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: September 15, 2021 Budget and Finance Committee Meeting

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Item 1 **File 21-0635**	**Department:** Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the second amendment to the lease agreement between the Airport and Stellar Partners, Inc. in Boarding Area F, extending the term to June 30, 2023, with no changes to the Minimal Annual Guarantee (MAG).

Key Points

- In 2013, the Board of Supervisors approved a competitively procured Lease between the Airport and Avila Retail Development and Management, LLC (Avila), for a 947 square-foot souvenir shop with a MAG of $162,000 and a seven-year term through 2019. The shop is called "Greetings from San Francisco," and is located in Terminal 3 Boarding Area F. In 2018, Avila was acquired by Stellar Partners, Inc. a Florida-based airport retail corporation. Accordingly, on August 7, 2018, the Airport reassigned the lease from Avila to Stellar Partners.
- On January 1, 2020 the lease moved into a holdover status, during which MAG did not apply but the tenant continued to pay percentage rent.

Fiscal Impact

- The tenant has paid MAG rent (rather than percentage rent exceeding the MAG rent) over the original lease term, with the exception of 2014 and 2015, when MAG rent was temporarily suspended due to reduced enplanements in the terminal location. The lease contains a provision (Section 4.16.b) that suspends the MAG if enplanements drop below 80 percent of reference year (2011) levels for three consecutive months, consistent with Airport policy. The Airport expects MAG rent to be suspended through 2023 due to decreased air travel, during which the tenant would only pay percentage rent.
- According to the Airport Manager for Revenue Development and Management, when the MAG rent is reinstated under the proposed lease extension, it will be adjusted by annual Consumer Price Index (CPI) increases since the expiration of the existing lease on January 1, 2020, in accordance with Section 4.3 of the lease.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for ten or more years, including options to renew, and having anticipated revenues to the City of $1,000,000, or the modification, amendment or termination of these leases is subject to Board of Supervisors approval.

BACKGROUND

In 2013, the Board of Supervisors approved an Airport concession lease with Avila Retail Development and Management, LLC (Avila) (File 12-1191) to operate a 947 square-foot retail facility located in Terminal 3, Boarding Area F for a Minimum Annual Guarantee (MAG) of $162,000, for a seven-year term. The lease was awarded following a Request for Proposals (RFP) process in which Avila's proposal was deemed the highest scoring. The leased space was used for a facility called "Greetings from San Francisco," a souvenir shop. The Rent Commencement Date began on January 1, 2013 and expired on December 31, 2019. On January 1, 2020 the lease moved into a holdover status, during which MAG did not apply, in accordance with the original lease terms, but the tenant continued to pay percentage rent.

In 2018, Avila was acquired by Stellar Partners, Inc. a Florida-based airport retail corporation. Accordingly, on August 7, 2018, the Airport reassigned the lease from Avila to Stellar Partners.

On March 16, 2020, Greetings from San Francisco was closed following the Mayor's Public Health Stay at Home Order. In January 2021, the Board of Supervisors approved an ordinance that allowed the Airport to amend certain leases consistent with the Airport's adopted the COVID-19 Emergency Rent Relief Program for Airport Concessions Tenants (File 20-1278). Stellar Partner's lease was amended to waive MAG rent between March 2020 and May 2020, percentage rent during April 2020 and May 2020, and certain fees and charges between April 2020 and December 2020.

On November 16, 2020 the facility reopened. Though the lease expired in January 2020, due to the COVID-19 pandemic and resulting decline in enplanements and concessions traffic, the Airport decided there would not be sufficient interest and competition to commence a new RFP process for this lease, and on December 15, 2020 the Airport approved the Second Amendment to the lease to extend the term until June 30, 2023. This is one of six leases[1] that are nearing their expiration dates that the Airport has decided to extend the lease term until June 30, 2023 rather than initiate new RFP processes.

[1] The Airport has proposed extending the terms of one business service lease and five retail concession leases with similar expiration dates through June 30, 2023: 1) Airport Travel Agency (File No. 21-0069 approved 4/23/2021), 2) Greetings from San Francisco (File No. 21-0635 pending here), 3) Boarding Area E Newsstand (File No. 21-0280 approved 5/14/2021), 4) Terminal 3 Boarding Area F Gourmet Food and Gift Store (File No. 21-0444 approved 6/17/2021, 5) International Terminal Museum/Gallery Store (not yet assigned) and 6) Terminal 2 Newsstands, Coffee and Specialty Stores (File No. 21-0342 approved on 5/21/2021).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment to the lease agreement between the Airport and Stellar Partners, Inc. in Boarding Area F, extending the term to June 30, 2023. The Amendment provides that the Airport Director may terminate the lease earlier by providing six months' notice.

According to the proposed resolution, the current MAG rent is unchanged from the existing lease. The proposed second amendment states that the MAG rent is payable, subject to Section 4.16(b) of the existing lease (discussed below). The tenant has not paid MAG rent since January 2020, when the lease went into holdover status.

FISCAL IMPACT

The Airport expects MAG rent to be suspended through 2023 due to decreased air travel, during which the tenant would only pay percentage rent. The lease contains a provision (Section 4.16.b) that suspends the MAG if enplanements drop below 80 percent of reference year (2011) levels for three consecutive months, consistent with Airport policy. The MAG will be reinstated when enplanements increase back to at least 80 percent of 2011 levels for two consecutive months.

According to Cheryl Nashir, Airport Revenue Development and Manager, the tenant has paid MAG rent (rather than percentage rent exceeding the MAG rent) over the original lease term, with the exception of 2014 and 2015, when MAG rent was temporarily suspended due to reduced enplanements in the terminal location.

According to the Airport Manager for Revenue Development and Management, when the MAG rent is reinstated under the proposed lease extension, it will be adjusted by annual Consumer Price Index (CPI) increases since the expiration of the existing lease on January 1, 2020, in accordance with Section 4.3 of the lease.

Exhibit 2. Rent Paid to the Airport, CY 2013-21

Year	MAG Rent	Actual Rent
2013	$162,000	$162,000
2014 [a]	165,659	156,177
2015 [a]	170,956	142,463
2016	175,333	175,333
2017	181,571	181,571
2018	186,451	186,451
2019	194,581	194,581
Subtotal Original Lease	$1,236,551	$1,198,576
2020	n/a	15,361
Jan-May 2021	n/a	5,665
Total Rent	**$1,236,551**	**$1,219,602**

Source: Airport

[b] According to the Airport, MAG was temporarily suspended between August 1, 2014 and February 28, 2015 due to a severe decline in enplanements in Boarding Area F, and MAG billing was reinstated thereafter.

RECOMMENDATION

Approve the proposed resolution.

Item 2 **File 21-0735**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 1 to the 2011 Lease and Use Agreement (2011 Lease) between San Francisco International Airport (Airport) and TACA International Airlines, S.A. (TACA), extending the term by two years through June 2023, with estimated rent of $4,301,668 during the extension term.

Key Points

- The Airport's 2011 Lease allows airlines to provide flight operations and rent terminal space at the Airport and provides a common set of lease provisions that are used for these airlines. The 2011 Lease was set to expire on June 30, 2021. Airport staff and the Signatory Airlines began negotiating a new lease and use agreement when the COVID-19 pandemic began to impact the aviation industry. Airport staff determined that finalizing a new lease would not be feasible and that a two-year extension of the 2011 Lease would allow Signatory Airlines to continue operations. In May 2021, the Board of Supervisors approved a two-year extension of the 2011 Lease with 39 airlines, extending the term through June 2023.
- TACA did not sign the lease extension because its parent company, Avianca, had filed for Chapter 11 bankruptcy. The proposed 2011 Lease modification required review and approval by a bankruptcy court, which has since been granted.
- Other than the extension of the term, the proposed Modification No.1 would not change any material terms of the 2011 Lease, including the residual rate-setting methodology for terminal rental rates and landing fees, as well as the Annual Service Payment to the City's General Fund. The proposed Modification No. 1 would also update the 2011 Lease to comply with all federal, state, and local laws, including City contracting provisions.

Fiscal Impact

- Under the proposed lease extension, TACA would continue to pay landing fees, Joint Use rent, and Exclusive Use rent. Landing Fees cannot be estimated because they are based on flight activity, which is highly uncertain due to the COVID-19 pandemic. Over the two-year term of the lease extension, the Airport estimates it will receive approximately $4,301,668 in rent. This is a preliminary estimate that will likely change. Rents are subject to the Airport Rates and Charges, which are set annually by the Airport Commission.

Recommendations

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that (1) any lease of real property for ten or more years, including options to renew, (2) have anticipated revenues to the City of $1,000,000, or (3) the modification, amendment or termination of these leases is subject to Board of Supervisors approval.

BACKGROUND

In 2011, the San Francisco International Airport (Airport) negotiated a new Lease and Use Agreement (2011 Lease) with its domestic and international airlines. The 2011 Lease allows airlines to provide flight operations and rent terminal space at the Airport and provides a common set of lease provisions that are used 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. Of the 65 airlines operating at the Airport, 54 had signed onto the 2011 Lease.

The 2011 Lease was set to expire on June 30, 2021. Airport staff and the Signatory Airlines were negotiating a new lease agreement when the COVID-19 pandemic began to have an impact on the aviation industry. Airport staff determined that finalizing a new lease under those conditions would not be feasible and that a two-year extension of the 2011 Lease would allow Signatory Airlines to continue operating while a new lease can be negotiated. In May 2021, the Board of Supervisors approved a two-year extension of the 2011 Lease with 39 airlines, extending the term through June 2023 (File 21-0335).

TACA International Airlines, S.A (TACA), did not sign the lease extension because its parent company, Avianca, had filed for Chapter 11 bankruptcy. It has been operating at the Airport under the 2011 Lease on a holdover basis. The proposed 2011 Lease modification required review and approval by a bankruptcy court, which has been granted. In May 2021, the Airport Commission approved a two-year extension of the 2011 Lease with TACA.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 1 to the 2011 Lease between the Airport and TACA, extending the term by two years through June 2023. The proposed resolution would also affirm the Planning Department's determination that the resolution complies with the California Environmental Quality Act (CEQA).

Other than the extension of the term, the proposed Modification No. 1 would not change any material terms of the 2011 Lease, including the residual rate-setting methodology[1] for terminal rental rates and landing fees based on the Airport's Rates and Charges, as well as the Annual Service Payment to the City's General Fund. The proposed Modification No. 1 would also update

[1] The residual rate-setting methodology is a formula which sets the schedule of all rental rates, landing fees, and related fees to a level which ensures that Airport revenues received from the airlines, plus the non-airline revenues (such as concession revenues), are equal to the Airport's total costs, including debt service and operating expenditures.

the 2011 Lease to comply with all federal, state, and local laws, including City contracting provisions, such as: Vending Machines: Nutritional Standards and Calorie Labeling Requirements (Administrative Code Section 4.1-9(c)); Local Hire (Administrative Code Section 23.62); Prohibition on Alcoholic Beverage Advertising (Administrative Code Section 4.20); Resource-Efficient Building Ordinance (Environment Code Chapter 7); and All-Gender Toilet Facilities (Administrative Code Section 4.1-3).

Airlines that do not sign the 2011 Lease may operate at the Airport under an Operating and Space Permit, which entails a 25 percent premium on landing fees and a security deposit of six months, rather than two months, of anticipated rental and landing fees. Airlines operating under permits pay the same Joint Use and Exclusive Use rent as Signatory Airlines of the 2011 Lease.

FISCAL IMPACT

Under the proposed Modification No. 1, TACA would continue to pay landing fees, Joint Use rent, and Exclusive Use rent. According to Teresa Rivor, Airport Senior Property Manager, landing fees cannot be projected because they are based on flight activities, which are uncertain due to the COVID-19 pandemic as demand has yet to return for air travel. Estimated Joint Use and Exclusive Use rent over the two-year extension period of July 2021 through June 2023 are shown in Table 1 below.[2]

Table 1: Estimated Rent Projections

Year	Joint Use Rent	Exclusive Use Rent	Total Rent
FY 2021-22	$1,995,934	$171,130	$2,167,064
FY 2022-23	1,966,037	168,567	2,134,604
Total	**$3,961,971**	**$339,697**	**$4,301,668**

Source: Airport

According to Property Manager Rivor, the estimated rent revenues of $4,301,668 over the two-year extension term are preliminary assumptions and will likely change. The Airport projects airline rents to slightly decline in FY 2022-23, as shown in Table 1 above, because non-aviation revenues, such as concessions and parking, are projected to increase. If non-aviation revenues do not increase as anticipated, then airline rents would increase. Joint Use and Exclusive Use rents are subject to the Airport Rates and Charges, approved annually by the Airport Commission.

RECOMMENDATION

Approve the proposed resolution.

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[2] Exclusive Use Space is space used by only one airline, with rental rates of $34.03-$340.28 per square foot, depending on the type of use. The proposed lease's Exclusive Use space includes approximately 672 square feet of office space in the International Terminal. Joint Use Space is space that is used by multiple airlines. The proposed lease's Joint Use space includes approximately 627,414 square feet of ticket counters, hold rooms baggage claims, inbound and outbound baggage space, federal inspection space, and ramp space in the International Terminal. Joint Use Space is rented collectively at the same rental rates as Exclusive Use Space. Under the joint use formula, 20 percent of total Joint Use rent is divided evenly among airlines using the space, and the remaining 80 percent of the total rent is divided by the airlines proportionally to the number of inbound and outbound passengers.

Item 6 **File 21-0833**	**Department:** Public Utilities Commission

Legislative Objectives

- The proposed resolution will authorize the General Manager of the San Francisco Pubic Utilities Commission (SFPUC) to execute the first amendment to the current grant agreement with 181 Fremont Street, LLC for an Onsite Water Reuse System, extending the term by seven years to January 2032.

Key Points

- Article 12C of the Health Code generally requires that large new developments install water reuse systems. The SFPUC provides grant to owners of large developments that were under development prior to that mandate going into effect. In 2015, the SFPUC provided such a grant to the owner of 181 Fremont Street. The purpose of the ten-year grant agreement was to fund a water reuse system capable of achieving 10 million gallons of non-potable water reuse per year. Due to delays in construction and low building occupancy due to COVID-19, the system is not expected to be operational until 2022.

- The grant term extension binds the property owner to annual reporting and compliance requirements and allows SFPUC to monitor annual reusage rates. If the resolution is not approved, the agreement terminates in 2025, and the property owner has no obligation to achieve reusage goals beyond that time. The proposed extension will extend the grant requirements for the ten-year period during which the water reuse system at 181 Fremont will be operational, from 2022 to 2032.

Fiscal Impact

- Approval of the proposed resolution will not create any additional cost or financial liability for the City. According to Taylor Nokhoudian, SFPUC Water Resources Analyst, SFPUC paid out the first grant disbursement of $100,000 in April 2015. Funds for the remaining $150,000 disbursement are already programmed into the FY 2021-22 SFPUC Water Enterprise budget within the Retrofit Grant Program.

Policy Consideration

- As of September 2019, the most recent date for which SFPUC has readily available data, 22 water reuse systems were operative.
- The proposed grant amendment is consistent with ordinances adopted by the Board to achieve increased Citywide water reusage and improve water conservation practice. We therefore recommend approval of the proposed resolution.

Recommendation

- Approve the proposed resolution

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that has a term of more than ten years is subject to Board of Supervisors approval.

BACKGROUND

181 Fremont

181 Fremont Street is high-rise residential building in the SOMA District, consisting of 55 residences on 17 floors. The project received approval from the Planning Commission in 2013, and the building was completed in May of 2018.

Onsite Water Reuse Grant Program

The San Francisco Public Utilities Commission (SFPUC) Onsite Water Reuse Grant Program awards grants to projects that recycle water for non-potable use. SFPUC awarded a $250,000 grant to the 181 Fremont Street building in January 2015 for the recapture and reuse of non-potable water to offset the use of an equivalent amount of potable water within the building, thereby releasing this potable water for other uses, including for water conservation purposes.

Because 181 Fremont Street received Planning Commission approval in 2013, the building was not subject to San Francisco Health Code Article 12C requiring installation of onsite water reuse systems[1] in all new developments with total gross floor area equal to or greater than 250,000 square feet in order to qualify for a building permit (File 15-0350). Large projects that received Planning Commission approval prior to the enactment of the Health Code mandate were exempt from the Code provision

Existing Grant Agreement

The initial grant agreement between SFPUC and 181 Fremont LLC is for ten years from January 6, 2015 to January 5, 2025.

The grant agreement stated that 181 Fremont LLC would achieve a cumulative potable water offset of 10 million gallons per year over the ten-year term. The grant agreement stipulated that SFPUC would disburse 40 percent of the total grant upon receipt of a Non-potable Engineering Report and an approval letter from the Department of Public Health (DPH). An additional 50 percent would be dispersed upon completion of construction and receipt of a certification letter. The final 10 percent of the grant will be paid after DPH issued the Final Permit to Operate, and the project demonstrates it is achieving the estimated water savings and is in full compliance with all other ordinance requirements.

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[1] Under Article 12C of the Health Code, water reuse systems use rainwater, graywater (bath, bathroom sink, and laundry water), blackwater (biologically contaminated water), and foundation drainage water for toilet and urinal flushing and for irrigation.

The grant agreement was scheduled to terminate after the owner has submitted 10 annual status reports (one per year) to document in compliance with the grant's performance requirements. Annual Reports were to be submitted no later than January 15th of each year. The property owners were required to provide a description of how compliance with the terms of the grant agreement was being achieved, and report and verify on-site annual water reusage in each annual report. The grant agreement required the building owner to adhere to all provisions outlined in the DPH *Director's Rules and Regulations Regarding the Operation of Alternate Water Source Systems*. The agreement also authorized the DPH to perform on-site inspections, and granted DPH the authority to conduct investigations of the site to insure compliance with existing water reuse health and safety mandates.[2]

Construction of 181 Fremont Street was not completed until 2018, and installation of the on-site water reuse system was not completed until February 2020, a full five years into the ten-year term of the initial grant agreement. Moreover, installation of the onsite water reuse system coincided with the onset of the COVID-19 pandemic, as a result of which day-time building occupancy and day-time use decreased to very low levels. Accordingly, the benefits anticipated from the onsite water reuse system have not been realized.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution will authorize the General Manager of the San Francisco Public Utilities Commission (SFPUC) to execute the first amendment to the current grant agreement with 181 Fremont Street, LLC for an Onsite Water Reuse System, extending the term by seven years to January 2032. The grant amount of $250,00 is not changed.

According to SFPUC, the seven-year extension is necessary to provide for 10 annual reports, documenting the water reuse required under the terms of the grant agreement. Because the water reuse system was not completed until February 2020, and because regular water usage is not expected to return until approximately February 2022, the SFPUC requires 10 years of annual water use documentation between February 2022 and January 2032.

[2] "San Francisco Department of Public Health Director's Rules and Regulations Regarding the Operation of Alternate Water Source Systems Authority Article 12C of the San Francisco Health Code established Permitting requirements for the use of alternate water sources and set Permit and annual fees. The San Francisco Department of Public Health (SFDPH) is authorized to perform duties associated with regulating the internal uses of Alternate Water Source Systems through its general authority to provide for the preservation, promotion, and protection of the health of the inhabitants of the City and County [San Francisco Charter Sec.4.110]. Additionally, Article 11 of the City's Health Code authorizes SFDPH Environmental Health Branch (SFDPH-EH) to investigate and abate any nuisance, activity, or condition that the SFDPH-EH deems to be a threat to public health and safety. The Health Code authorizes the SFDPH-EH to order a person to vacate property, cease prohibited activities, abate unsafe or unsanitary conditions, and pay penalties for violations."

The proposed amendment to the grant agreement does not include other substantive changes. By January 2032, the grantee will be expected to have achieved a cumulative potable water offset of at least 10 million gallons and have complied annual reporting requirements.

FISCAL IMPACT

Approval of the proposed resolution will not create any additional cost or financial liability for the City. According to Taylor Nokhoudian, SFPUC Water Resources Analyst, SFPUC paid out the first grant disbursement of $100,000 in April 2015. Funds for the remaining $150,000 disbursement are already programmed into the FY 2021-22 SFPUC Water Enterprise budget within the Retrofit Grant Program.

POLICY CONSIDERATION

In the interests of reducing water usage and improving conservation, in 2008 the SFPUC set a goal reusing non-potable water for all major office and mixed-use developments by the end of 2018. Conservation efforts were further adopted by the Board of Supervisors when Article 12C was added to the San Francisco Health Code, which authorized the collection and re-use of alternate water sources such as rainwater, stormwater, foundation drainage, graywater, and blackwater for non-potable uses, such as toilet flushing and irrigation. As noted above, Article 12C was further amended in 2015 to require water reuse in new building projects exceeding 250,000 square feet.

As of September 2019, the most recent date for which SFPUC has readily available data, 22 water reuse systems were operative. The SFPUC also reported a total of 86 building sites had submitted water budget applications. According to the SFPUC, 70% of these projects were also implementing stormwater or rainwater harvesting systems to comply with terms of the Stormwater Management Ordinance.

The proposed grant amendment is consistent with ordinances adopted by the Board to achieve increased Citywide water reusage and improve water conservation practices. We therefore recommend approval of the proposed resolution.

RECOMMENDATION

Approve the propped resolution.

Item 9 **Files 21-0872**	**Department:** Controller

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the execution and delivery of tax-exempt and/or taxable commercial paper notes in an aggregate principal amount not to exceed $2,425,000 to provide financing for the costs of acquiring 60 vehicles for the San Francisco Police Department (SFPD).

Key Points

- Commercial paper is short-term interim financing for capital projects that permits a governmental entity to pay capital project and equipment costs on an ongoing basis. The Board of Supervisors approved the Commercial Paper Program in 2009 and increased the program in 2013, allowing the City to issue up to $250 million in commercial paper toward the interim financing of the acquisition, construction and rehabilitation of capital improvements within or owned by the City, and the financing of vehicles and equipment. According to the Office of Public Finance, of the $250 million in commercial paper authority, $197 million is currently unencumbered.
- The Mayor's Proposed FY 2021-22 and FY 2022-23 Budget included approximately $3 million for fleet upgrades to replace the San Francisco Police Department's aging fleet in FY 2022. A technical adjustment was implemented to allow for the use of commercial paper to fund approximately $2.4 million of the $3 million fleet replacement budget allocation towards the acquisition of 60 vehicles in FY 2021-22.

Fiscal Impact

- Average annual debt service is estimated to range from approximately $508,000 to $554,000. With variable true interest rates that are expected to range from two to five percent, this amount may fluctuate in future budgets. Total debt service over the anticipated 5-year term is estimated to range from approximately $2,541,000 to $2,766,000 which includes approximately $2,400,684 in principal with the remainder being interest. Under the proposed resolution, debt service will be paid from the City's General Fund.
- Administrative Code Section 10.62 limits debt service of COPs and other lease financing to 3.25 percent of discretionary General Fund revenues. According to the Office of Public Finance, the incremental increase in debt service from the proposed commercial paper as well as planned certificates of participation through FY 2027 will be below that cap

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

According to Charter Section 9.113(e), the Board of Supervisors has the authority to borrow money by the issuance of tax anticipation notes, temporary notes, commercial paper, or other short-term debt instruments.

BACKGROUND

Commercial paper is short-term interim financing for capital projects that permits a governmental entity to pay capital project and equipment costs on an ongoing basis. Commercial paper notes are issued and short-term debt is incurred only when needed to pay capital project costs as they are incurred, supported by a letter of credit provided by a bank. Commercial paper has a fixed maturity date of up to 270 days (approximately nine months). On the maturity date, commercial paper may be refinanced for additional periods of up to 270 days.

The Board of Supervisors approved the creation of the City's Commercial Paper Program[1] in 2009, which allowed the City to issue up to $150,000,000 in commercial paper (File 09-0197). In 2013, the Board of Supervisors approved an increase of $100,000,000 in the Commercial Paper Program, allowing the City to issue up to $250,000,000 in commercial paper toward the interim financing of the acquisition, construction and rehabilitation of capital improvements within or owned by the City, and the financing of vehicles and equipment (File 13-0627).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the execution and delivery of tax-exempt and/or taxable commercial paper notes in an aggregate principal amount not to exceed $2,425,000 to provide financing for the costs of acquiring 60 vehicles for the San Francisco Police Department (SFPD).

The Mayor's Proposed FY 2021-22 and FY 2022-23 Budget included approximately $3 million for fleet upgrades to replace the San Francisco Police Department's aging fleet in FY 2021-22. A technical adjustment was implemented to allow for the use of commercial paper to fund approximately $2.4 million of the $3 million fleet replacement budget allocation towards the

[1] The City's Commercial Paper Program generally applies to the City's General Fund departments. The City's enterprise departments have separate commercial paper programs, including the Public Utilities Commission, Airport, and San Francisco Municipal Transportation Agency.

acquisition of 60 vehicles, allowing $2.4 million in General Fund monies in the Mayor's proposed budget for the Police Department to be re-programmed.

According to the Office of Public Finance, of the $250 million in commercial paper authority, $197 million is currently unencumbered. Despite the unencumbered commercial paper authority, the proposed resolution is necessary because the financing plan for the vehicles has not been previously approved by the Board of Supervisors, as required by Administrative Code Section 10.62.

Method of Sale

The Office of Public Finance expects to issue the proposed commercial paper on a negotiated basis. Under the City's Debt Policy, all variable rate bonds, which may include variable rate demand notes, commercial paper, etc., are expected to be issued on a negotiated basis and sold via a remarketing agent.[2] The commercial paper is anticipated to be tax exempt and sold in mid-fall, with a target date of November 1, 2021.

Uses of Proceeds

Exhibit 1 below shows the sources and uses of the proposed debt.

Exhibit 1: Sources and Uses of Proposed Commercial Paper

Sources	Amount ($)
Commercial Paper	2,400,684
Total Sources	**$2,400,684**
Uses	
Purchase of 60 SFPD Vehicles	2,400,684
Total Uses	$2,400,684
Reserve for Market Uncertainty	24,316
Not to Exceed Amount	**$2,425,000**

Source: Office of Public Finance

Exhibit 2 below shows the number of vehicles, types of vehicles and vehicle costs to be financed by the proposed commercial paper.

[2] US Bank is the remarketing agent for Series 3 of the commercial paper authorization. The Office of Public Finance anticipates issuing the commercial paper to fund the project under Series 3 (which uses the Public Safety Building, Fire Station 10, and/or the Taraval Police Station as security for the commercial paper notes). The Debt Policy states that the City shall retain a minimum of two broker/dealers or remarketing agents for each issuance of variable rate indebtedness exceeding $100 million. The broker/dealers or remarketing agents shall be retained for a period co-terminus with the final maturity of any variable rate bonds provided that the City may replace a broker/dealer or remarketing agent with notice at any time for any reason in its sole discretion.

Exhibit 2: Vehicles Description

Vehicle Description	Manufacturer and Model	Cost per Vehicle	Number of Vehicles	Total Cost of Vehicles	Amount to be Funded by Commercial Paper
Mid-sized Hybrid SUV PPV[3] Marked Patrol	Ford Police Interceptor Utility	$84,273	12	$1,011,277[4]	$433,404
Large Plug-in Electric Vehicle, Short Range	Honda Clarity Plug-in Electric	$40,985	48	$1,967,280	$1,967,280
				Total Vehicle Costs	**$2,400,684**

Source: Office of Public Finance

City Debt Policy

Administrative Code Section 10.62 limits debt service of COPs and other lease financing to 3.25 percent of discretionary General Fund revenues. According to the Office of Public Finance, the incremental increase in debt service from the proposed commercial paper as well as planned certificates of participation through FY 2027 will be below that cap.

Annual Report

Under the City's debt policy, the Director of Public Finance will provide a written report to the Board of Supervisors twelve months following the initial issuance of commercial paper notes and annually thereafter through the final maturity of the last commercial paper note outstanding describing the notes issued since the date of the last report, summarizing average cost of funds, the status of projects currently financed with commercial paper, and identifying any long term obligation to refund commercial paper notes. The Office of Public Finance plans to issue the next annual report providing a status update and summarizing the performance and activities of the commercial paper program in December 2021.

FISCAL IMPACT

Debt Service

According to the Office of Public Finance, average annual debt service is estimated to range from approximately $508,000 to $554,000.[5] With variable true interest rates that are expected to

[3] Police Pursuit Vehicle

[4] The remainder of $577,873 will be funded by the General Fund, appropriated by the Board of Supervisors in the FY 2021-22 and FY 2022-23 budget.

[5] According to the Office of Public Finance's sensitivity analysis, this amount could fluctuate from an average of $508,137 (assuming a two percent true interest rate) to an average of $553,141 (assuming a five percent true interest rate).

range from two to five percent, this amount may fluctuate in future budgets.[6] Total debt service over the anticipated 5-year term is estimated to range from approximately $2,541,000 to $2,766,000[7] which includes approximately $2,400,684 in principal with the remainder being interest. Under the proposed resolution, debt service will be paid from the City's General Fund.

RECOMMENDATION

Approve the proposed resolution.

[6] According to the Office of Public Finance, debt service payments will be made two times per year, and will be included in the Police Department budget. If interest rates increase or decrease over the 5-year period, the Office of Public Finance will increase or decrease the annual debt service payment accordingly.

[7] According to the Office of Public Finance's sensitivity analysis, the total debt service amount over the 5-year term could fluctuate from $2,540,684 (assuming a two percent true interest rate) to $2,765,706 (assuming a five percent true interest rate).

Item 11 **File 21-0714**	**Department:** Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a parking meter procurement and support services contract between San Francisco Municipal Transportation Agency (SFMTA) and MacKay Meters, Inc. (MacKay), for a term of five years, from approximately October 2021 through September 2026, with an option to extend five years through September 2031, and an amount not to exceed $70,557,894.

Key Points

- The SFMTA Parking Meter Program manages 26,000 metered spaces between on-street parking and parking lots for SFMTA and the Port of San Francisco (Port). The existing meters are out of warranty and reaching the end of their useful lives. In 2020, SFMTA issued a Request for Proposals (RFP) for procurement of single and multi-space smart parking meter hardware and an associated software management system. MacKay was determined to be the highest scoring responsive and responsible proposer for both single and multi-space meters and was awarded a contract.
- Under the proposed contract, SFMTA would purchase 12,100 single-space and 2,365 multi-space meters to replace all existing meters. Installation of the new meters would occur between approximately March 2022 and September 2025. The meters would be compatible with 4G and 5G communication networks.

Fiscal Impact

- The not-to-exceed amount of the proposed contract is $70,557,894 over the total ten-year term. Of this amount, approximately $67,729,221 would be funded by the SFMTA's Capital and Operating Budgets, and approximately $2,828,673 would be funded by the Port's Capital and Operating Budgets. Of the $70.6 million cost, approximately $21.9 million are hardware costs funded by SFMTA revenue bonds previously approved by the Board of Supervisors, and the balance are costs for maintenance and operations, warranty, and contingency.
- The projected meter revenues over the ten-year total contract term are approximately $621,768,449. After subtracting contract costs, the net revenue to the City would be approximately $551,210,554.

Policy Consideration

- The Budget and Legislative Analyst considered the alternatives of delaying the meter replacement by three years and replacing only the modems on the existing meters. The cash flow analysis estimates that the proposed contract to replace the City's parking meters would be more cost-effective than the alternative action of maintaining the existing meters.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

The San Francisco Municipal Transportation Agency (SFMTA) Parking Meter Program manages 26,000 metered spaces between on-street parking and parking lots for SFMTA and the Port of San Francisco (Port). In 2014, SFMTA procured and installed credit card enabled smart parking meters (single and multi-space) citywide. Approximately 12,750 spaces are served by meters using 3G telecommunication technology and all meters are nearing the end of their useful lives. Support for Verizon's 3G networks will end in December 2022.[1] The meter equipment is also out of warranty, so costs for new parts will likely be higher than what the Agency is now paying. While the existing meters would still be able to accept coin payments without cellular technology that is necessary for card payments and demand-responsive pricing, the SFMTA's SF*park* Program requires cellular technology for demand-responsive pricing.

In 2020, SFMTA issued a Request for Proposals (RFP) for procurement of single and multi-space smart parking meter hardware and an associated software management system. SFMTA received four responses each for single and multi-space meters and an evaluation panel reviewed and scored them, as shown in Exhibit 1 below.[2]

Exhibit 1: Responses and Scores from RFP

Single-Space Meters

Proposer	Model	Score (out of 1,700)
MacKay Meters, Inc.	mkBeacon	1,598.98
IPS Group, Inc.	M5 Color Option 2	1,556.70
IPS Group, Inc.	M5 Color Option 1	1,548.93
IPS Group, Inc.	M5	1,546.00

Multi-Space Meters

Proposer	Model	Score (out of 1,700)
MacKay Meters, Inc.	Tango	1,618.20
IPS Group, Inc.	MSR	1,539.38
IPS Group, Inc.	MS3	1,502.38
Parkeon, Inc. dba FLOWBIRD	CWT	1,420.73

Source: SFMTA

[1] According to SFMTA Streets Division Manager Steven Lee, Verizon's 3G network will still exist beyond December 2022, but service will become slower and less reliable as Verizon's network infrastructure is transitioned to 5G.

[2] The evaluation panel consisted of an SFMTA Principal Administrative Analyst, an SFMTA Manager III, an SFMTA Parking Meter Repairer, an SFMTA Parking and Curb Management Policy Manager, a Port Senior Property Manager, and a Metropolitan Transportation Commission (MTC) Principal Planner/Analyst.

MacKay Meters, Inc. (MacKay) was determined to be the highest scoring responsive and responsible proposer for both single and multi-space meters and was awarded a contract. In June 2021, the SFMTA Board approved a contract with MacKay.[3]

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new parking meter procurement and support contract between SFMTA and MacKay for a term of five years, from approximately October 2021 through September 2026, with one five-year option to extend through September 2031, and an amount not to exceed $70,557,894.

Under the proposed contract, SFMTA would purchase 12,100 single-space and 2,365 multi-space meters to replace all of the existing meters. Each hardware type would cover approximately 50 percent of metered spaces in the City. The proposed contract would also include access to the meter management system, credit and debit card processing, product support, and a five-year warranty with the option to extend for five additional years.

According to SFMTA Principal Administrative Analyst Alexiy Sukhenko, the new meters will be purchased between approximately March 2022 and September 2024. Installation will be performed by SFMTA staff and occur between approximately March 2022 and September 2025. The meters will use cellular modems capable of both 4G and 5G network communication.[4] The meters would likely begin on an AT&T 4G network but would be capable of transiting to 5G as AT&T's network is built out. According to SFMTA Principal Analyst Sukhenko, a back-end software update is needed to activate the meters to the 5G network. The software update would be provided by MacKay at no cost. No hardware upgrade is necessary for the meters to use the 5G network.

FISCAL IMPACT

The not-to-exceed amount of the proposed contract is $70,557,894 over the total ten-year term. Of this amount, approximately $67,729,221 would be funded by the SFMTA's Capital and Operating Budgets, and approximately $2,828,673 would be funded by the Port's Capital and Operating Budgets. The sources and uses of funds are shown in Exhibit 2 below.

[3] According to the staff report to the June 15, 2021 SFMTA Board of Directors meeting, the IPS Group submitted a protest against awarding a contract to MacKay asserting a violation of San Francisco Administrative Code Chapter 12X regulation on the basis that MacKay has its U.S. headquarters in Florida, which is on the City Administrator's Covered State List. Based on evaluation of 12X compliance submitted by MacKay as part of the RFP process and further clarifications provided by MacKay, SFMTA concluded that MacKay's headquarters are located in Nova Scotia, Canada and not in Florida and is therefore not subject to the 12X regulation. The Office of Contract Administration (OCA), in consultation with the City Attorney's Office, has confirmed this determination, concluding that MacKay has no employees at its Florida location and therefore does not have a "nerve center" in the U.S. where business decisions are made.

[4] According to Streets Division Manager Lee, the RFP sought procurement of meters with 4G modems because 5G modems were not readily available at that time. During contract negotiations, MacKay informed SFMTA about a newly developed 5G compatible modem that would be included in the contract at no additional cost.

Exhibit 2: Sources and Uses of Funds

Sources	**Initial Term (5 Years)**	**Extension Term (5 Years)**	**Total Term (10 Years)**
SFMTA Capital Budget	$21,863,533	-	$21,863,533
SFMTA Operating Budget	16,447,862	26,192,625	42,640,487
SFMTA Contingency (5%)	1,915,570	1,309,631	3,225,201
SFMTA Subtotal	*$40,226,965*	*$27,502,256*	*$67,729,221*
Port Capital Budget	934,258	-	934,258
Port Operating Budget	682,168	1,077,548	1,759,716
Port Contingency (5%)	80,821	53,877	134,699
Port Subtotal	*$1,697,247*	*$1,131,425*	*$2,828,672*
Total Sources	**$41,924,212**	**$28,633,681**	**$70,557,894**

Uses	**Initial Term (5 Years)**	**Extension Term (5 Years)**	**Total Term (10 Years)**
SFMTA Multi-Space Hardware	$12,091,145	-	$12,091,145
SFMTA Single-Space Hardware	7,972,388	-	7,972,388
SFMTA Warehouse, Staging, QA, & Installation Support	1,800,000	-	1,800,000
Subtotal, SFMTA Capital Costs	$21,863,533		$21,863,533
SFMTA Multi-Space Maintenance & Operations	8,061,930	9,699,900	17,761,830
SFMTA Single-Space Maintenance & Operations	8,385,932	11,379,155	19,765,087
SFMTA Hardware Purchase (Extension)	-	564,546	564,546
SFMTA Extended Warranty	-	4,549,025	4,549,025
SFMTA Contingency (5%)	1,915,570	1,309,631	3,225,201
SFMTA Subtotal	*$40,226,965*	*$27,502,257*	*$67,729,221*
Port Multi-Space Hardware	906,836	-	906,836
Port Warehouse, Staging, QA, & Installation Support	27,422	-	27,422
Port Multi-Space Maintenance & Operations	682,168	897,191	1,579,359
Port Extended Warranty	-	180,358	180,358
Port Contingency (5%)	80,821	53,877	134,699
Port Subtotal	*$1,697,247*	*$1,131,426*	*$2,828,673*
Total Uses	**$41,924,212**	**$28,633,683**	**$70,557,895**

Source: SFMTA. Totals may not add due to rounding.

According to SFMTA Principal Analyst Sukhenko, the projected meter revenues over the ten-year total contract term are approximately $621,768,449. After subtracting contract costs, the net revenue to the City would be approximately $551,210,554.

Operating Costs

The total SFMTA and Port operating costs for the ten-year term of the contract, including the extended warranty purchase, are approximately $44,400,203, or an average of approximately $4,440,020 per year. Over the five-year period from FY 2016-17 through FY 2020-21, the total operating costs for the existing meter contracts were $23,969,723, an average of $4,793,945 per year, or $353,925 more than the projected annual operating costs for the proposed contract. SFMTA anticipates that if the proposed contract is not approved, operating costs for existing meters would increase as the meters become older and less reliable.

Revenue Bond Issuance

In February 2021, the Board of Supervisors approved the issuance of $129 million in SFMTA revenue bonds and appropriation of revenue bond proceeds to various capital improvements (Files 21-0027 and 21-0034). The spending plan for the bond proceeds included $22 million allocated to parking meter replacement. Over the 30-year term of the revenue bonds, SFMTA will pay approximately $43 million in debt service for the parking meters.

Staffing Costs

According to SFMTA Principal Analyst Sukhenko, the SFMTA meter shop employs approximately 30 full-time equivalent (FTE) employees, who are responsible for maintaining and replacing parking meter hardware and software, associated meter signage, as well as meter posts and pay station housings, and provide monthly support to the parking policy division as it relates to demand responsive pricing. The meter shop also oversees parking coin collection and reconciliation services and provides support for other field operation shops, such as curb paint, regular sign shop, temporary sign shop, and signals shop. The annual staffing cost, including fringe benefits, is approximately $4 million. SFMTA's meter shop staffing would not change regardless of whether the proposed contract is approved. However, SFMTA plans to assign 27 staff within the meter shop to install the proposed meters over a three-year period, during which the work typically undertaken by this group will be deferred.

POLICY CONSIDERATION

Delay Replacing Meters

According to SFMTA, delaying the meter replacement project by three years would reduce net parking meter revenue by $16.1 million due to the relatively higher maintenance costs of the existing meters and revenue loss resulting from increasing down-time of the existing meters as they approach the end of their useful life.

Replace Modems Only

Another potential alternative to replacement of all parking meters is to replace the modems of the existing meters with modems that are 4G or 5G compatible. According to Streets Division Manager Steven Lee, there are several reasons why it is preferable to fully replace the meters instead of replacing the modems. Purchasing a modem is approximately one-third of the cost of a new parking meter. The current meters are approximately seven years old and would be approximately 10 years old once all modems are replaced. The useful life of the meters is approximately 7-10 years. The meters have been out of warranty for about two years, so the cost of maintenance and repairs would continue to increase as the meters become older and less reliable. In addition to costly repairs and parts, older meters breaking down with increasing frequency would result in less revenue for SFMTA and the Port. Furthermore, the older meters use batteries that must be replaced each year, while the new meters will use batteries that last for three years. SFMTA spends approximately $585,000 annually and employs 2.0 full-time equivalent (FTE) employs to replace and dispose the batteries. For these reasons, SFMTA finds it preferable to fully replace the meters at this time.

Ten-Year Cost and Revenue Comparison

While it is difficult to accurately project future costs and revenues, the Budget and Legislative Analyst estimates that approval of the proposed contract would result in approximately $19.7 million additional net revenue to the City over 10 years compared to replacing the old modems in the existing meters, as shown in Exhibit 3 below.[5] This is likely a conservative estimate.

Exhibit 3: Estimated Cost and Revenue Comparison over 10 Years

Costs/Revenue	Scenario 1: All Meters Replaced (Proposed Contract)	Scenario 2: Old Modems Replaced (No New Meters)	Difference: Scenario 2 minus Scenario 1
Revenue[6]	**$621,768,449**	**$583,596,931**	**($38,171,519)**
Capital Costs[7]	30,145,705	4,800,000	(25,345,705)
Operating Costs[8]	47,370,864	54,228,474	6,857,610
Labor Costs[9]	45,855,517	45,855,517	0
Costs	**$123,372,086**	**$104,883,992**	**($18,488,095)**
Net Revenue	**$498,396,363**	**$478,712,939**	**($19,683,424)**

Source: BLA analysis of proposed contract and information provided by SFMTA

These estimates assume that the existing meters will last another 10 years. The meters are currently about seven years old, so they would be about 17 years old in 2031, at the end of the proposed contract's term. According to SFMTA, the useful life for the meters is about 7-10 years. In Scenario 2 where new modems are installed to prolong the lives of the existing meters, it is still likely that the meters would need to be fully replaced during the 10-year period, which could increase capital costs in Scenario 2 by an estimated $23 million, plus any interest, if the purchase is financed.

[5] We also completed a sensitivity analysis to assess the impact of a range of assumptions related to operating costs and labor costs, all of which showed that replacing the meters was more cost effective than maintaining the existing meters.

[6] The revenue in Scenario 1 is equal to the parking meter revenue projection provided by SFMTA. The revenue in Scenario 2 is assumes a $5.5 million revenue reduction Years 1-5, as projected by SFMTA, and a 10 percent reduction in Years 6-10 compared to SFMTA projections. This accounts for added down time as the meters become older and less reliable.

[7] The capital costs in Scenario 1 are equal to the SFMTA capital costs presented in the proposed contract, plus debt service, which is discounted after the end of the proposed contract. The capital costs in Scenario 2 assume that approximately 1,200 modems are purchased at a price of $200 per modem and replaced again after year five.

[8] The operating costs in Scenario 1 are equal to the 10-year SFMTA operating costs presented in the proposed contract plus the cost of maintain the existing meters during installation of the new meters. The capital costs in Scenario 2 assume an initial annual cost of $4.8 million (the average maintenance cost over the past five years) with three percent annual escalation to account for more frequently needed repairs as the meters become older and less reliable. The amount shown is 95.8 percent of this amount, as approximately 95.8 percent of meters are owned by SFMTA and 4.2 percent of meters are owned by the Port.

[9] The labor costs in both scenarios assume an initial annual cost of $4,000,000 for the parking meter repair unit with three percent annual escalation. SFMTA does not anticipate the staffing of the parking meter repair unit to change in either scenario.

Because the cash flow analysis estimates that the proposed contract to replace the City's parking meters would be more cost-effective than the alternative action of maintaining the existing meters, we recommend approval of the proposed resolution.

RECOMMENDATION

Approve the proposed resolution.