be approximately $64 in year one, increasing to $78 per square foot in the last year of the 30-year term, which includes debt service costs plus operating expenses. Mr. Updike advises that new Civic Center leases currently range from approximately $60 to $65 per year.[7] Mr. Updike further advises that if the City was to lease office space beginning in 2019, the rate would be at least $60 per square foot per year and under a very conservative annual escalation of 1% per year, the rate per square foot per year after 30 years would be $80 per square foot. After 30 years, assuming no major tenant improvements, the cost per square foot for the City-owned 1500 Mission Street would decrease, after completing all the debt service payments.

As most of the City departments that would occupy 1500 Mission Street do not receive General Fund support, the additional funds to pay for these lease and operating expenses will likely come from increased permit fees, overhead and other department charges.

<u>Uses of Funds</u>

Project Development Costs

Based on what the Board of Supervisors previously approved and Public Works' current budget, development of a new City office building at 1500 Mission Street is projected to cost $326,690,953. As shown in Table 4 below, $1,250,000 was previously appropriated for this project, such that the proposed supplemental includes $325,440,953 to cover the total development expenses.

[6] The $660,705,075 reflects total gross debt service, including capitalized interest, reserve fund for the final debt service payment and ongoing annual costs of administration (i.e., insurance, trustee fees).
[7] Based on CRBE 2016 fourth quarter data reported by Mr. Updike.

Table 4: Project Development Costs

Land Acquisition Costs	$32,332,524
Financing Costs during Predevelopment	8,904,313
Architectural and Engineering, Professional Fees and Insurance	15,906,196
Construction Costs/ Fees, Permits & Taxes/ Development Management Fees and Return on Equity	269,547,920
Total Project Development Costs	**$326,690,953**
FY 2014-15 funds appropriated for land acquisition and design[8]	($1,250,000)
Total Appropriation Funds for Project Development	**$325,440,953**

Source: Samuel Chui, Public Works and Joshua Keene, Real Estate.

Mr. Chui advises that the total project development budget of $326,690,953 will not increase because (a) 50% of the construction documents for the core and shell of the building are now complete, (b) the project budget has remained constant since 2014, and (c) the budget already includes a contingency of $16,300,000 to address unforeseen issues. In addition, Mr. Joshua Keene of the Real Estate Division advises that the Purchase and Sale Agreement is structured to include the $326,690,953 as the Guaranteed Maximum Price. Therefore, the developer would be in default and allow the City to enforce performance under the Agreement, if the project is not completed within this budget.

FF&E, Technology Equipment and Moving Costs

In December 2014, when the Board of Supervisors approved the Conditional Land Disposition and Acquisition Agreement with Related to develop a new City office building at 1500 Mission Street, the total estimated cost of the project was $338,989,353, including $326,690,953 maximum cost for project development and $12,298,400 for furniture, fixtures and equipment (FF&E), technology and moving expenses. However, as shown in Table 3 above, the proposed supplemental appropriation includes $29,397,433 for FF&E, technology and moving costs, an increase of $17,099,033 or 139%.

Mr. Chui now estimates the FF&E, technology equipment and moving costs will be $29,416,265, a further increase of $18,832 more than the requested supplemental appropriation amount of $29,397,433. Table 5 below compares the earlier $12,298,400 estimate with the current $29,416,265 estimate provided by DPW for FF&E, technology and moving costs, an increase of $17,117,865 or 139%.

[8] In accordance with the original agreement between the City and Related in 2014, the City, through the Department of Building Inspection, paid Related non-reimbursable $1,000,000 toward acquisition of the property at 1500 Mission Street and $250,000 for schematic design.

Table 5: Comparison of Costs for FF&E, Technology and Moving Expenses

Description and Assumptions	2014 Costs	Current Estimated Costs	Increase/ (Decrease) Over 2014 Costs
Furniture, fixtures and equipment (FF&E)	$4,500,000*	$6,750,000**	$2,250,000
Ancillary Furniture***	0	5,170,140	5,170,140
Moving	5,000,000	4,500,000	(500,000)
Department of Technology/IT Expenses	2,798,400	10,771,125	7,972,725
City staff and consultant services	0	2,225,000	2,225,000
Total	**$12,298,400**	**$29,416,265**	**$17,117,865**

Source: Josh Keene of Real Estate Division and Samuel Chui of Public Works
* Assumes $3,000 per FTE @ 1,500 FTEs.
** Assumes $4,500 per FTE @ 1,500 FTEs.
*** Assumes $12 per square feet of net rentable area of 430,845 square feet.

According to Mr. Chui, Public Works began formally managing this project in 2016. Mr. Chui advises that the Real Estate Division's earlier estimate is comparable to the costs of moving into an existing office building and does not reflect the realities of new construction, which requires furniture and equipment that is not part of tenant improvements, furniture and equipment for a new permit center, common areas and building support, building connection to the City's fiber infrastructure in the streets, application of Voice over Internet Protocol (VoIP) for the telephony system, network equipment and infrastructure for building systems and City business needs. In addition, while Mr. Chui advises that Related feels these costs are reasonable, the projected $29,416,265 is not based on actual bids, such that these costs may change further.

Controller's Internal Audit Fund

The Controller's City Services Auditor would receive $653,382 from the proposed supplemental appropriation to provide internal audit functions. In accordance with Appendix F of the City's Charter, this amount is based on 0.2% of City project development costs of $326,690,954.

Certificate of Participation (COP) Fees and Expenses

The COP fees and expenses include the bond reserve, capitalized interest and fees, bond issuance costs, underwriter's discount, and a reserve for market uncertainty. According to Ms. Jamie Querubin of the Controller's Office of Public Finance, the bond reserve amount of $21,832,100 (Table 3 above) is calculated at 100% of the maximum annual debt service for the COPs over the 30-year term and is required to be set aside. The capitalized interest and fees amount of $31,051,471 (Table 3 above) assumes estimated accrued interest and fees for the potential use of commercial paper for up to two years prior to the issuance of the COPs and the capitalized interest for up to one year from the date of bond issuance. Bond issuance costs of $603,807 (Table 3 above) include legal fees, financial advisory fees, rating agency fees, printing, bond insurance and other issuance expenses. Underwriter's discount of $2,220,855 (Table 3 above) is the fee paid to the underwriter of the COPs for dissemination of the bonds. The reserve for market uncertainty of $4,500,000 (Table 3 above) represents the additional amount included in the supplemental to allow for fluctuations in market interest rates from the date of authorization by the Board of Supervisors until the time of the sale of the COPs.

As noted above, the Office of Public Finance anticipates requesting authorization for the sale of these COPs in May of 2017. The actual issuance of the COPs would not likely occur until the fall of 2019.

Sales Commissions and Expenses

The $1,000,000 Sales Commission and Expenses included in Table 3 above are based on the costs shown in Table 4 below.

Table 4: Sales Commission and Expenses

Sales commission for 30 Van Ness	$350,000
Fees for 30 Van Ness	40,000
Sales commission for 1660 and 1680 Mission Street	240,000
Bond defeasance fees for outstanding debt on 30 Van Ness	100,000
Escrow costs (.05% of $122 million)	61,000
Contingency	209,000
Total Sources	**$1,000,000**

Source: Real Estate Division

A sales commission of $350,000, based on the agreed upon rate of 0.5% of the $70,000,000 sale price, plus up to $40,000 for marketing materials for 30 Van Ness will be paid by the City to Newmark, Cornish & Carey brokerage firm. A sales commission of $240,000 based on an all-inclusive fixed fee for the $52,000,000 sale of 1660 and 1680 Mission Street will be paid by the City to Colliers International brokerage firm. Escrow costs which are split between the buyers and the City include payments for coordination of closing, assessments on the title, recording of final documents, wire transfers, etc. and are calculated at 0.05% of the combined $122 million total sales price or $61,000.

Defeasance of Series 2001A and 2007A COPs

In October 2001, the City purchased 30 Van Ness and to date, has incurred approximately $44 million to purchase, renovate and refinance 30 Van Ness. The total current balance on the outstanding 2001A and 2007A Certificates of Participation (COPs) for 30 Van Ness is $27,065,000. As shown in Table 3 above, $27,065,000 for the outstanding 2001A and 2007A COPs would be paid off with the proceeds from the sale of the 30 Van Ness property. As shown in Table 4 above, Mr. Keene estimates costs of approximately $100,000 to defease the outstanding debt on the 30 Van Ness COPs. The defeasance of the bonds is anticipated to occur on May 1, 2017, as part of the escrow on the sale of 30 Van Ness.

POLICY CONSIDERATION

Board of Supervisors Legislative Actions Still Required

The subject supplemental appropriation ordinance is requesting the Board of Supervisors to appropriate $443,765,000 for funds to develop a new City office building at 1500 Mission

Street. However, several legislative actions are still required to be taken by the Board of Supervisors before this development project can move forward, including the following:

- Approval of Amendment to the General Plan;
- Approval of creation of a 1500 Mission Street Special Use District;
- Adoption of the Planning Commission's CEQA findings;
- Approval of a conditional Purchase and Sale Agreement with Related for entitled land;
- Approval of the issuance of a not-to-exceed $321,765,000 of COPs.

Therefore, to approve the funds to develop a project that has not yet been approved by the Board of Supervisors is premature, and should not be approved at this time.

Use of 1500 Mission Street Not Consistent with Prior Report on Use and Lease Reduction

The current proposed square footage use and City departments that would occupy the new 1500 Mission Street office building is not consistent with the information the Real Estate Division and the Controller's Office provided to the Board of Supervisors in 2014, when the Board approved this project. Most notably, the proposed use significantly expands the amount of space for three City departments, Public Works, Planning and Building Inspection and excludes Health Service System and Retirement System. Furthermore, the Board of Supervisors was advised that this new City office building was anticipated to result in approximately 100,000 square feet of additional net new City-owned office space and reduce the amount of leased space and lease costs in the Civic Center, thereby resulting in the termination of some existing City leases. Mr. Updike notes that the proposed new office building will actually create an estimated 154,760 square feet of new space.

However, Mr. Updike advises that currently, there are no plans to terminate any existing leases and all available space that will be vacated will be backfilled with other City employees. Therefore, obtaining a new 1500 Mission Street office building with approximately 463,300 gross square feet, with net additional office space of approximately 154,760 square feet, will result in zero terminations of existing City leases and zero lease cost savings to the City.

Need for Clear Report on Use of 1500 Mission Street and Lease Savings Identified

Before the Board of Supervisors approves the funding for a new City office building, the Real Estate Division should provide a report to the Board of Supervisors that clearly identifies the (a) number of employees and amount of space that are currently used by each City department, (b) number of employees and amount of space that are proposed to be used by each City department in the new City building, and (c) existing City leases that will be terminated, backfilled or otherwise reused, including the square footage of such leases and the amount of rent savings or additional costs assumed. The City should be maximizing the number of leases being terminated and the number of City departments and employees relocated into the new City office building, as was originally proposed to the Board of Supervisors when this project was approved.

Need for Reduction in City FF&E, Technology and Moving Expenses

In addition, given the requested increase of $17,117,865 or 139% for FF&E, technology and moving expenses, the Board of Supervisors should not approve this $29,397,433 request. As part of the report identifying which City departments would be relocated to 1500 Mission Street, Public Works should rework the $29,397,433 amount to maximize the amount of furniture that is reused and moved into the new building and minimize the additional City expenses. Details should be provided and bids obtained prior to requesting a reduced amount of funding for this purpose.

RECOMMENDATIONS

1. Three City-owned properties (30 Van Ness and 1660 and 1680 Mission Street) have been sold and will close on May 1, 2017 with total proceeds of $122,000,000 to be received by the City. Such proceeds are needed by the City to pay for required commissions, fees and to defease the remaining COPs on the 30 Van Ness Avenue building, such that these funds should be appropriated. The balance of $93,935,000 should be set aside by the Controller for development of a new City office building capital project. Therefore, the Budget and Legislative Analyst recommends approval of $122,000,000 out of the total requested amount of $433,765,000 for the sources and uses as shown in Table 5 below, with the entire $122,000,000 placed on Controller's Reserve pending the sale of the buildings:

Table 5: Recommended Appropriation

Sources and Uses	Total
Sources	
Sales proceeds from 30 Van Ness and 1660 and 1680 Mission Street	$122,000,000
Total Sources	**$122,000,000**
Uses	
Sales Commissions and Expenses	1,000,000
Defeasance of Series 2001A and 2007A COPs	27,065,000
Balance to Controller's Capital Project Fund Account for new Office Building	93,935,000
Total Uses	**$122,000,000**

2. The balance of the total requested $433,765,000 supplemental appropriation, or $321,765,000 from the sale of the Certificates of Participation should be continued to the Call of the Chair, pending approval of all legislative actions by the Board of Supervisors, as itemized above, for this project. When the Controller, Public Works and Real Estate return to the Board of Supervisors to request appropriation of these funds, the request for FF&E, technology and moving expenses should be significantly reduced, justified and detailed. To match such reductions, the request for the size of the COPs should be commensurately reduced. Real Estate and Public Works should also report back to the Board of Supervisors prior to approval of the FF&E, technology and moving

expenses for 1500 Mission Street, regarding the specific use of the new City office building, identifying specific terminations of leases and related lease cost savings to the City.

The Budget and Legislative Analyst is making these recommendations because:

1. The new City office building project at 1500 Mission Street has not yet been approved by the Board of Supervisors;
2. FF&E, technology and moving expenses are proposed to increase by $17 million, or 139% without any supporting bids or detail; and
3. Despite an additional estimated 154,760 net square feet of additional space as a result of the new City office building, and despite what the Board of Supervisors was previously advised regarding this new City office building, zero existing City leases are proposed to be terminated and zero lease cost savings will be realized by the City.