CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

September 29, 2017

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: October 5, 2017 Budget and Finance Committee Meeting

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Item 2 **File 17-1009**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The San Francisco Public Utilities Commission (SFPUC) requests to release $2,400,000 of the $6,289,011 on Budget and Finance Committee Reserve to pay for additional environmental review, design, and construction activities associated with cleanup of residual contamination at the Lake Merced site formerly occupied by the Pacific Rod and Gun Club.

Key Points

- SFPUC had a long term lease with the Pacific Rod and Gun Club for a site on Lake Merced, in which the Club used lead shot and clay pigeons for skeet and trap shooting, resulting in contamination to the site.
- The Board of Supervisors previously appropriated $22,005,000 for environmental review and cleanup of the site, placing $9,500,000 on Budget and Finance Committee Reserve. The Budget and Finance Committee previously released $3,210,989 of the $9,500,000 and retained $6,289,011 on reserve.
- The first phase of environmental review and cleanup was completed in March 2016. Subsequently, SFPUC found ground contamination beneath one of the buildings on site. Because the original environmental review and remediation plan did not allow for demolition of the building, which is considered an historical structure, SFPUC needs to develop a new remediation plan.

Fiscal Impact

- Total actual and projected expenditures for environmental review and cleanup of the Lake Merced site are less than the $22,005,000 appropriation. SFPUC has spent $15,715,989 and estimates additional expenditures of $2,440,381, totaling $18,156,370.
- SFPUC is requesting release of $2,400,000 of the $6,289,011 on reserve to pay for additional environmental review and cleanup of the Lake Merced site, leaving $3,889,011 on reserve.
- The proposed budget for new environmental review services contains two contingencies. Because the new contract for environmental review services contains a 15 percent contingency, the additional 15 percent contingency for environmental review services of $105,000 should be removed. Further, SFPUC does not anticipate needing the remaining funds of $3,889,011 on Budget and Finance Committee Reserve.

Recommendations

- Reduce the requested release of funds on reserve by $105,000, from $2,400,000 to $2,295,000.
- Return $3,994,011 ($105,000 recommended reduction of the requested release of funds on reserve and $3,889,011 remaining on Budget and Finance Committee Reserve) to the Water Enterprise fund balance.

MANDATE STATEMENT

City Administrative Code Section 3.3(e) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to release by the Budget and Finance Committee.

BACKGROUND

On January 1, 1934, the City and the Pacific Rod and Gun Club (Club), a nonprofit organization, entered into a month-to-month lease agreement for use of City property at Lake Merced for skeet and trap shooting and fly casting. In 2007, the Board of Supervisors approved a resolution urging the San Francisco Public Utilities Commission (SFPUC) to manage the City's approximately 811 acre Lake Merced Tract and assume a greater role in the protection of water quality, as Lake Merced is an emergency back-up water supply for the City (Resolution No. 14-07).

On June 12, 2013, the San Francisco Bay Regional Water Quality Control Board (RWQCB) issued an Order to both the Club and the SFPUC, as joint dischargers, requiring site investigations and a plan for corrective measures to address soil contamination, and requiring the Club and the SFPUC to clean up and remediate the site. In response, the SFPUC prepared a Remedial Action Plan to clean up the site, which was approved by the RWQCB in November 2014.

On March 27, 2014, the City sued the Club for nuisance and breach of contract to recover the costs of remediation. The lawsuit was settled for $8,250,000, which is currently pending Board of Supervisors approval (File 17-0927). The funds are currently in a trust account held by the Club's outside insurance counsel and would go to the Water Enterprise account to help offset the costs of remediation.

In FYs 2013-14 and 2014-15, the Board of Supervisors appropriated $12,505,000 in the SFPUC's Water Enterprise budget to clean up and remediate the site. On February 24, 2015, the Board of Supervisors appropriated an additional $9,500,000 in Water Enterprise revenues to clean up and remediate the site, for a total appropriation of $22,005,000. The Board of Supervisors placed $9,500,000 on Budget and Finance Committee reserve pending the receipt of the bids and selection of the contractor to clean up and remediate the contaminated soil at Lake Merced (File 14-1296).

The construction contract for the cleanup and removal of the contaminated soil and the replacement with clean soil on the site was advertised on December 24, 2014. The SFPUC received seven bids on February 5, 2015 and selected ERRG, Inc. as the lowest responsive bidder at $9,210,715. Subsequently, on April 8, 2015, the Budget and Finance Committee approved the release of $3,210,989 of the previously reserved $9,500,000, retaining $6,289,011 on Budget and Finance Committee Reserve.

The first phase of remediation was completed in March, 2016.

DETAILS OF PROPOSED LEGISLATION

SFPUC requests to release $2,400,000 of the $6,289,011 on Budget and Finance Committee reserve to pay for additional California Environmental Quality Act (CEQA) review, design, and construction activities associated with cleanup of residual contamination at the Lake Merced site formerly occupied by the Pacific Rod and Gun Club.

According to Mr. Obi Nzewi, SFPUC Project Manager, SFPUC found ground contamination beneath one of the buildings on site. Because the original Mitigated Negative Declaration, prepared as part of the CEQA review of the site, did not allow for demolition of the building, which is considered an historical structure, SFPUC needs to prepare a new Mitigated Negative Declaration to allow for demolition and construction of a new building, complete remediation of the residual material, and facilitate site reuse.

The Recreation and Park Department[1] plans to use the Lake Merced site for recreation purposes. The Department selected ESA Associates (ESA), an environmental consultant, to conduct the new CEQA review and prepared the Mitigated Negative Declaration through a competitive Request for Proposals (RFP). ESA, who had conducted the original CEQA review of the site, was the only respondent to the RFP.

Upon completion of remediation, the Recreation and Park Department will begin working with Lake Merced Recreation, LLC, selected through a competitive process, on a new recreational use for the site. According to the Department's staff report to the Recreation and Park Commission, Lake Merced Recreation, LLC will construct improvements to the site in three phases between 2018 and 2020, for an estimated project cost to Lake Merced Recreation, LLC, of $3 million.

FISCAL IMPACT

As of April 2015, the Board of Supervisors had appropriated $22,005,000 to the remediation of the Lake Merced site previously occupied by the Pacific Rod and Gun Club, of which $6,289,011 are on Budget and Finance Committee Reserve. SFPUC has spent $15,715,989 and projects additional expenditures of $2,440,381, totaling $18,156,370, as shown in Table 1 below.

[1] Under a Memorandum of Understanding (MOU) between SFPUC and the Recreation and Park Department, the Recreation and Park Department manages recreation at the site.

Table 1: Sources and Uses of Funds

Sources	
Previously Appropriated and Available Funds	$15,715,989
Funds on Budget and Finance Committee Reserve	6,289,011
Total Sources	$22,005,000
Uses	
Actual Expenditures as of September 2017	$15,715,989
Projected Expenditures (see Table 2)	2,440,381
Total Uses	$18,156,370
Appropriation > Expenditures	$3,848,630

SFPUC projects expenditures of $2,440,381 for the additional CEQA review and remediation of the Lake Merced site previously occupied by the Pacific Rod and Gun Club, as shown in Table 2 below.

Table 2: Projected Expenditures

Task/Activities	Expenditure
Project Support	
Environmental Review Support (SFPUC and Department of Environment Staff)	$205,216
EMB & CMB During Environmental Review	
SFPUC Project Manager	149,898
Construction Oversight Consultant (Kennedy Jenks)	80,000
Support (Subtotal)	$435,114
Construction	
Construction Contractor (ERRG)	$600,000
Board of Equalization Fee	95,000
Construction (Subtotal)	$695,000
Environmental Review	
Project CEQA Consultant (Environmental Science Associates)	$700,000
Contingencies	
Support Staff (15%)	$65,267
Project CEQA Consultant (15%)	105,000
Construction (30%)	210,000
Contingency (Subtotal)	$380,267
Permitting	100,000
Ongoing Compliance Monitoring Consultant (2 Years of Monitoring)	130,000
Total	**$2,440,381**

SFPUC is requesting release of $2,400,000 of the $6,289,011 on Budget and Finance Committee Reserve to pay for additional environmental review and cleanup of the Lake Merced site. If the

Budget and Finance Committee approves the request, SFPUC would have $3,889,011 remaining in reserves.

Because the contract between SFPUC, the Recreation and Park Department, and the environmental consultant, ESA, contains a 15 percent contingency, the Budget and Legislative Analyst recommends deleting the additional 15 percent contingency for the Project CEQA Consultant of $105,000 (see Table 2 above). Therefore, the requested release of funds on reserve should be reduced by $105,000, from $2,400,000 to $2,295,000.

SFPUC does not anticipate needing the remaining funds of $3,889,011 on Budget and Finance Committee reserve. Therefore, the Budget and Legislative Analyst recommends returning $3,994,011 ($105,000 recommended reduction of the requested release of funds on reserve and $3,889,011 remaining on Budget and Finance Committee Reserve) to the Water Enterprise fund balance.

RECOMMENDATIONS

1. Reduce the requested release of funds on reserve by $105,000, from $2,400,000 to $2,295,000.

2. Return $3,994,011 ($105,000 recommended reduction of the requested release of funds on reserve and $3,889,011 remaining on Budget and Finance Committee Reserve) to the Water Enterprise fund balance.

Item 3 **File 17-0668**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves a new lease between Alliance Ground International, LLC, (Alliance) and the San Francisco International Airport (Airport) for approximately 40,778 square feet in Airport Building 648. The term of the lease is approximately three years and seven months beginning after Board of Supervisors approval and ending in May 2021. Estimated rent payable by Alliance to the Airport is $3,820,253 over the approximate three year and seven month term.

Key Points

- Alliance provides aviation support services to various airlines at the Airport. The original lease between the Airport and Alliance began in 2013 and was for 20,569 square feet in Airport Building 606. The Airport did not award the lease through a competitive process because under Administrative Code Section 2A.173, the Airport may enter into leases providing aviation support services without competitive bidding as long as the term does not exceed ten years.
- In 2016, the Airport Commission approved a five-year lease with Alliance for 39,678 square feet in Airport Building 648. However, the lease was never calendared for Board of Supervisors approval, and Alliance has been occupying the premises on a month-to-month basis, paying the current rental rate of $24.92 per square foot per year, which is the rate for warehouse space set by the Airport Commission in the FY 2017-18 Summary of Airport Charges.
- Alliance has now requested a new lease to increase its space to 40,778 square feet, comprising 33,339 square feet of warehouse space and 7,439 square feet of office space

Fiscal Impact

- The Airport estimates that $3,820,253 in rent will be paid over the three-year and seven-month term of the lease.
- Rental rates for cargo facilities are set by the Airport's Finance Department each year based on the Consumer Price Index and the supply and demand of facilities**,** and are subsequently approved by the Airport Commission. The rates apply for all cargo service providers at the Airport for both the warehouse and office portions of the premises.

Recommendations

- Amend the proposed resolution to state that the total estimated rent is $3,820,253 and that the projected term is three years and seven months.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease with anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

Administrative Code Section 2A.173 states that the Airport Commission has the authority to execute leases for aviation support services without undergoing a competitive process.

BACKGROUND

Alliance Ground International, LLC (Alliance) provides aviation support services to various airlines at San Francisco International Airport (Airport). Alliance originally occupied about 20,569 square feet of warehouse and office space in Airport Building 606, starting in April of 2013. After seeking a larger space, Alliance agreed to a five year lease in 2016 for 39,678 square feet in Airport Building 648. The lease was approved by the Airport Commission, but never calendared for Board of Supervisors approval due to administrative error. Subsequently, Alliance requested to occupy an additional 1,100 square feet, bringing the total to 40,778 square feet, requiring execution of a new lease, which was approved by the Airport Commission in May 2017.

Alliance has been occupying the premises on a month-to-month basis, paying the current rental rate of $24.92 per square foot per year, which is the rate for warehouse space set by the Airport Commission in the FY 2017-18 Summary of Airport Charges.

The Airport did not award the lease through a competitive process because under authority from Administrative Code Section 2A.173, the Airport may enter into leases providing aviation support services without competitive bidding as long as the term does not exceed ten years.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a new lease between Alliance and the Airport for approximately 40,778 square feet of warehouse and associated office space in Airport Building 648. The term of the lease is approximately three years and eight months, following Board of Supervisors approval, and ending May 31, 2021. Estimated rent payable by Alliance to the Airport over the approximate three-year and seven-month term is $3,904,935. Table 1 below summarizes the key lease terms.

Table 1: Key Provisions of the Alliance Lease

Lease Terms	
Permitted Use	Integrated air cargo related business and for no other uses
Premises	33,339 square feet of warehouse space 6,339 square feet of 1st floor office space 1,100 square feet of 2nd floor office space 40,778 total square feet
Term	The first day of the month following full City approval through May 31, 2021
Extension options	Tenant has no right to renew or extend lease
Rent payable by Alliance to the Airport in first year	$1,016,188 ($24.92 per sq. ft.)
Annual rent adjustments	To be determined each year by the Airport's Summary of Charges for Cargo Facilities
Tenant improvements	Paid for and performed by Tenant
Utilities	Paid by Tenant
Maintenance	Paid by Airport. Includes maintenance, repair, and replacement of infrastructure, systems and equipment.

Rental rates for cargo facilities are set by the Airport's Finance Department each year based on the Consumer Price Index and the supply and demand of facilities, and are subsequently approved by the Airport Commission. The rates apply for all cargo service providers at the Airport for both the warehouse and office portions of the premises.

FISCAL IMPACT

As shown in Table 2 below, the Airport estimates that Alliance will pay rent of $3,820,253 to the Airport over the approximate three-year and seven-month term. According to Mr. Dan Ravina, Airport Senior Property Manager, the estimated rent of $3,820,253 includes annual rent increases of approximately 3 percent.

Table 2: Estimated Annual Rent to be Paid by Alliance to Airport

Year	Approximate Rent per Square Foot	Total Square Feet	Estimated Rent
11/1/2017 - 6/30/2018 (eight months)	$24.92	40,778	$677,459
7/1/2018 - 6/30/2019 (twelve months)	25.67	40,778	1,046,771
7/1/2019 - 6/30/2020 (twelve months)	26.44	40,778	1,078,170
7/1/2020 - 5/31/2021 (eleven months)	27.23	40,778	1,017,853
Total			**$3,820,253**

**Totals may not add due to rounding*

RECOMMENDATIONS

1. Amend the proposed resolution to correctly state that the total estimated rent is $3,820,253, rather than $4,219,299 as stated in the resolution, and that the projected term is three years and seven months, rather than three years and nine months as stated in the resolution.
2. Approve the proposed resolution as amended.

Items 6, 7, 8 and 9 **Files 17-0951, 17-0952, 17-0953 and 17-0954**	**Department:** Controller's Office (Controller)

EXECUTIVE SUMMARY

Legislative Objectives

- The four resolutions extend the Teeter Plan to special taxes levied for (1) the San Francisco Unified School District (SFUSD) under the School Parcel Tax; (2) the Community College District under the City College Parcel Tax; (3) the San Francisco Bay Restoration Authority under the Bay Habitat Restoration Tax; and (4) the SFUSD under the School Facilities Special Tax.

Key Points

- Under the Teeter Plan, counties allocate property tax revenues based on the total amount of property taxes billed, but not yet collected. In exchange, the counties receive the penalties and interest on the delinquent taxes when collected.
- In May 2017, the Board of Supervisors approved the extension to the Teeter Plan to special taxes levied for the Transbay Transit Center Community Facilities District, which was the first instance of San Francisco using the Teeter Plan for special taxes.

Fiscal Impact

- SFUSD and the Community College District are owed $1,944,340 for delinquent special taxes, including penalties and interest as of July 1, 2017. Under the proposed resolutions, the Controller would (a) buy the total amount of the delinquent special taxes, including penalties and interest, from SFUSD and the Community College District, and (b) for each tax year going forward, would allocate all special taxes that are levied to SFUSD and the Community College District, and retain the delinquent taxes, penalties, and interest when collected in accordance with the Teeter Plan.
- The Bay Habitat Restoration Tax of $12 per parcel was approved by the voters in June 2016 and is being collected for the first time in FY 2017-18.
- The Controller’s Office would deduct approximately $1.94 million in General Fund revenues to the City in FY 2017-18 in order to purchase an estimated $1.94 million in existing delinquent special taxes from SFUSD and the Community College District.
- The Controller’s Office estimates that the City’s General Fund would receive about $300,000-$400,000 in additional revenues annually on average under the Teeter Plan. The City would be fully repaid for the estimated $1.94 million purchase of existing delinquent special taxes in approximately five to six years, and in subsequent years the additional revenues would accrue to the General Fund.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

California Revenue and Taxation Code Sections 4701 and 4702 allow the Board of Supervisors of a county to adopt an alternative vehicle for the allocation and distribution of property taxes and sale proceeds.

BACKGROUND

First enacted in 1949, the Teeter Plan is an alternative method for collecting taxes in California counties and allocating delinquent property tax revenues. Under the Teeter Plan, counties allocate property tax revenues based on the total amount of property taxes billed, but not yet collected. The County finances the allocation by borrowing money to advance cash to each taxing jurisdiction in an amount equal to the current year's delinquent property taxes. In exchange, the counties receive the penalties and interest on the delinquent taxes when collected. For counties not under the Teeter Plan, entities that levy the direct charge would be the sole beneficiary of the penalties revenues associated with that charge on the tax bill.

In October 1993, the Board of Supervisors passed a resolution that adopted the Teeter Plan. The City and County of San Francisco currently uses the Teeter Plan for secured ad valorem property taxes.

In May 2017, the Board of Supervisors approved the extension to the Teeter Plan to special taxes levied for the Transbay Transit Center Community Facilities District in order to provide credit enhancement for bond sales. Resolution 245-17 was the first instance of the County of San Francisco using the Teeter Plan for special taxes levied.

DETAILS OF PROPOSED LEGISLATION

17-0951: Resolution extending the Teeter Plan to special taxes levied for the San Francisco Unified School District (SFUSD) under the School Parcel Tax

17-0952: Resolution extending the Teeter Plan to special taxes levied for the San Francisco Community College District under the City College Parcel Tax

17-0943: Resolution extending the Teeter Plan to special taxes levied for the San Francisco Bay Restoration Authority under the San Francisco Bay Clean Water, Pollution Prevention and Habitat Restoration Program (Bay Habitat Restoration Tax)

17-0954: Resolution extending the Teeter Plan to special taxes levied for the San Francisco Unified School District under the School Facilities Special Tax

SFUSD and Community College District Special Taxes

SFUSD and the Community College District are owed $1,944,340 for delinquent special taxes, including penalties and interest as of July 1, 2017, as shown in Table 1 below.[1] Under existing

[1] The voters approved the following special taxes on property: (a) in 2008, a parcel tax of $198 per parcel per year to fund increases in teacher salaries and other compensation, and to support school improvements; (b) in 2010, a special tax on property not-to-exceed $32.20 for single family residential and nonresidential parcels, and $16.10

practice, the Controller's Office allocates tax revenues, penalties and interest to SFUSD and the Community College District when the delinquent taxes are collected. Under the proposed resolutions (Files 17-0951, 17-0952, and 17-0954), the Controller would (a) buy the total amount of the delinquent special taxes, including penalties and interest, from SFUSD and the Community College District, and (b) for each tax year going forward, would allocate all special taxes that are levied to SFUSD and the Community College District, and retain the delinquent taxes, penalties, and interest when collected in accordance with the Teeter Plan.

According to the Mr. Jamie Whitaker, Property Tax Manager at the Controller's Office, the Controller estimates the initial cost to buy out the existing receivables for the SFUSD and City College defaulted secured taxes as of July 1, 2018 to be approximately $1.94 million. This estimate is based on the balance of secured direct charges that were levied but remain unpaid along with ten percent penalties and 1.5 percent per month redemption interest as of July 1, 2017.

Table 1: Defaulted taxes on the County's redemption roll as of July 1, 2017

Direct Levy	Delinquent Tax	Delinquent Penalties and Redemption of Interest	Total Accounts Receivables
School Facilities Special Tax (17-0954)	$154,231	$65,396	$219,628
City College Parcel Tax (17-0952)	306,638	88,258	394,896
School Parcel Tax (17-0951	974,727	355,090	1,329,816
Total	**$1,435,596**	**$508,744**	**$1,944,340**

Bay Habitat Restoration Tax (File 17-0953)

The Bay Habitat Restoration Tax of $12 per parcel was approved by the voters in June 2016 and became effective as of July 1, 2017. The tax is being collected for the first time in FY 2017-18. The San Francisco Bay Restoration Authority's Board would also need to pass a resolution allowing San Francisco to Teeter their parcel tax since they do not participate in San Francisco's County Pool.

FISCAL IMPACT

According to Mr. Whitaker, the Controller's Office would deduct approximately $1.94 million in General Fund revenues to the City in FY 2017-18 in order to purchase an estimated $1.94 million in existing delinquent special taxes from SFUSD and the Community College District. In addition, there will be a small amount needed to purchase the delinquent special taxes in FY 2017-18 from the Bay Restoration Authority.

Beginning in FY 2018-19, the Controller's Office would allocate all special taxes that are levied in the fiscal year to SFUSD, the Community College District, and the Bay Restoration Authority.

per dwelling unit in mixed use and multifamily parcels, adjusted for inflation, to fund seismic and other capital repairs to SFUSD facilities; and (c) in 2012, a parcel tax of $79 per parcel per year to offset State funding reductions and fund other operating costs of the Community College District, which was increased to $99 per parcel per year as of January 1, 2017.

Under the proposed Teeter Plan, the City's General Fund accrues the entirety of the ten percent penalties and 1.5 percent redemption interest per month accrued on those particular charges when they are paid by either the property owner or via tax sale or auction of the defaulted property.

The Controller's Office estimates that the City's General Fund would receive about $300,000-$400,000 in additional revenues annually on average under the Teeter Plan. Therefore, the City would be fully repaid for the estimated $1.94 million purchase of existing delinquent special taxes, penalties and interest in approximately five to six years. The Board of Supervisors has the option of choosing the standard or alternative method of apportioning property taxes each fiscal year.

The Teeter Plan does not result in any change to the overall budget of the City.

RECOMMENDATION

Approve the proposed resolutions.

Item 10 **File 17-0994**	**Department:** General Services Agency - Department of Public Works (DPW)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the Third Amendment to the Revenue Agreement between San Francisco Public Works (Public Works) and JC Decaux San Francisco, LLC (JC Decaux), for the Automatic Public Toilet and Public Service Kiosk Program, extending the contract term by 60 days, changing the termination date from October 17, 2017 to December 16, 2017.

Key Points

- Public Works entered into an agreement with JC Decaux for a public toilet and public service kiosk pilot program in 1994. In 1998, the Board of Supervisors expanded the program beyond the pilot phase and extended it through October 17, 2016. Public Works issued a Request for Proposals (RFP) in 2015 to select a new contractor, but due to problems in the RFP process, was not able to proceed. Therefore, the Board of Supervisors approved an amendment to the agreement with JC Decaux to extend the term for an extra year through October 17, 2017, pending a new RFP process. Public Works reissued the RFP in April 2016 and JC Decaux was the only bidder.
- The current agreement between Public Works and JC Decaux expires on October 17, 2017. Public Works needs additional time to complete negotiations with JC Decaux on a new agreement and has requested a 60 day extension to the current agreement, extending it through December 16, 2017.

Fiscal Impact

- Public Works receives a base fee as well as 7 percent of JC Decaux's annual advertising revenues from the public toilets and kiosks. In 2016, the most recent calendar year with complete revenue information, Public Works received $778,539 in revenues. Assuming that advertising revenues continue at the same rate for 2017, and that the base fee increases 3.37 percent with the Consumer Price Index (CPI), Public Works can expect to receive approximately $129,981 over the 60 day extension of the agreement.

Recommendation

- Approve the proposed resolution.

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

In 1994, San Francisco Public Works (Public Works) and JC Decaux San Francisco, Inc. (JC Decaux) entered into an agreement for a public toilet and public service kiosk pilot program. Under the agreement, JC Decaux installs, owns, and maintains the toilets and kiosks, in exchange for the right to sell advertisements. In December 1998, the Board of Supervisors approved an expansion of the agreement (File No. 98-1599) beyond the pilot phase, extending the term through October 17, 2016. The length of the agreement provided long-term revenue certainty to JC Decaux for making a large upfront capital investment. In December 2015, the agreement was amended to allow installation of temporary personal wireless facilities in anticipation of events related to Super Bowl 50.

According to Ms. Julia Dawson, Public Works Deputy Director of Finance and Administration, Public Works issued a Request for Proposals (RFP) in mid-2015 for vendors to continue the program and received three bids: JC Decaux, Intersection, and Clear Channel. However, because the RFP lacked clarity, the bids could not be evaluated. As a result, Public Works rejected all bids. On April 29, 2016, Public Works re-advertised the revised RFP, and JC Decaux was the only responsive bidder. Public Works needed additional time to negotiate a replacement revenue agreement with JC Decaux, and on October 28, 2016, the Board of Supervisors approved an extension of the agreement (File No. 16-1019) for an additional year, through October 17, 2017.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the third amendment to the existing agreement between Public Works and JC Decaux, extending the agreement end date by approximately two months from October 17, 2017 to December 16, 2017. According to Ms. Dawson, Public Works needs additional time to complete negotiations with JC Decaux on a subsequent agreement and has requested to extend the current agreement for an additional 60 days. Under the forthcoming new agreement, subject to future Board of Supervisors approval, JC Decaux will remove the existing toilets and kiosks and replace them with new facilities featuring both digital and print advertising.

FISCAL IMPACT

Under its current agreement with JC Decaux, Public Works receives both an annual base fee and 7 percent of advertising revenue each calendar year. The base fee was $25,000 at the beginning of the agreement in 1998 and has been adjusted annually based on the Consumer

Price Index (CPI), to the most recent amount of $40,000 in 2016. Assuming the CPI increases by 3.37 percent[1] in 2017, the base fee in 2017 would be $41,348. The prorated base fee for the 60 day extension would be $6,891. In 2016, the total advertising revenue was $10,550,550, and the revenue share paid to Public Works was $738,539. Assuming that the advertising revenue remains constant for 2017, Public Works would receive $123,090 for the 60 day extension period. Between the base fee and the revenue share, Public Works would receive $129,981 total. The revenue projections are shown in Table 1 below.

Table 1: 2016 Revenues and 2017 Projected Revenues

Year	Annual Advertising Revenues	7% Revenue Share to Public Works	Base Fee	Total Payment to Public Works
2016	$10,550,550	$738,539	$40,000	$778,539
2017 (expected)	10,550,550	738,539	41,348	779,887
Agreement Extension (60 days, prorated)*	**$1,758,425**	**$123,090**	**$6,891**	**$129,981**

**Assumes 3.37 percent increase in annual base fee and no increase in annual advertising revenues. Agreement extension period is calculated as 1/6 (2 months) of the total 2017 projected revenues.*

RECOMMENDATION

Approve the proposed resolution.

[1] The amount the CPI increased from the first half of 2016 to the first half of 2017.

Item 12 **File 17-0861**	**Department:** Port of San Francisco

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance amends a prior ordinance, regarding a Project Partnership between the United States Army Corps of Engineers (USACE) and the Port of San Francisco (the Port) to allow federal dredging of the Central Basin adjacent to Pier 70, to: (1) change the project dredging depth from 32 feet to 35 feet; (2) increase the estimated initial project cost from $8,971,000 to $11,690,000; (3) increase the Port's 25 percent project contribution from $2,242,740 to $2,922,500; (4) change the frequency of maintenance dredging from every four years to every two years; (5) increase the Port's additional 10 percent matching contribution from $897,100 to $1,169,000; (6) increase the estimated total cost of dredging during the first 30 years from $12,195,000 to $31,300,000; and (7) authorize the Port Executive Director to reserve a contingency fund of $409,150 (equivalent to 10 percent of the Port's total estimated cost contributions of $4,091,500) for a total Port expenditure authorization not to exceed $4,500,650.

Key Points

- On December 15, 2016, the City enacted Ordinance No. 244-16, approving a Project Partnership Agreement ("PPA") between the Port and USACE, to allow federal dredging and future maintenance dredging of the Central Basin. At that time, the PPA called for USACE to dredge the Central Basin to a depth of 32 feet. USACE later determined that the most cost-effective dredge depth for the Central Basin would be 35 feet. USACE also increased the frequency of future federal maintenance dredging to every two years.
- This proposed increase in dredge depth and frequency in periodic maintenance dredging will substantially improve the federal cost-benefit ratio of the Project and the economic competitiveness of the Pier 70 ship repair facility by allowing larger vessels to transit the Central Basin. However, this revised project scope increases the estimated project costs, requiring a greater cost contribution from the Port beyond its expenditure authority.

Fiscal Impact

- The Port's 25 percent match contribution of $2,922,500 will come from the Port's Harbor Fund balance
- Over the next 30 years, the Port will include sufficient funding in the Port's biennial budget to provide the necessary 10 percent matching contribution to enable the USACE to maintain the required dredging. The $1,169,000 of Port matching funds over 30 years would require an estimated $38,967 per year of Port Harbor Funds.

Recommendations

- Amend the proposed ordinance to correctly state the average estimated cost per maintenance dredge is $1,626,000 rather than $1,026,000 as stated in the proposed ordinance.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

City Charter Section 9.118(b) provides 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

Central Basin Project

Pier 70 at the Port of San Francisco (Port) contains an operating shipyard leased by the Port to a private shipyard operator. The prior lease between the Port and BAE Systems, Inc. terminated in May 2017 after a legal dispute between BAE and Puglia Engineering, the firm to which it had sold its shipyard operations. The Port issued a Request for Proposals to select a new shipyard operator in July 2017.

The Central Basin in San Francisco Bay, which is within the City's jurisdiction, is outside both federal navigational channels and the premises of the Port's Pier 70 shipyard operations. However, the Central Basin provides the navigational approach for ships entering the Pier 70 shipyard. The continuing accumulation of sediment in the Central Basin restricts the size of ships that can currently enter the Pier 70 shipyard as well as the long term viability of the shipyard.

In October 2009, the Port requested funding assistance from the United States Army Corps of Engineers (USACE) to dredge the Central Basin given that many federal vessels receive maintenance and repair services at the Pier 70 shipyard. In April 2016, USACE determined (and the Port concurred) that the ideal depth for the shipyard operations was 32 feet. The current depth of the Central Basin is 26 feet.

In December 2016, the Board of Supervisors approved the project partnership agreement (PPA) between USACE and the Port for the USACE to dredge the Central Basin to a depth of 32 feet. The total cost of the initial dredging project was of $8,971,000, of which $2,242,740 or 25 percent were Port matching funds previously appropriated by the Board of Supervisors (File No. 16-1286; Ordinance No. 244-16).

Under the PPA, USACE would perform maintenance dredging of the Central Basin every four years at an estimated average cost per dredging episode of $1,626,000 or $13,092,100 for eight dredging episodes over approximately 30 years. The Port was to provide matching funds of $897,100 toward the costs of the maintenance dredging, as shown in Table 1 below, payable over 30 years. [1]

[1] The Port's contribution of $897,100 equaled 10 percent of the initial dredging project costs of $8,971,000.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend Ordinance No. 244-16 to approve revised terms of the PPA between the Port and USACE to:

(1) Increase the project dredging depth from 32 feet to 35 feet;

(2) Increase the estimated initial dredging project cost from $8,971,000 to $11,690,000;

(3) Increase the Port's 25 percent contribution to the initial dredging project from $2,242,740 to $2,922,500;

(4) Increase the frequency of maintenance dredging from every four years to every two years, and increase the estimated cost of maintenance from $1,626,000 to $2,080,000 for each maintenance dredge episode;

(5) Increase the Port's contribution to maintenance dredging from $897,100 to $1,169,000, payable over 30 years;

(6) Increase the estimated total cost of dredging over 30 years from $12,195,000 to $31,300,000; and

(7) Authorize the Port Executive Director to reserve a contingency fund of $409,150 (equivalent to 10 percent of the Port's total estimated contributions of $4,091,500), for future unanticipated increases in project costs, for total Port expenditure authorization not to exceed $4,500,650.

After the approval of Ordinance No. 244-16 by the Board of Supervisors in December 2016, USACE continued to analyze the Central Basin project and revised the project scope to increase the dredge depth from 32 feet to 35 feet, and increase the frequency of future maintenance from every four years to every two years. The USACE is seeking the increased dredge depth to allow use of the facility by larger federal ships. The 35 foot depth could also potentially benefit the Port and City by allowing larger ships to access the Pier 70 shipyard, making it more economically competitive.

The initial construction project to dredge the Central Basin to a depth of 35 feet would occur in 2018. Under this agreement, the USACE would be responsible for managing and completing the project, including all equipment, labor and disposal of dredged materials, in accordance with federal contracting procedures. The dredging will be subject to federal regulatory permits and require local permits from the Bay Conservation and Development Commission (BCDC) and the Regional Water Quality Control Board (RWQCB). USACE is moving forward based on the Port's expectation of the new shipyard operator being in place in early 2018.

The initial dredging is estimated to cost $11,690,000, including a 25 percent matching contribution of $2,922,500 from the Port. In addition, in accordance with the proposed Agreement, the USACE would continue to maintain the dredge depth of 35 feet and the Port would pay an additional contribution of $1,169,000 toward maintenance dredging, equal to 10 percent of the initial dredging cost of $11,690,000, payable over 30 years. The maintenance dredging is estimated by USACE to occur approximately every two years to maintain the depth of the Central Basin.

FISCAL IMPACT

The total estimated Central Basin dredging costs under the revised PPA are $43,578,150 over 30 years, an increase of $22,412,150 or 106 percent compared to the original estimated costs of $21,166,000. The Port's share of Central Basin dredging costs under the revised PPA are not to exceed $4,500,650 over 30 years, an increase of $1,360,810 or 43 percent compared to the original estimated share of $3,139,840. Table 1 below shows the estimated funding to be shared between the USACE and the Port under the original and revised PPAs.

Table 1: Project Partnership Agreement Funding Sources

Project		Original PPA	Revised PPA
Initial Dredging			
Federal CAP107 Appropriation (75%)		$6,728,260	$8,767,500
Port Harbor Funds (25%)		2,242,740	2,922,500
	Subtotal	$8,971,000	$11,690,000
Ongoing Maintenance Dredging (over 30 years)			
Federal Harbor Maintenance Trust Fund		$11,297,900	$30,310,000
Port Harbor Funds (10% of initial dredging cost)		897,100	1,169,000
	Subtotal	$12,195,000	$31,479,000
Port Contingency Fund		Not Included	$409,150
	TOTAL	**$21,166,000**	**$43,578,150**
	Total Port Contribution	**$3,139,840**	**$4,500,650**

The proposed ordinance authorizes a reserve contingency fund of $409,150 to cover unanticipated cost increases without requiring further Board of Supervisors approval. Under the proposed ordinance, the Port's amended total expenditure authorization, including the contingency fund, is not to exceed $4,500,650, or approximately 10.4 percent of the total estimated project cost of $43,399,150.

The Port's contribution for the initial Central Basin dredging project is $2,922,500. The Board of Supervisors previously appropriated $2,500,000 to the Central Basin dredging project, of which $255,274 was previously spent for engineering and other preliminary work, and $2,244,726 The remaining balance of $747,774, will come from the dredging account in the Port's 2017-18 capital budget.

According to Mr. Dunham, the Port anticipates that its annual capital budget would include sufficient funding to provide the necessary 10 percent matching contribution of $1,169,000 to enable the USACE to maintain the required dredging of the Central Basin over the next 30 years, which is estimated to occur every two years. These funds will be subject to future Board of Supervisors appropriation approval.

RECOMMENDATIONS

1. Amend the proposed ordinance to correctly state the average estimated cost per maintenance dredge is $1,626,000 rather than $1,026,000 as stated in the proposed ordinance.
2. Approve the proposed ordinance as amended.