

File No. 180973

Committee Item No. 2

Board Item No. 29

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance
Board of Supervisors Meeting

Date: November 1, 2018

Date: November 13, 2018

Cmte Board

- Motion
- Resolution
- Ordinance
- Legislative Digest
- Budget and Legislative Analyst Report
- Youth Commission Report
- Introduction Form
- Department/Agency Cover Letter and/or Report
- MOU
- Grant Information Form
- Grant Budget
- Subcontract Budget
- Contract/Agreement
- Form 126 – Ethics Commission
- Award Letter
- Application
- Public Correspondence

OTHER

- Airport Letter - October 5, 2018
- _____
- _____
- _____
- _____

Prepared by: John Carroll

Date: October 26, 2018

Prepared by: Linda Wong

Date: November 7, 2018

1 [Release of Reserved Funds - Airport Commission - Capital Improvement Plan Projects -
2 \$2,732,455,418]

3 **Motion authorizing the release of reserved funds to the Airport Commission, placed on**
4 **Board of Supervisors' reserve by Ordinance No. 106-17, in the amount of**
5 **\$2,732,455,418, to continue funding of San Francisco International Airport's Capital**
6 **Improvement Plan projects, consisting of terminal improvements, including the**
7 **Terminal 1 Reconstruction Project and the Terminal 3 West Redevelopment Project;**
8 **groundside improvements such as the AirTrain System extension and roadway repairs;**
9 **airfield improvements to runways and taxiways; airport support improvements in**
10 **technology and security; and utility improvements, including upgrades to the waste**
11 **water treatment plant.**

12
13 WHEREAS, In Ordinance No. 106-17, the Board of Supervisors appropriated
14 \$2,732,455,418 to continue funding of San Francisco International Airport's Capital
15 Improvement Plan projects, consisting of terminal improvements, including the Terminal 1
16 Reconstruction Project and the Terminal 3 West Redevelopment Project; groundside
17 improvements such as the AirTrain System extension and roadway repairs; airfield
18 improvements to runways and taxiways; airport support improvements in technology and
19 security; and utility improvements, including upgrades to the waste water treatment plant; and

20 WHEREAS, Ordinance No. 106-17 reserved the funding on Board of Supervisors'
21 reserve pending additional information on the expenditure of funds; and

22 WHEREAS, At the regular meeting of the Budget and Finance Committee on
23 November 1, 2018, the Airport presented information regarding the anticipated expenditure of
24 funds; now, therefore, be it
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1 MOVED, That the Board of Supervisors hereby approves the release of the funds
2 described above in the FY 2018-19 budget.

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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

October 26, 2018

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: November 1, 2018 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File		Page
1	18-0888	Agreement Amendment - JobAps, Inc. - Software License and Support - Not to Exceed \$3,174,445.....	1
2	18-0973	Hearing - Release of Reserved Funds - Airport Commission - Capital Improvement Plan Projects - \$2,732,455,418.....	5
4	18-1007	Ground Lease - 1950 Mission Housing Associates, LP - 1950 Mission Street - \$15,000 Annual Base Rent.....	10
5	18-0971	Contract Amendment - Health Advocates, LLC - Uncompensated Reimbursement Recovery Services - Not to Exceed \$18,014,546.....	15
6	18-0886	Boundary Modification and Conditional Allocation of Real Property - Margaret S. Hayward Playground - Department of Emergency Management.....	20
7 & 8	18-1036	Contract Agreement - Grant Street Group, Inc. - Office of the Treasurer & Tax Collector and Office of the Controller's Property Tax System Replacement Project - Not to Exceed \$37,492,252	
	18-1037	Contract Agreements - Sapient Corporation and Carahsoft Technology Corporation - Office of the Assessor-Recorder's Property Assessment System Replacement Project - Not to Exceed \$21,414,700 and \$14,432,762 Respectively.....	26

TABLE OF CONTENTS (continued)

<u>Item</u>	<u>File</u>		<u>Page</u>
11	18-0646	Environment Code - Refuse Separation Compliance.....	34

<p>Item 2 File 18-0973</p>	<p>Department: San Francisco International Airport (Airport)</p>
<p>EXECUTIVE SUMMARY</p>	
<p>Legislative Objectives</p>	
<p>The requested hearing would release \$2,732,455,418 from Board of Supervisors' reserve for Airport Capital Plan projects.</p>	
<p>Key Points</p>	
<ul style="list-style-type: none"> • Between 2012 and 2017 the Board of Supervisors appropriated \$7,345,486,191 in Airport revenue bonds to fund capital projects at the Airport (not including the Airport hotel project). Of this amount, the Board of Supervisors appropriated \$4,832,455,418 in May 2017, and placed \$2,732,455,418 on Board of Supervisors reserve. Between May 2017 and June 2018, the Airport sold a total of \$1,448,480,000 in revenue bonds, and plans to sell the next series of bonds in January 2019. The Airport is requesting the release of the \$2,732,455,418 on Board of Supervisors reserve in anticipation of the next bond sale in January 2019. The funds would remain on Controller's Reserve pending confirmation of the receipt of debt proceeds. • The Airport's Capital Improvement Plan provides for \$7.392 billion in projects. In September 2017, the Airport Commission approved increasing the Capital Improvement Plan from \$6.67 billion to \$7.392 billion to add new projects of \$122 million and a program reserve of \$600 million. According to the Airport, the appropriations of \$7.345 billion will cover most but not all of the Airport's current \$7.392 billion CIP, and the Airport expects to return to the Board of Supervisors at a later date for additional appropriation. 	
<p>Fiscal Impact</p>	
<ul style="list-style-type: none"> • As noted above, between 2012 and 2017, the Board of Supervisors appropriated \$7,345,486,191 in Airport revenue bonds, which includes \$5,769,775,750 for direct project costs. Financing costs, such as cost of issuance, debt service reserve, capitalized interest, and underwriters discount make up the remaining \$1,575,710,441 of the appropriation. As of October 2018, the Airport has funded \$2,620,789,877 of the direct project costs. • Debt service on the Airport's capital project bonds is paid from Airport revenues. The outstanding and planned future revenue bonds are expected to be fully repaid in 2052 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. 	
<p>Recommendation</p>	
<ul style="list-style-type: none"> • Approve the release of \$2,732,455,418 on Board of Supervisors reserve. 	

MANDATE STATEMENT

City Administrative Code Section 3.3(e) states that funds for proposed expenditures may be placed in reserve until released by the Board of Supervisors.

BACKGROUND

In May 2017, the Board of Supervisors appropriated \$4,832,455,418 in revenue bond proceeds, placing (a) \$2,100,000,000 on Controller’s Reserve pending receipt of bond proceeds, and (b) the remaining \$2,732,455,418 on Board of Supervisors’ reserve (File No. 17-0200; Ordinance No. 106-17).

Total Airport revenue bonds previously appropriated by the Board of Supervisors since 2012 are \$7,345,486,191, in support of the Airport’s Capital Improvement Plan, as shown below.¹

Board Approval	Appropriation Amount, Including Financing Costs	Bond Appropriation
September 2012	\$543,200,000	File 12-0751
April 2014	1,969,830,773	File 14-0232
May 2017	4,832,455,418	File 17-0200
Total	\$7,345,486,191	

DETAILS OF PROPOSED LEGISLATION

The requested hearing would release \$2,732,455,418 from Board of Supervisors’ reserve for Airport Capital Plan projects.

The Airport’s Capital Plan

The Airport’s Capital Improvement Plan (CIP) from FY 2016-17 had a project total of \$6.67 billion, including spending from prior years through FY 2025-26. The Airport Commission approved an update to the FY 2016-17 Capital Improvement Plan (CIP) in September 2017 to include (a) a CIP reserve of \$600 million to be used to address unforeseen conditions for projects in the FY 2016-17 CIP; and (b) \$122 million for new infrastructure projects added to the CIP. With the addition of the \$600 million reserve and \$122 million for new infrastructure projects, the total CIP budget increased from \$6.67 billion to \$7.392 billion.

Since 2012, the Board of Supervisors has appropriated \$7.345 billion, including (a) costs of issuance, and (b) direct project costs for projects in the current Airport CIP as well as projects that have been completed and are no longer in the CIP. Further, the \$7.345 billion appropriation excludes the Airport Hotel, which received separate appropriation from the Board of Supervisors. According to Mr. Ian Hart, Capital Planning Manager at the Airport, the appropriations of \$7.345 billion will cover most but not all of the Airport’s current \$7.392 billion

¹ Note: These totals exclude the Airport Hotel Project, which received separate appropriations from the Board of Supervisors in December 2015 (File No. 15-1076) and July 2017 (File No. 17-0675).

CIP, and the Airport expects to return to the Board of Supervisors at a later date for additional appropriation.

FISCAL IMPACT

As noted above, between 2012 and 2017, the Board of Supervisors appropriated \$7,345,486,191 in Airport revenue bonds, which includes \$5,769,775,750 for direct project costs. Financing costs, such as cost of issuance, debt service reserve, capitalized interest, and underwriters discount make up the remaining \$1,575,710,441 of the appropriation. As of October 2018, the Airport has funded \$2,620,789,877 of the direct project costs. Table 1 below shows the direct project and financing costs for the \$7.345 billion capital program, including project completion dates.

Table 1: Airport Capital Improvement Plan Budget and Schedule Status

	Appropriation				Funded to Date	Prior Completion Date	Current Completion Date
	2012	2014	2017	Total			
<i>Capital Projects</i>							
Airfield Improvements	83,675,667	132,949,836	8,293,664	224,919,167	99,584,414	FY 2018-19	FY 2019-20
Airport Support Improvements	122,622,671	262,481,628	489,265,228	874,369,527	371,436,707	FY 2019-20	FY 2022-23
Groundside Improvements	58,548,500	196,185,000	382,773,947	637,507,447	363,822,929	AirTrain Extension (FY 2019-20); Second Parking Garage (FY 2018-19)	AirTrain Extension (Spring 2020); Second Parking Garage (early 2019); all others by FY 2019/20
Terminal Improvements	181,753,029	767,810,966	2,829,105,383	3,778,669,378	1,706,573,854	FY 2022-23	Terminal 1 - Boarding Area B (Summer 2019); 18-gate opening (early 2020); 25-gate opening (Spring 2021); Terminal 1 complete (late 2022); Terminal 3 West Modernization (late 2022); all others by FY 2020-21
Utility Improvements	54,595,733	97,007,270	102,707,228	254,310,231	79,371,972	Power and Lighting (FY 2019-20); Wastewater (FY 2020-21)	Wastewater Treatment Plant (late 2019), Power and Lighting (FY 2019-20); all others by FY 2020-21
Subtotal	501,195,600	1,456,434,700	3,812,145,450	5,769,775,750	2,620,789,877		
<i>Financing</i>							
CSA Auditor	1,004,400	2,912,869	7,624,291	11,541,560			
Issuance/ Other	41,000,000	510,483,204	35,751,801	587,235,005			
Reserves			976,933,876				
Total Financing	42,004,400	513,396,073	1,020,309,968	1,575,710,441			
Total Project and Financing Costs			Total	7,345,486,191			

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According to Mr. Hart, the Airport funds capital projects on a just-in-time basis to minimize interest costs and avoid penalties imposed by the Internal Revenue Service on delayed spending in tax-exempt bonds², which results in projects receiving funding allocations in 3 to 6 month increments. As shown above, the Airport has funded approximately \$2.6 billion of its current CIP projects, including partial funding of its largest projects currently in development, such as the Terminal 1 projects, the Second Long Term Parking Garage, and the AirTrain Extension.

Between May 2017 and June 2018, the Airport sold a total of \$1,448,480,000 in revenue bonds. According to Mr. Hart, the Airport is requesting the release of the remaining \$2,732,455,418 appropriated in May 2017 in anticipation of the next bond issuance in January 2019. The funds would remain on Controller's Reserve pending confirmation of the receipt of debt proceeds.

Some projects that are anticipated to commence in the next few years that have not yet received funding include: (1) the \$7.6 million Computer Aided Dispatch (CAD) replacement; (2) the \$5.0 million Multi-Use Flight Information Display upgrade; (3) the \$5.0 million International Terminal Boarding Area G improvements; and (4) the \$4.7 million fire alarm system upgrade.

Airport Revenue Bonds Debt Service

Debt service on the Airport's capital project bonds is paid from Airport revenues. The outstanding and planned future revenue bonds are expected to be fully repaid in 2052 from Airport revenues. Revenue bonds for the Airport Hotel, which has appropriation authority outside of the subject appropriation, are expected to be fully repaid in 2058. 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.

The debt service costs have been factored in the Airport's financial plans, including the Airport's FY 2018-19 and FY 2019-20 operating budgets previously approved by the Board of Supervisors, the Airport's FY 2017-18 CIP, the Airport's Bond Series 2018DEFG financial forecast for the Airport (May 2018), and the Airport's FY 2018-19 rates and charges (July 2018).

RECOMMENDATION

Approve the release of \$2,732,455,418 on Board of Supervisors reserve.

² The IRS prohibits interest earnings on bond proceeds that exceed the interest payments on the bonds.



San Francisco International Airport

October 5, 2018

The Honorable Malia Cohen
President of the Board of Supervisors
1 Dr. Carlton B. Goodlett Place
City Hall, Room 244
San Francisco, CA 94102

BY EMAIL & US MAIL
Malia.Cohen@sfbos.org
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Subject: Release of Board Reserves for Airport Capital Plan

Dear President Cohen:

On May 9, 2017, the Board of Supervisors approved the ordinance appropriating \$4,832,455,418 of proceeds from the sale of San Francisco International Airport (SFO) revenue bonds or commercial paper to support the implementation of SFO's Capital Improvement Plan (CIP). Of this amount, \$2,732,455,418 was placed on Board of Supervisors Reserve (File No. 170200/ORD No. 106-17). SFO now requests these reserves be calendared for release by the San Francisco Board of Supervisors to the Airport Commission to support the continued delivery of the Airport's CIP projects.

Since May 2017, SFO has spent more than \$1.3 billion implementing its CIP, averaging a monthly capital spend rate of \$80 million. Construction has significantly ramped up over the past six months as key project milestones were met.

The release of reserves will enable SFO to continue to make important progress on projects designed to address passenger traffic growth and meet demand-driven terminal gate needs. SFO concluded Fiscal Year 2017-18 with a record high 57.8 million total passengers – a new record high for the seventh consecutive year.

Capital Projects to be funded by the release of reserves consist of: (a) terminal improvements, including the Terminal 1 Reconstruction Project and the Terminal 3 West Redevelopment Project; (b) groundside improvements such as the AirTrain System extension and roadway repairs; (c) airfield improvements to our runways and taxiways; (d) airport support improvements in technology and security; and (e) utility improvements, including upgrades to the waste water treatment plant.

In anticipation of the Airport's next bond issuance slated for January 2019, the Airport now requests that \$2,732,455,418 be released to the Airport Commission.

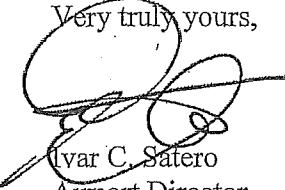
AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED MAYOR LARRY MAZZOLA PRESIDENT LINDA S. CRAYTON VICE PRESIDENT ELEANOR JOHNS RICHARD J. GUGGENHIME PETER A. STERN IVAR C. SATERO AIRPORT DIRECTOR

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Board Reserve Release Letter for Airport Capital Plan
October 5, 2018
Page 2 of 2

Please let me know if you need additional information regarding the release of Board reserve funds.

Very truly yours,

Ivar C. Satero
Airport Director

cc: Angela Calvillo, Clerk of the Board
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