CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: February 6, 2019 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 6 to the contract between WCME JV and the Airport for project management services for the Terminal 3 West Modernization Project, (a) increasing the contract amount by $36,000,000 from $14,000,000 to $50,000,000 and (b) extending the contract end date by four and a half years, from April 5, 2019 to October 4, 2023.

Key Points

- Terminal 3 of the San Francisco International Airport (Airport) built in the 1970s, is a seismically vulnerable facility. The Terminal 3 West Modernization Project includes renovating and expanding the western half of Terminal 3.
- After a competitive process, on February 16, 2016, the Airport Commission awarded a contract to WCME JV in an amount of $8,100,000 from April 4, 2016 through April 3, 2017 to provide project management services to the Terminal 3 West Modernization Project. The contract has been amended three times, and Modification No. 4 increased the contract not to exceed amount to $14,000,000 for services through April 4, 2019.

Fiscal Impact

- The original budget for contracted project management services for the Terminal 3 West Modification Project was $48 million, but was later revised to $60 million based on feedback from airlines, new Federal Aviation Administration regulations, and operational restrictions. During the programming phase of the project, which was completed in November 2018, the Airport defined the project scope and schedule in more detail, which allowed for a more specific staffing of the WCME JV's project management team. This reduced the overall forecast for project management services to from $60 to $50 million.
- Of the $50,000,000 contract not to exceed amount, $49,020,000 are labor costs. The proposed project management services contract with WCME JV will be funded through the Airport's Ascent Capital Program.
- The total approved budget for the Terminal 3 West Modernization Project of $974,200,000.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118 states that any contract entered into by a department, board or commission that requires expenditures of $10 million or more, or modifications to such contracts that increase expenditures by $500,000 or more, is subject to Board of Supervisors approval.

BACKGROUND

The San Francisco International Airport (Airport) has four terminals: Terminal 1, Terminal 2, Terminal 3, and the International Terminal. Terminal 3, built in the 1970s, is comprised of the main terminal building, which is separated into the eastern and western sides, and Boarding Area E and Boarding Area F. The Airport determined that Terminal 3 was a seismically vulnerable facility that was no longer capable of accommodating passenger growth.

The Terminal 3 West Modernization Project includes renovating and expanding the western half of Terminal 3, including upgrading building systems, passenger amenities, concessions, and seismic retrofits. Also included is the renovation and expansion of the west frontal gates, Boarding Area F connector, replacement of building systems which have reached end of useful life and construction of a consolidated Baggage-Handling System.

In August, 2015, the Airport Commission authorized a request for qualifications for project management services for the Terminal 3 West Modernization Project as well as the Boarding Area F Passenger Boarding Bridge Project. These services consisted of design and construction management, project controls, contract administration, cost estimating, and field inspection. In October 2015, the Airport received four proposals from four Joint Ventures. In November 2015, the Airport staff determined WCME JV to be the highest ranked respondent and entered into negotiations.

On February 16, 2016, the Airport Commission awarded a contract to WCME JV in an amount of $8,100,000 for one year from April 4, 2016 through April 3, 2017 to provide project management services to the Terminal 3 West Modernization Project. At that time, staff estimated the total cost of the contract over five and one half years to be $48 million. The Airport Commission approved the initial contract for one year, which would be renewed each year based on the Airport's evaluation of WCME JV's quality of work and performance.

On March 21, 2017, the Commission approved Modification No. 1 to the project management services contract to renew the contract for the second year of services through April 3, 2018 with no increase in the contract amount. On October 1, 2017, the Airport Director executed Modification No. 2 administratively to update labor charges with no changes to the contract term or amount.

On March 6, 2018, the Airport Commission approved Modification No. 3 and Modification No. 4 to renew the contract for the third year. Modification No. 3 increased the contract not to exceed amount to $9,990,000 for services through August 30, 2018, which is $10,000 less than the threshold amount of $10,000,000 requiring Board of Supervisors approval. Modification No. 4 increased the contract not to exceed amount to $14,000,000 for services from September 1, 2018 through April 4, 2019; the increase in the contract amount to $14,000,000 required Board of Supervisors approval in accordance with Charter Section 9.118. According to the memorandum to the Airport Commission on March 6, 2018, the Airport staff presented two modifications to renew the contract for the third year simultaneously to allow services to continue while the Airport sought Board of Supervisors approval for the remainder of the third year contract amount. On July 31, 2018, the Board of Supervisors approved Modification No. 4 to increase the contract not to exceed amount to $14,000,000 for services from September 1, 2018 through April 4, 2018 (File 18-0422).

On August 1, 2018, the Airport Director approved Modification No. 5 to administratively modify the subcontractors.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 6 to the contract between WCME JV and the Airport for project management services for the Terminal 3 West Modernization Project, (a) increasing the contract amount by $36,000,000 from $14,000,000 to $50,000,000 and (b) extending the contract end date by four and a half years, from April 5, 2019 to October 4, 2023.

FISCAL IMPACT

Summary budget details for the contract not-to-exceed amount of $50,000,000 are shown in Table 1 below.

Table 1: Contract Budget Services for Project Management Support Services from April 4, 2016 through April 4, 2023

Expenditure	2016-2019	2019-2020	2020-2021	2021-2022	2022-2023	Total
Labor	$13,290,000	$8,400,000	$9,600,000	$9,800,000	$7,630,000	**$48,720,000**
Mark-up on sub-consultant labor [a]	80,000	$50,000	$60,000	65,000	45,000	**300,000**
Subtotal, labor costs	13,370,000	8,450,000	9,660,000	9865,000	7675,000	**49,020,000**
Other direct costs [b]	130,000	85,000	90,000	90,000	85,000	**480,000**
Mobilization [C]	500,000	0	0	0	0	**500,000**
Total	**$14,000,000**	**$8,535,000**	**$9,750,000**	**$9,955,000**	**$7,760,000**	**50,000,000**

[a] The contract between WCME JV and the Airport provides for approximately 30% of the total costs of $50,000,000 to be provided by sub-consultants, of which approximately 41% to be provided by Local Business Enterprise (LBE) sub-consultants. The Contract allows a markup by the prime consultant of 2 percent of sub-consultant labor costs, equals to approximately $300,000.

[b] Other direct costs consist of, but not limited to, facilitated partnering, staff badging, supplies, etc.

[C] Mobilization covers the contractor’s initial costs to onboard Project staff.

The staff budget increases by $1.2 million from FY 2019-20 to FY 2020-21, from $8.4 million to $9.6 million, due to a major staff increase to support the start of heavy construction of aircraft gates in FY 2020-21.

The original budget for contracted project management services for the Terminal 3 West Modification Project was $48 million, but was later revised to $60 million based on feedback from airlines, new Federal Aviation Administration regulations, and operational restrictions. According to Ms. Olga Perez, Director of Procurement and Contracts Section at the Airport, during the programming phase of the project, which was completed in November 2018, the Airport defined the project scope and schedule in more detail, which allowed for a more specific staffing of the WCME JV's project management team. This reduced the overall forecast for project management services to from $60 to $50 million. The Airport does not expect to spend more on this contract.

According to Ms. Perez, WCME JV's performance is evaluated annually. The Airport evaluated WCME JV's team most recently in October 2018 and found that the team is performing well in all categories including cost and schedule control, collaboration with stakeholders, quality control and retention of key personnel.

The proposed project management services contract with WCME JV will be funded through the Airport's Ascent Capital Program. As of January 25, 2019, the Airport has paid WCME JV $7,594,700 for services. According to Ms. Perez, the Project expenditures will use the total $14 million over the next 5 months as are the Airport is increasing staffing to support the Design Phase of the Project.

The total approved budget for the Terminal 3 West Modernization Project of $974,200,000 including the $50,000,000 contract with WCME for project management services, is detailed in Table 2 below.

Table 2: Project Total

Activity	Approved Budget
Airport Design, Engineering, Permitting, and Other Soft Costs	$23,300,000
Design-Build Contract (Designer Portion)	$60,000,000
Design-Build Contract (Builder Portion)	$759,000,000
Design-Build Contingency	$81,900,000
Project Management	$50,000,000
Total	**$974,200,000**

To date, the Airport has spent $29,398,553 and has encumbered an additional $137,999 for a total of $29,536,552 out of $974,200,000. The Airport plans to spend the remaining $944,663,448 by the end of the project in 2023.

RECOMMENDATION

Approve the proposed resolution.

Item 2 **File 19-0018**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Icelandair EHF (Icelandair) to become a signatory to the 2011 Lease and Use Agreement for 627,414 square feet of joint use space at the International Terminal for approximately two years and four months, from March 1, 2019 following Board of Supervisors approval to June 30, 2021.

Key Points

- In 2011, the Airport created a Lease and Use Agreement ("2011 Lease") for a term of 10 years, set to expire on June 30, 2021. The 2011 Lease allows airlines to provide flight operations and rent terminal space at the Airport and provides a common set of lease provisions for these airlines.
- In January 2018, (Icelandair) met with Airport staff to discuss beginning operations at the San Francisco International Airport. Icelandair commenced operations at the San Francisco Airport on June 1, 2018.

Fiscal Impact

- The Airport estimates that Icelandair will pay the Airport $3,712,601 over the course of the lease.
- In addition, the lease calls for Icelandair to pay annual deposit fees of approximately $245,783 for FY 2018-19.

Policy Consideration

- The 2011 Lease is set to expire on June 30, 2021. Upon that time, the Airport Commission will have four options: (1) extend the current agreements; (2) negotiate new agreements with the airlines; (3) enter into month-to-month agreements under the holdover provisions of the current Lease and Use Agreements; or (d) not enter into new agreements and instead opt for setting airline rates and charges at the Airport by resolution.
- The Commission and the airlines have not yet initiated discussions regarding this topic.

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 2011, the Airport created a Lease and Use Agreement ("2011 Lease") for a term of 10 years, set to expire on June 30, 2021. The 2011 Lease allows airlines to provide flight operations and rent terminal space at the Airport and provides a common set of lease provisions for these airlines. Such provisions include rent and landing fees paid by the airlines to the Airport, permitted uses of the premises, use of common facilities, and numerous other provisions. The Airport offers the 2011 lease to airlines that wish to obtain signatory status at the airport. Currently, 49 of the 64 active airlines at the Airport are signatories to the lease. [1]

In January 2018, Icelandair EHF (Icelandair) met with Airport staff to discuss beginning operations at the San Francisco International Airport. Icelandair commenced operations at the San Francisco Airport on June 1, 2018, and on October 2, 2018, the Airport Commission approved adding Icelandair to the 2011 Lease and Use Agreement. Icelandair is currently operating under the Airline Operating and Space Permit.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Icelandair EHF (Icelandair) to become a signatory to the 2011 Lease and Use Agreement. Icelandair will not lease any exclusive space, and will share 627,414 square feet of joint use space at the International Terminal. The Airport anticipates the term of this agreement to be approximately two years and four months, from approximately March 1, 2019 following Board of Supervisors approval to June 30, 2021.

The key provisions of the proposed lease are shown in Table 1 below.

[1] Among the fifteen airlines not signatory to the Lease and Use Agreement, four are affiliates of other signatories, three are seasonal charters, and one is for cargo only. Of the seven passenger non-signatory airlines, two will achieve signatory status pending Human Rights Commission compliance (AerLingus and AeroMexico), and one will achieve signatory status pending Board of Supervisors approval (Icelandair).

Table 1: Key Provisions of Proposed Lease

	Lease Terms
Lease Period	Upon approval Board of Supervisors through June 30, 2021
Options to extend the lease	None
Joint Use Space Rent	Based on International Seasonal Service and Charter Fee
Landing fees and other fees	Based on fees set by the Airport Summary of Charges for signatory airlines
Annual fee adjustments	Approved annually by the Airport Commission in the Summary of Charges
Deposit	Annually, equal to two months of terminal area rentals, landing fees, and usage fees
Termination	June 30, 2021

FISCAL IMPACT

Under the 2011 Lease, Icelandair will lease Joint Use Space in the International Terminal. Joint Use Space rent is determined annually by a formula, with 20 percent of the total rent assessed equally to all airlines, and 80 percent assessed proportionally based on the number of inbound and outbound passengers traveling on each airline each year. The Joint Use Space Formula is used to determine rent for all airlines in service at the Airport, regardless of whether or not the airline has signed onto the 2011 Lease. The Airport expects Icelandair to pay approximately $375,918 for the final four months in FY 2018-19. The charges will be recalculated in June 2018.

Airlines also pay Landing Fees to the Airport, which are set annually as part of the Airport Rates and Charges. The current Landing Fee for FY 2017-18 is $5.54 per 1,000 pounds for airlines that have signed the 2011 Lease, and $6.93 per 1,000 pounds for non-signatory airlines.

The Airport estimates that Icelandair will pay the Airport $3,712,601 over the course of the lease, as detailed in Table 1 below.

Table 1: Estimated payment of Icelandair to the Airport from March 1, 2019 through June 30, 3021

	FY 2018-19 (March-June)	**FY 2019-20**	**FY 2020-21**	**2 Year and 4 Month Total**
Joint Use Space	375,918	1,184,412	1,243,350	**2,803,680**
Landing Fees	121,880	383,922	403,119	**908,921**
Total	**497,798**	**1,568,334**	**1,646,469**	**3,712,601**

*Annual increases estimated at 5% per year.

In addition, the lease calls for Icelandair to pay annual deposit fees, which are equal to two months of terminal area rentals, landing fees, and usage fees, or approximately $245,783 for FY 2018-19.

POLICY CONSIDERATION

The 2011 Lease is set to expire on June 30, 2021. Upon that time, the Airport Commission will have four options: (1) extend the current agreements; (2) negotiate new agreements with the airlines; (3) enter into month-to-month agreements under the holdover provisions of the current Lease and Use Agreements; or (d) not enter into new agreements and instead opt for setting airline rates and charges at the Airport by resolution. According to Ms. Sandra Oberle, Senior Property Manager at the Airport, the Commission and the airlines have not yet initiated discussions regarding this topic.

RECOMMENDATION

Approve the proposed resolution.

Item 3 **File 18-1180**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a coffee and quick serve concession lease between San Francisco International Airport (Airport) as landlord and Elevate Gourmet Brands – SFO Group (a joint venture of Elevate Gourmet Brands, Inc. and Aimhigh ESG, LLC).

Key Points

- The Airport selected Elevate Gourmet Brands to operate two concessions in Terminal 3, Boarding Area F – Green Beans Coffee, and San Francisco Mac & Cheese Kitchen – following a competitive Request for Proposals (RFP) process.
- Under the lease agreement, Elevate Gourmet Brands will lease two locations comprising 1,991 square feet. The minimum investment to be made by Elevate Gourmet Brands is $1,000 per square foot. The lease is for eight years, with two one-year options to extend for a total term of 10 years.

Fiscal Impact

- Elevate Gourmet Brands pays the greater of the Minimum Annual Guarantee rent (MAG) of $375,000or percentage of gross revenues. Over the initial eight-year term of the lease, the Airport would receive at least $3,000,000 in MAG rent. If the Airport exercises the two one-year options to extend, it would receive at least $750,000 in additional MAG rent, for a total of $3,750,000.
- The Airport expects to receive percentage rent, which would exceed the MAG.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

On May 15, 2018, the San Francisco International Airport (Airport) Commission authorized Airport staff to conduct a Request for Proposals (RFP) for a coffee and quick serve concession lease in Terminal 3, Boarding Area F. On July 10, 2018, the Airport Commission approved minimum qualification requirements and lease specifications and authorized staff to accept proposals. The Airport received seven proposals, one of which was deemed nonresponsive. An evaluation panel reviewed the remaining six proposals and scored them as shown in Table 1 below.

Table 1: Proposals and Scores from RFP

Proposer	Concept 1: Coffee	Concept 2: Quick Serve	Score
Elevate Gourmet Brands – SFO Group	Green Beans Coffee	San Francisco Mac & Cheese Kitchen	91.00
Andale Management Group, Inc.	Ritual Coffee	Andale's Mexican Kitchen	88.67
Soaring Food Group, LLC	Illy Café	Brown Sugar Kitchen	81.67
Joe & The Juice SFO, LLC	Joe & The Juice	Joe & The Juice	79.00
Half Moon Empanadas, LLC	Half Moon Café	Half Moon Kitchen	78.00
Gary Rulli	Bancarella	Washington Square	73.67

Elevate Gourmet Brands – SFO Group[1] was deemed the highest scoring responsive and responsible proposer and was awarded the lease. On October 16, 2018, the Airport Commission approved the lease.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the lease between the Airport as landlord and Elevate Gourmet Brands – SFO Group as tenant for a term of eight years, with two one-year options for the Airport to extend, for a total term of ten years. Elevate Gourmet would pay the greater of the Minimum Annual Guaranteed (MAG) rent or percentage rent based on gross revenues. According to Ms. Nanette Hendrickson, Airport Assistant Director of Revenue Development and Management, the concession is expected to open on approximately July 1, 2019. The key provisions of the lease are shown in Table 2 below.

[1] Elevate Gourmet Brands – SFO Group is a joint venture between Elevate Gourmet Brands, Inc. (85 percent ownership interest) and Aimhigh ESG, LLC (15 percent ownership interest).

Table 2: Key Provisions of Lease

Tenant	**Elevate Gourmet Brands – SFO Group**
Square Footage	Two locations comprising 1,991 square feet
Term	Eight years
Options to Extend	Two one-year options
Initial MAG Rent[2]	$375,000
MAG Adjustment	Annually based on Consumer Price Index (CPI)
Percentage Rent (of Gross Revenues)	6% up to $1,500,000; 8% from $1,500,000-$2,000,000; 10% over $2,000,000
Minimum Investment	$1,000 per square foot
Interim Rent During Construction	12% of gross revenues
Deposit	Equal to one-half of initial MAG (subject to mid-term adjustment
Early Termination	Airport may terminate with 6 months written notice if use of space is required for Airport's Five-Year or Ten-Year Capital Plan
Cleaning Fee	$80 per square foot per year (for the coffee kiosk location)
Infrastructure Fee	$15 per square foot per year (upon completion of Terminal 3, Boarding Area F Hub Food Court)
Promotional Charge	$1 per square foot per year
Pest Control Fee	$75 per month

FISCAL IMPACT

Over the initial eight-year term of the lease, the Airport would receive at least $3,000,000 in MAG rent. If the two option years are exercised, the Airport would receive at least $750,000 in additional MAG rent, for a total of at least $3,750,000. The rent received by the Airport is shown in Table 3 below.

Table 3: MAG Rent Paid by Elevate Gourmet

MAG Rent	Initial Term (8 Years)	Option to Extend (2 Years)	Total
$375,000	$3,000,000	$750,000	$3,750,000

According to Ms. Hendrickson, the Airport expects to receive percentage rent, which would exceed the MAG.

RECOMMENDATION

Approve the proposed resolution.

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[2] Beginning with the Airport's 2016 competitive solicitation for food and beverage leases, the Airport sets MAG rents for each fully leased area, on an average, at 65 percent of projected percentage rent.

Items 4 and 5 **Files 18-1185 & 18-1186**	**Department:** Board of Supervisors (Board) Mayor's Office

EXECUTIVE SUMMARY

Legislative Objectives

File 18-1185 is an ordinance appropriating $220,546,870 of excess ERAF funds for homelessness and behavioral health services and for affordable housing projects.

File 18-1186 is an ordinance appropriating $220,545,896 of excess ERAF funds and $10,900,000 of Rainy Day One-Time Reserve funds for various baseline contributions, affordable housing, homeless and behavioral health services, early childhood education, and utility distribution acquisition.

Key Points

- Due to recent growth in the property tax roll (20 percent in the last two years), property tax allocations to the San Francisco Unified School District and the Community College District exceed state funding requirements.

Fiscal Impact

- Both ordinances allocate $35.1 million to meet Charter-mandated baselines to the Library Fund, Children's Baseline, Street Trees, and Public Education Enrichment Fund (including Office of Early Care and Education and San Francisco Unified School District).
- File 18-1185 allocates $185.5 million to the (a) Mayor's Office of Housing and Community Development for site acquisition and funding support to housing development; (b) Department of Homelessness and Supportive Housing for additional master lease, emergency shelter, and navigation center beds; (c) Department of Public Health for substance use and mental health beds; and (d) Department of Public Works for expanded pit stop and street cleaning programs.
- File 18-1186 allocates $196.4 million to many of the same programs that would be funded under File 18-1185 (with the exception of Public Works pit stop and street cleaning programs), but allocates different funding amounts.
- File 18-1186 allocates (1) approximately $20 million to wage increases for early care and education professionals, and $13 million to San Francisco Unified School District teacher compensation; and (2) $15.6 million to the San Francisco Public Utilities Commission for energy infrastructure feasibility studies and substation construction. Funding of these programs is not included in File 18-1185.

Policy Consideration

- Both ordinances provide for funds to be repaid from the Homeless Gross Receipts Tax for eligible programs if the City prevails in any legal challenges.
- File 18-1186 also provides for funds allocated to (1) San Francisco Unified School District teacher compensation to be repaid for from the parcel tax approved by voters in June 2018 (Proposition G) if the City prevails in any legal challenges; and (2) wage increases for early care and education professionals from the tax on commercial rents approved by voters in June 2018 (Proposition C) if the City prevails in any legal challenges.
- File 18-1186 provides for $15.6 million allocated to the San Francisco Public Utilities for energy infrastructure feasibility studies and substation construction to be repaid from the future sale of SFPUC Power Revenue Bonds subject to Board of Supervisors approval.

Recommendations

- Amend the proposed ordinances to request a written report in June 2019 from the following department heads on the use of the excess ERAF allocation, including specific information on the programs that were implemented with the funds, program participation, and program performance: (1) Mayor’s Office of Housing and Community Development, (2) Department of Homelessness and Supportive Housing, (3) Department of Public Health, (4) Office of Early Care and Education, (5) Department of Children, Youth and Their Families, (6) Department of Public Works, and (7) San Francisco Public Utilities Commission.
- Approval of the two proposed ordinances, which are mutually exclusive, is a policy matter for the Board of Supervisors.

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.

BACKGROUND

In 1992 and 1993, the State directed all counties to create an Educational Revenue Augmentation Fund (ERAF) and divert local property tax revenue into the fund for public school systems in each county. In San Francisco, 25 percent of collections from the base property tax rate are allocated to ERAF. When the fund has sufficient money to meet minimum state funding requirements for public schools and community colleges, excess funds are returned to the local governments.

Due to recent growth in the property tax roll (20 percent in the last two years), property tax allocations to the San Francisco Unified School District and the Community College District exceed state funding requirements for the first time since the creation of the fund, and the City will recognize approximately $415 million in excess ERAF property tax revenue in FY 2018-19, including $208 million attributable to FY 2017-18 and $207 million attributable to FY 2018-19. According to Charter provisions adopted by the voters, approximately $74 million of the $415 million must be allocated to various baselines and approximately $156 million to Rainy Day Reserves, and the balance of approximately $185 million is available for any public purpose.

The Controller's Office estimates that the City would receive significant excess ERAF allocations in future years but cautions that there is significant risk associated with these allocations due to formula volatility, cash flow changes, and possible modifications to property tax allocation law by the State.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinances, which are mutually exclusive, would appropriate excess ERAF funds as follows:

- File 18-1185: the proposed ordinance would appropriate $220,546,870 of excess ERAF funds for various mandatory baseline contributions and for homelessness and behavioral health services and for affordable housing projects.
- File 18-1186: the proposed ordinance would appropriate $220,545,896 of excess ERAF funds and $10,900,000 of Rainy Day One-Time Reserve funds for various baseline contributions, affordable housing, homeless and behavioral health services, early childhood education, and utility distribution acquisition.

The excess ERAF funds are place on Controller's reserve, pending receipt of the funds from the State of California.

FISCAL IMPACT

A summary of sources and uses of excess ERAF monies and one-time Rainy Day Reserve monies is shown in Table 1 below.

Table 1: Sources and Uses of Funds

	File 18-1185	File 18-1186
Sources		
Excess Educational Revenue Augmentation Fund	$220,546,870	$220,545,896
Rainy Day Reserve - One Time		10,900,000
Total Sources	**$220,546,870**	**$231,445,896**
Uses		
Baseline Allocations		
Library Fund	$9,480,000	$9,480,000
Street Trees	2,138,000	2,138,000
Children's Baseline	9,730,000	9,730,000
Public Education Enrichment Fund	601,000	601,000
Annual Contribution to San Francisco Unified School District	8,494,000	8,494,000
Annual Contribution to Early Care and Education	4,184,000	4,184,000
City Services Auditor	440,214	462,892
Subtotal Baseline Allocations	$35,067,214	$35,089,892
Discretionary General Fund		
Mayor's Office of Housing & Community Development	$92,701,328	$111,456,004
Homelessness & Supportive Housing	70,181,328	36,400,000
Public Health	18,320,000	9,400,000
Human Services/Office of Early Care & Education		10,000,000
Children, Youth & Families - SFUSD Teacher Compensation		13,500,000
Public Works	4,277,000	0
Public Utilities		15,600,000
Subtotal Discretionary General Fund	$185,479,656	$196,356,004
Total Uses	**$220,546,870**	**$231,445,896**

The balance of the one-time Rainy Day Reserve is $54,668,042. Appropriation of $10,900,000 (File 18-1186) will reduce the balance to $43,768,042.

BASELINE ALLOCATIONS

The Charter establishes baseline allocations to specific purposes. The tables below describe the proposed uses of these baseline allocations.

Library Fund	**File 18-1185**	**File 18-1186**
Buildings, Structures & Improvements	$5,480,000	$3,580,000
Capital Renewal	4,000,000	
Energy Efficiency		5,900,000
Total	$9,480,000	$9,480,000

According to San Francisco Public Library staff, $9,480,000 allocated under File 18-1185 would fund (1) replacement of the seismic moat adjacent to the Main Library to allow for movement in the event of an earthquake ($4,000,000), and (2) the Fulton Street Activation Program to create a reading garden and teaching space, public gathering space, and new entrance to families to enter the Children's Center on Fulton Street ($5,480,000). The Fulton Street Activation Program is part of the Civic Center Commons and Public Realm Plan.[1]

According to San Francisco Public Library staff, $5,900,000 allocated under File 18-1186 would pay for (1) energy audits and feasibility studies at multiple sites, (2) replacement of in-line gas furnaces at eight locations, (3) retrofitting the steam boiler at three locations, (4) replacing the rooftop HVAC unit and building control system at 190 9th Street, and installing rooftop solar systems at four locations (Eureka Valley, Excelsior, Presidio, and 190 9th Street).

The additional funds of $3,580,000 allocated under File 18-1186 are to be used for needed projects in the San Francisco Public Library's capital program.

Street Trees	**File 18-1185**	**File 18-1186**
Tree Maintenance	$2,138,000	$2,138,000
Total	$2,138,000	$2,138,000

The Department of Public Works' FY 2018-19 budget for street tree maintenance is $19,770,000. As of January 2019, the Department had spent $9,201,792 and encumbered $9,482,984.

According to Department staff, the additional funds of $2,138,000 will be used in FY 2018-19 to pay for contracts for tree maintenance and related sidewalk repairs to address the backlog in maintenance:

- $1,318,000 will be used for repair of tree related sidewalk damage. This amount addresses six of Public Works' high priority key map areas for tree related sidewalk

[1] The Civic Center Public Realm Plan is an interagency effort managed by the Planning Department in conjunction with the Recreation and Park Department, Real Estate Division, Public Utilities Commission and other City departments. The goal of the Civic Center Public Realm Plan is to create long term plans to improve the Civic Center's plazas, streets, and public spaces.

damage and will repair an estimated 25,698 tripping hazards. The Department has prioritized repair locations based on a variety of factors including pedestrian volumes, proximity to the vision zero network and areas with vulnerable populations (seniors, health care facilities, and schools).

- $800,000 will be used to fund two new general as-needed tree maintenance contracts to address the backlog.

Children's Baseline	**File 18-1185**	**File 18-1186**
Workforce Opportunities for Youth	$4,400,000	$2,800,000
Full Day Pre-School for Low Income 3 Year Olds	4,200,000	
Nonprofit Capital and Facilities Upgrades	1,130,000	1,130,000
Early Childhood Educator Wage Increases		5,800,000
Total	$9,730,000	$9,730,000

Workforce Opportunities for Youth

The funding for workforce programs for youth would be allocated to the Early College Pathway program, which is a joint program of the Department of Children, Youth, and their Families, the San Francisco Unified School District, and the Community College District. This program supports students who are not on-track to graduate high school, providing support to graduate high school and participate in an early college experience. The program currently has approximately 50 participants. An allocation of $4.4 million would expand the program by approximately 600 internships for two years, and an allocation of $2.8 million would expand the program by approximately 350 internships for two years.

Full Day Pre-School for Low Income 3 Year Olds

File 18-1185 allocates $4.2 million to the Office of Early Care and Education to fund pre-school slots for approximately 125 children. This funding would serve children for the last half of FY 2018-19 and for the full FY 2019-20 year.

Nonprofit Capital and Facilities Upgrades

The Office of Economic and Workforce Development's FY 2018-19 budget includes $4 million for the Nonprofit Sustainability Initiative, with the Office expects to be fully spent or encumbered by the end of the fiscal year. The purpose of the Nonprofit Sustainability Initiative is to assist nonprofit organizations providing services to children, including childcare, in acquiring space, entering into long term leases for space, or making site improvements to existing space to increase capacity. According to Office staff, the Office of Economic and Workforce Development will work with the Office of Early Care and Education and Department of Children, Youth and Their Families to allocate the additional $1.1 million appropriated in File 18-1185 and 18-1186 through a competitive process.

Early Childhood Educator Wage Increases

File 18-1186 allocates approximately $20 million to the Children's Baseline ($5.8 million), Public Education Enrichment Fund ($4.5 million), and Office of Early Care and Education ($10 million) to increase the wages of early childhood educators. According to the Office of Early Care and Education, all early care and education professionals in programs receiving funding from the Office would qualify. The Office of Early Care and Education currently funds 350 programs employing 2,750 professionals. The Office would use the $20 million to increase wages for these 2,750 professionals for the last half of FY 2018-19, and for the full year of FY 2019-20 and FY 2020-21. The percent wage increase would vary by staff level and program, based on the Office's cost and expense model, and by the early care and education program's quality rating, based on the statewide Quality Rating and Improvement System.

Public Education Enrichment Fund	**File 18-1185**	**File 18-1186**
Community Based Services	$601,000	$601,000
Annual Contribution to San Francisco Unified School District	8,494,000	8,494,000
Early Childhood Educator Wage Increases	0	4,184,000
Early Care and Education	4,184,000	0
Total	$13,279,000	$13,279,000

Community Based Services

The $601,000 allocated to community based program as part of Public Education Enrichment Fund program would be used to fund the Equitable Access program through the San Francisco Unified School District. This program targets the Department of Children, Youth, and Their Families priority population (African-American, Latino, and Pacific Islander) to have access to school-based comprehensive after-school programs.

Annual Contribution to San Francisco Unified School District and Early Care and Education

San Francisco voters passed Proposition C in November 2014, the "Children and Families First" initiative, extending funding through FY 2040-41 allocated to (1) the San Francisco Unified School District, and (2) Office of Early Care and Education. One third of the funding is allocated to the Office of Early Care and Education for preschool support ($4,184,000). Two-thirds of the funding is allocated to the San Francisco Unified School District ($8,494,000); the FY 2018-19 Public Education Enrichment Fund Expenditure Plan allocates these funds to voter-approved programs for sports, libraries, arts, music, and other programs in the schools.

Early Childhood Educator Wage Increases

As noted above, File 18-1186 allocates approximately $20 million to the Children's Baseline ($5.8 million), Public Education Enrichment Fund ($4.5 million), and Office of Early Care and Education ($10 million) to increase the wages of early childhood educators.

DISCRETIONARY ALLOCATION

Mayor's Office of Housing & Community Development	File 18-1185	File 18-1186
Small Site Acquisition	$21,301,328	$40,000,000
Homeless Housing	42,400,000	42,456,004
Affordable Housing Predevelopment Loans	6,000,000	6,000,000
Sunnydale & Potrero Upgrades	9,000,000	9,000,000
Affordable Housing Site Acquisition	14,000,000	14,000,000
Total	$92,701,328	$111,456,004

Small Site Acquisition ($21.3 million to $40 million)

MOHCD's Small Sites Program was created in 2014 to provide funding for acquisition and rehabilitation of multi-family rental buildings of five to 25 units. Funding of the program comes from the Housing Trust Fund, Proposition A Affordable Housing bond proceeds, and affordable housing fees paid by market rate developers. Available funding for the Small Sites Program as of December 31, 2018 was $81.1 million, of which $37.8 million is committed to projects that are expected to close by June 30, 2019, and $32.4 million is committed to projects that are expected to close in FY 2019-20 (totaling approximately $70.2 million). According to MOHCD staff, the balance of approximately $10.9 million is allocated from geographically-restricted fund sources or to project contingencies.

MOHCD previously issued a Notice of Funding Availability to identify multi-family rental buildings that qualify for program funding, and reviews applications for funding on a first-come basis. MOHCD does not currently have a list of qualified properties for the additional funding, but according to MOHCD staff, new properties are submitted for evaluation on a regular basis.

Homeless Housing ($42.4 million to $42.5 million)

MOHCD would use funds appropriated for Homeless Housing to be used for gap financing for approximately 253 units of homeless housing at 1064-1068 Mission Street. MOHCD acquired this site from the Federal government and predevelopment is ongoing. The anticipated start date of construction is January 2020, with construction completion of October 2021. Due to lower than anticipated fee revenues from Inclusionary and Jobs-Housing Linkage Fees, MOHCD does not currently have sufficient cash to provide gap financing to this project.

Affordable Housing Predevelopment Pool ($6 million)

MOHCD provides loans to affordable housing developers for planning, design, and other predevelopment work. The amount of each loan varies but ranges from $500,000 to $5 million depending on the size of the project. According to MOHCD staff, $6 million will be used for predevelopment loans to approximately three housing sites consisting of up to 370 units for low-income households. Predevelopment loan funds come from allowable funding sources for housing projects in the pipeline, including affordable housing in-lieu or jobs-housing linkage fees. Three affordable housing projects that have been identified as sites for predevelopment loans are the Central Freeway parcels (in the Octavia-Market area), 730 Stanyon Street, and 801 Brannan Street.

Sunnydale and Potrero Capital Upgrades Pool ($9 million)

These funds would be used to rehabilitate approximately 1,000 units of public housing in the Sunnydale and Potrero housing projects owned by the San Francisco Housing Authority. The $9 million allocation to the Sunnydale and Potrero projects would backfill for funds that were provided by MOHCD to the Housing Authority to make up for the shortfall in the Housing Choice Voucher program.

Affordable Housing Site Acquisition Pool ($14 million)

The Metropolitan Transportation Commission allocated $5 million to MOHCD to acquire an affordable housing site in the Mission District. The $14 million would be used to augment the Metropolitan Transportation Commission grant, for $19 million available to acquire an affordable housing site in the Mission District.

Homelessness & Supportive Housing	**File 18-1185**	**File 18-1186**
New Master Lease Units	$30,000,000	$15,000,000
Emergency Homeless Shelter Capital and Services	27,340,000	15,000,000
Navigation Centers Capital and Services	12,841,328	6,400,000
Total	$70,181,328	$36,400,000

Master Lease Supportive Housing ($15 million to $30 million)

The Department of Homelessness and Supportive Housing's FY 2018-19 budget for permanent supportive housing, including master lease of single room occupancy (SRO) hotels, is $143.6 million for the operation of 7,548 units of housing and associated services. The proposed appropriation would add approximately 300 units of housing.

According to staff from the Department of Homelessness and Supportive Housing, the Department would select nonprofit providers through a Request for Qualifications to select qualified permanent supportive housing providers to master lease and operate SRO hotels as master lease supportive housing. The Department has identified five sites that could provide approximately 300 SRO units. Master leases for approximately 300 SRO units are estimated to cost $7.5 million per year. Under the two appropriation ordinances, funding would be available for two years ($15 million) to four years ($30 million).

Shelter Access for Everyone (SAFE) Centers – Emergency Homeless Shelter ($15 million to $27.3 million)

The Department of Homelessness and Supportive Housing's FY 2018-19 budget for emergency shelter is $38.8 million for 1,430 beds. The proposed appropriation would add approximately 200 emergency shelter beds.

The Department of Homeless and Supportive Housing plans to open one new SAFE Center to increase emergency shelter beds for homeless individuals living on the streets. The SAFE Center will be approximately 200 beds that incorporate some features of Navigation Centers, including allowing residents to bring partners and possessions, and providing case management services and connection to permanent housing for residents. The Department is currently working with the Department of Public Works and the City's Real Estate Division to identify sites.

The estimated one-time costs to open one site with 200 beds per site is $3.0 million to $3.3 million and estimated annual operating costs for one site with 200 beds are $6.0 million. Actual costs will depend on the site. Funding of $15 million to $27.3 million will provide two to four years of operating costs and one-time capital costs of $3.0 to $3.3 million.

Navigation Center Expansion ($6.4 million to $12.8 million)

The Department of Homelessness and Supportive Housing's FY 2018-19 budget for Navigation Centers is $19.8 million for 494 beds and services. The proposed appropriation would add approximately 80 beds to existing Navigation Centers.

According to the Department of Homelessness and Supportive Housing, the Department is working to identify where it could add additional beds at existing Navigation Centers. Estimated one-time costs to add 80 beds to existing Navigation Centers are $6.8 million and the ERAF contribution to estimated annual operating costs for 80 additional beds at existing Navigation Centers is $1.5 million. Funding of $12.8 million will provide four years of operating costs and one-time capital costs. Funding of $6.4 million will provide for approximately 40 beds for two to four years, depending on initial one-time start-up costs and annual operating costs.

Public Health	**File 18-1185**	**File 18-1186**
Healing Center Beds	$8,800,000	$4,400,000
Substance Use Recovery Beds	9,520,000	5,000,000
Total	$18,320,000	$9,400,000

Healing Center Beds ($4.4 million to $8.8 million)

The Department of Public Health spends approximately $5 million annually for 40 conservatorship beds at St. Mary's Healing Center. These are locked psychiatric beds for clients who are place on conservatorship and not able to live independently. The appropriation of $4.4 million would allow the Department of Public Health to purchase 14 additional beds for two years and the appropriation of $8.8 million would allow the Department to purchase 14 additional beds for four years.

Substance Use Recovery Beds ($5.0 million to $9.5 million)

In addition, the Department of Public Health currently spends approximately $2.8 million annually for 96 residential step-down units at HR 360 and Jelani House. Residential step-down programs are sub-acute, short-term, residential services that provide support and access to outpatient treatment in a 24 hour staffed, open home-like environment. The $9.5 million allocation will allow the Department to purchase approximately 72 beds and associated outpatient services for about four years, and the $5.0 million allocation will allow the Department to purchase approximately 72 beds and associated outpatient services for about two years.

Public Works	File 18-1185	File 18-1186
Pit Stop Expansion	$1,564,572	$0
Neighborhood Cleaning	2,712,428	0
Total	$4,285,554	$0

The FY 2018-19 budget for the Pit Stop program is $3,401,000. The program pays for 13 permanent locations, operating seven days per week, and 10 portable locations, operating five to six days per week. According to Department of Public Works staff, the additional funds of $1,564,572 would be used to add Pit Stop locations at Eddy and Larkin Streets and Taylor Street, and increase restroom staffing and monitoring.

According to Department of Public Works staff, the $2,712,428 allocated to Neighborhood Cleaning would be used to (a) maintain the TL Clean and SOMA Clean programs operated by nonprofit providers at seven days per week,[2] and (b) expand citywide steam cleaning services, operated by the nonprofit Community Youth Center.

Public Utilities	File 18-1185	File 18-1186
Utility Acquisition Assessment	$0	$5,600,000
Eastern Project Substation	0	10,000,000
Total	$0	$15,600,000

According to the San Francisco Public Utilities Commission (SFPUC) Assistant General Manager for Power, the allocation of $15.6 million would be used to:

- Plan for the acquisition of electrical infrastructure and property ($5.6 million). This includes identifying and assessing infrastructure and property; evaluating the financial feasibility to acquire, rehabilitate, operating and maintain the infrastructure at affordable rates; workforce capacity to ensure operational readiness; and legal support.
- Provide funding for the Eastern Project Substation ($10 million), which is part of the SFPUC Hetch Hetchy Power Enterprise program to construct power transmission and distribution facilities to serve new retail customers, including new development at Pier 70 and Mission Rock.

Human Services	File 18-1185	File 18-1186
Early Childhood Educator Wage Increases	$0	$10,000,000
Total	$0	$10,000,000

Early Childhood Educator Wage Increases

As noted above, File 18-1186 allocates approximately $20 million to the Children's Baseline ($5.8 million), Public Education Enrichment Fund ($4.5 million), and Office of Early Care and Education ($10 million) to increase the wages of early childhood educators.

[2] According to Department of Public Works staff, the programs currently operate seven days per week but without the funding will revert to five days per week.

Children, Youth and Families	**File 18-1185**	**File 18-1186**
SFUSD Teacher Compensation		$13,500,000
Total		$13,500,000

File 18-1186 provides for $13.5 million to be allocated to the Department of Children, Youth and Their Families to fund salary increases to San Francisco Unified School District teachers.

SUMMARY

The two appropriation ordinances, Files 18-1185 and 18-1186, are mutually exclusive. File 18-1185 appropriates $220.5 million in excess ERAF funds. File 18-1186 appropriates $220.5 million in excess ERAF funds and $10.9 million in one-time Rainy Day Reserves, totaling $231.4 million.

Baseline Allocations

Both ordinances appropriate baseline allocations mandated by the Charter. Major differences between the ordinances in these baseline allocations include:

- File 18-1186_ appropriates $5.9 million to the Library Fund for energy efficiency projects, which are not included in File 18-1185.
- File 18-1185 appropriates $4.2 million to full day pre-school for low income 3-year old children, which is not included in File 18-1186.

Wage Increases

File 18-1186 appropriates $5.8 million in Children's Baseline, $4.2 million in Public Education Enrichment Fund, and $10 million to the Human Services Agency Office of Early Care and Education to pay for wage increases for early childhood educators, totaling $20 million.

File 18-1186 also appropriates $13.5 million to the Department of Children, Youth and Family for San Francisco Unified School District teachers' compensation.

File 18-1185 does not include wage increases.

Housing, Homelessness, and Behavioral Health Programs

File 18-1185 appropriates $185.5 million to programs and projects addressing housing, homelessness and behavioral health. File 18-1186 appropriates $157.3 million to programs and projects addressing housing, homelessness and behavioral health.

- Both ordinances appropriate funds to the Mayor's Office of Housing and Community Development for small site acquisition, affordable housing predevelopment. File 18-1185 appropriates $92.7 million and File 18-1186 appropriates $111.5 million. The difference of nearly $19 million is due to appropriations to small site acquisition ($21.3 million in File 18-1185 and $40 million in File 18-1186).
- Both ordinances appropriate funds to the Department of Homelessness and Supportive Housing for new master lease hotel units, emergency homeless shelter capital and services, and navigation center expansion. File 18-1185 appropriates $70.2 million for

one-time capital costs and four years of housing services, and File 18-1186 appropriates $36.4 million for one-time capital costs and approximately two years of housing services.

- Both ordinances appropriate funds to the Department of Public Health for healing center beds and substance use recovery beds. File 18-1185 appropriates $18.3 million to purchase additional beds for four years, and File 18-1186 appropriates $9.4 million to purchase additional beds for two years.
- File 18-1185 appropriates $4.3 million to Pit Stop expansion and neighborhood sidewalk and street cleaning. File 18-1186 does not appropriate funds to these uses.

Power Facilities

File 18-1186 appropriates $15.6 million to the San Francisco Public Utilities Commission to evaluate potential acquisition of electricity infrastructure and to construct an electricity substation on the eastern side of the City to increase capacity.

POLICY CONSIDERATION

Advances of Funds

Both Files 18-1185 and 18-1186 provide for certain appropriations to be advanced to the respective City departments, to be repaid from other funds in the future.

Homeless Gross Receipts Tax

The voters passed Proposition C in November 2018, which imposed a new gross receipts tax on large businesses in San Francisco to fund homeless services. The Board of Supervisors approved an ordinance in December 2018 permitting the City Attorney to file a validation action, which triggers a defined expedited window during which any potential opponent must respond to the City's action or file litigation challenging the validity of Proposition C. If no opponents respond or file litigation, the Superior Court can decide on whether to validate the proposition.

Appropriations in File 18-1185 (approximately $182.8 million) and 18-1186 ($157.3 million) for affordable housing, homelessness, behavioral health services, temporary shelters, and pit stop expansions are eligible to be repaid from gross receipts tax revenues collected pursuant to Proposition C if the City prevails in any legal challenge or validation action.

Teacher and Early Care Educator Pay Increases

File 18-1186 appropriates $13.5 million to the San Francisco Unified School District for pay increases to teachers and $20 million for early care educator pay increases, of which $10 million is the baseline allocation and $10 million is discretionary. The voters passed (1) Proposition G in June 2018, approving a parcel tax to fund pay increases for teachers, and (2) Proposition C in June 2018, approving a tax on commercial rents to fund childcare and education. Similar to the validation action noted above, the Board of Supervisors approved an ordinance in July 20188 permitting the City Attorney to file a validation action. In no opponents respond or file litigation, the Superior Court can decide on whether to validate the propositions.

The appropriation of $13.5 million to the San Francisco Unified School District will be repaid if Proposition G is finally enacted, and the appropriation of $10 million for early care educator pay increases will be repaid if Proposition C is finally enacted. In the event that the court does not find in San Francisco's favor for either proposition, a new funding source will need to be identified for ongoing pay increases.

San Francisco Public Utilities Commission

File 18-1186 appropriates $15.6 million to the San Francisco Public Utilities Commission for energy infrastructure feasibility studies and substation construction. These funds are to be repaid from the future sale of Power Revenue Bonds subject to Board of Supervisors approval.

RECOMMENDATIONS

1. Amend the proposed ordinances to request a written report in June 2019 from the following department heads on the use of the excess ERAF allocation, including specific information on the programs that were implemented with the funds, program participation, and program performance: (1) Mayor's Office of Housing and Community Development, (2) Department of Homelessness and Supportive Housing, (3) Department of Public Health, (4) Office of Early Care and Education, (5) Department of Children, Youth and Their Families, (6) Department of Public Works, and (7) San Francisco Public Utilities Commission.
2. Approval of the two proposed ordinances, which are mutually exclusive, is a policy matter for the Board of Supervisors.

Item 6 **File 19-0044**	**Department** San Francisco Municipal Transportation Agency

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance appropriates $38,124,000 in excess Educational Revenue Augmentation Fund (ERAF) property tax to the San Francisco Municipal Transportation Agency (SFMTA) to partially fund the purchase of light rail vehicles under the contract between SFMTA and Siemens

Key Points

- Due to recent growth in the property tax roll (20 percent in the last two years), property tax allocations to the San Francisco Unified School District and the Community College District exceed state funding requirements. The City Charter sets annual baseline funding to the SFMTA, of which $38.1 million is the excess ERAF allocation.
- Under SFMTA's contract with Seimens, Inc. (Seimens), SFMTA plans to purchase 151 light rail vehicles to replace aging vehicles, and 68 light rail vehicles to accommodate service expansions, including the Central Subway and the Warriors Stadium, totaling 219 vehicles. SFMTA has previously purchased 46 of the 68 expansion vehicles but has not purchased any of the 151 replacement vehicles.

Fiscal Impact

- SFMTA has $660.7 million in funds that are available or that have been committed (including the $38.1 million appropriation of excess ERAF funds), and anticipates an additional $449.1 million in Metropolitan Transportation Commission funds, totaling $1.1 billion for the purchase of 219 vehicles. This amount includes $349.8 million previously spent or encumbered, and $760 million remaining.
- As noted above, 46 of the 68 light rail vehicles needed for service expansion have been purchased. SFMTA plans to purchase the remaining 22 vehicles in 2019. SFMTA plans to purchase the 151 replacement light rail vehicles between 2020 and 2023.
- In order to fully fund the purchase of the 219 light rail vehicles, SFMTA anticipates receiving $449.1 million from the Metropolitan Transportation Commission for Transit Capital Priorities. The Transit Capital Priorities funds are Federal Transit Administration funds granted to the Metropolitan Transportation Commission based on a formula. According to SFMTA staff, the Metropolitan Transportation Commission prioritizes transit vehicle replacement, and SFMTA expects to receive these funds in a timeframe that allows for the purchase of the vehicles.

Recommendation

- Approve the proposed ordinance.

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.

BACKGROUND

The San Francisco Municipal Transportation Agency (SFMTA) currently operates 151 light-rail vehicles over 71.5 miles of track throughout the City. Many of the current fleet of light-rail vehicles started operating in 1996 with a 25-year operating life through 2021. Ansaldo Breda, Inc. (Breda), a private for-profit company, built and assembled the current fleet of MTA light-rail vehicles.

The Board of Supervisors approved a contract between SFMTA and Siemens, Inc. (Siemens) in September 2014 for the purchase of 151 light rail vehicles between FY 2021-22 and FY 2027-28 to replace the Breda light rail vehicles (File 14-0882). The contract provided for the purchase of up to 260 light rail vehicles in total.

SFMTA originally planned to also purchase 64 light rail vehicles between FY 2016-17 and FY 2020-21, in addition to the 151 replacement light rail vehicles, to expand the light rail vehicle fleet to accommodate service growth and the opening of the Central Subway. Subsequently, in order to accommodate service growth due to the new Warriors Stadium, SFMTA added four light rail vehicles to the plan to expand the number of light rail vehicles, for 68 total light rail vehicles to expand the fleet. As of January 2019, 46 of the 68 new light rail vehicles for the expanded fleet have been received and placed into active service.

According to an October 2018 memorandum from SFTMA staff to the SFMTA Board of Directors, subsequent to the signing of the initial contract in 2014, SFMTA and Siemens agreed to an accelerated delivery schedule for the expanded fleet vehicles; the delivery of the remaining 22 expanded fleet vehicles would be completed by September 2019, or approximately three months earlier than the previous delivery date of December 2019. The accelerated delivery schedule is to accommodate the planned opening date of the Central Subway, which is currently anticipated to be complete in December 2019.

In addition, according to SFMTA, SFMTA and Siemens agreed to work out the terms of an accelerated delivery of the 151 replacement vehicles that compressed the original delivery time frame from six and a half years to only five years. The first replacement vehicles are currently planned to be delivered in approximately April of 2020, and deliveries will continue through March of 2023. According to SFMTA, the accelerated purchase of the 151 replacement light rail vehicles will result in reduced costs and out-of-service time for vehicle maintenance, and will allow SFMTA to achieve cost savings by reducing the 5 percent per year price escalation in the contract with Siemens.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance appropriates $38,124,000 in excess Educational Revenue Augmentation Fund (ERAF) property tax to the SFMTA to partially fund the purchase of light rail vehicles under the contract between SFMTA and Siemens.

Excess ERAF Property Tax

In 1992 and 1993, the State directed all counties to create an Educational Revenue Augmentation Fund (ERAF) and divert local property tax revenue into the fund for public school systems in each county. In San Francisco, 25 percent of collections from the base property tax rate are allocated to ERAF. When the fund has sufficient money to meet minimum state funding requirements for public schools and community colleges, excess funds are returned to the local governments.

Due to recent growth in the property tax roll (20 percent in the last two years), property tax allocations to the San Francisco Unified School District and the Community College District exceed state funding requirements for the first time since the creation of the fund, and the City will recognize approximately $415 million in excess ERAF property tax revenue in FY 2018-19, including $208 million attributable to FY 2017-18 and $207 million attributable to FY 2018-19. According to Charter provisions adopted by the voters, approximately $74 million of the $415 million must be allocated to various baselines and approximately $156 million to Rainy Day Reserves, and the balance of approximately $185 million is available for any public purpose.

FISCAL IMPACT

Under the contract with Seimens, SFMTA plans to purchase 68 light rail vehicles to expand the fleet and 151 light rail vehicles to replace existing light rail vehicles that have reached the end of their useful life. As noted above and shown in Table 1 below, SFMTA has purchased 46 of the 68 fleet expansion vehicles and none of the 151 replacement vehicles.

Table 1: Purchase of Light Rail Vehicles

LRV Purchase Plan	Total in Contract	Purchased	Remaining to be purchased
Expansion	68	(46)	22
Replacement	151	0	151
Total	**219**	**(46)**	**173**

Source: SFMTA

The total cost to purchase 219 light rail vehicles under the contract with Siemens is $1.1 billion. SFMTA has spent or encumbered $349.8 million for the purchase of the 46 light rail vehicles to expand the fleet[1], as shown in Table 2 below, with costs of $760 million to purchase the remaining 173 light rail vehicles.

[1] This includes the purchase price of each vehicle and associating costs including spare parts, manuals, training, special tools and equipment, and other costs.

Table 2: Prior and Remaining Project Amount by Funding Source

Source	Spent/ Encumbered	Remaining	Total
Proposition K Sales Tax	$131,153,144	$62,767,634	$193,920,778
Metropolitan Transportation Commission			
Transit Capital Priorities	0	449,062,643	449,062,643
Bay Area Toll Authority	0	79,838,236	79,838,236
GF New Revenue	0	38,124,000	38,124,000
SFTMA - Revenue Bond	122,874,837	22,175,813	145,050,650
Federal Transit Administration			
5307 Urbanized Area Formula Program	10,227,539	0	10,227,539
Central Subway	16,800,000	0	16,800,000
Operating	6,947,719	1,052,281	8,000,000
Caltrans			
Transit & Intercity Rail Capital Program	61,823,800	51,316,200	113,140,000
Regional Measure 3 Bridge Toll	0	55,661,139	55,661,139
Total	**$349,827,039**	**$759,997,946**	**$1,109,824,985**

Source: SFMTA

Of the total $1.1 billion to purchase 219 light rail vehicles, SFMTA has commitments for $660.8 million in funds from federal, state, and local sources (including the $38.4 million in excess ERAF funds), as shown in Table 3 below, and anticipates an additional $449 million in Transit Capital Priorities funds.

Table 3: Committed and Anticipated Funds

Source	Committed	Anticipated	Total
Proposition K Sales Tax	193,920,778	0	193,920,778
Metropolitan Transportation Commission			
Transit Capital Priorities	0	449,062,643	449,062,643
Bay Area Toll Authority	79,838,236	0	79,838,236
GF New Revenue	38,124,000	0	38,124,000
SFTMA - Revenue Bond	145,050,650	0	145,050,650
Federal Transit Administration			
5307 Urbanized Area Formula Program	10,227,539	0	10,227,539
Central Subway	16,800,000	0	16,800,000
Operating	8,000,000		8,000,000
Caltrans			
Transit & Intercity Rail Capital Program	113,140,000	0	113,140,000
Regional Measure 3 Bridge Toll	55,661,139	0	55,661,139
Total	**$660,762,342**	**$449,062,643**	**$1,109,824,985**
Additional Funding – To Be Determined			18,150,139
Total			**$1,127,975,124**

Source: SFMTA

Of the $660.8 million in committed funds, SFMTA has received $397.5 million.[2] In addition, the SFMTA anticipates $449.1 million in Metropolitan Transportation Commission funds for Transit Capital Priorities. The Transit Capital Priorities funds are Federal Transit Administration funds granted to the Metropolitan Transportation Commission based on a formula. According to SFMTA staff, the Metropolitan Transportation Commission prioritizes transit vehicle replacement, and SFMTA expects to receive these funds between FY 2020-21 and FY 2024-25, which allows SFMTA to meet the purchase obligations under its contract with Siemens for the purchase of the 151 replacement light rail vehicles.

RECOMMENDATION

Approve the proposed ordinance.

[2] Funds that have been committed but not received include $62.8 million in Proposition K sales tax revenues from the San Francisco County Transportation Authority, $79.8 million from the Metropolitan Transportation Commission from bridge tolls, $38.1 million in excess ERAF funds, $26.9 million from Caltrans from the Transit & Intercity Rail Program, and $55.7 million from Regional Measure 3 bridge tolls. According to SFMTA, (a) the San Francisco County Transportation Authority has programmed the $62.8 million for FY 2021-22 through FY 2024-25 as part of the Five-Year Prioritization Program and Strategic Plan; (b) of the $79.8 million from the Metropolitan Transportation Commission, $59 million was allocated on January 23, 2019 and is now available to SFMTA and the remaining $21 million is expected to be available later in the year; (c) SFMTA and Caltrans are in the process of executing the grant agreement for $26.9 million in Transit & Intercity Rail Program funds; and (d) $55.6 in Regional Measure 3 Bridge Toll funds are part of the $140 million Regional Measure 3 allocation to SFMTA (a lawsuit is pending challenging Measure 3's validity).