

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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May 24, 2018

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: May 31, 2018 Special Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File	Page
1, 2 & 3	18-0462	General Obligation Bonds - Seawall and Other Critical Infrastructure - \$425,000,000
	18-0461	Amended Ten-Year Capital Expenditure Plan-FYs 2018-2027 - Increase Proposed Seawall Bond to \$425,000,000
	18-0454	General Obligation Bond Election - Seawall and Other Critical Infrastructure - \$425,000,000 1

<p>Items 1, 2 and 3 Files 18-0454, 18-0461 & 18-0462</p>	<p>Department: Port Commission (Port)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • The proposed ordinance (File 18-0454) and resolutions (Files 18-0461 and 0462) (1) call for a ballot proposition on the November 6, 2018 San Francisco ballot to incur bonded debt of \$425,000,000 to finance the construction, reconstruction, acquisition, improvement, demolition, seismic strengthening, and repair of the Embarcadero Seawall; (2) amend the FY 2018-27 Capital Plan to increase the proposed Seawall Bond amount from \$350,000,000 to \$425,000,000; (3) determine the public interest and necessity of the project; (4) find that the cost is too great for the ordinary revenues and require incurring bonded indebtedness; (5) affirm the Planning Department’s determinations under the California Environmental Quality Act; and (6) find the proposed bond in conformity with the priority policies of the Planning Code and the General Plan, and waive established time limits. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • The Embarcadero Seawall, which is over 100 years old, protects San Francisco’s waterfront, transportation infrastructure, and business activity. The Port of San Francisco (Port) determined that the Seawall would likely be significantly damaged in a major earthquake, a risk increased by flooding due to sea level rise. The Embarcadero is both a key evacuation route and access route for first responders in the event of a disaster. Phase 1 of the Seawall Program, which includes seismic improvements, flood protections, and mitigation and enhancement measures, is estimated to cost approximately \$500,000,000 through 2027. The Port is unable to fund this through its typical revenues. • The proposed ordinance and resolutions would place a proposition on the November 6, 2018 San Francisco election ballot to incur \$425,000,000 of bonded debt for the Seawall program. The remainder of the Seawall program would be funded by various Federal, State, and City sources. The California State Constitution requires two-thirds voter approval for the City to issue General Obligation bonds. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • The General Obligation bonds, if approved by voters, would provide \$425,000,000 of revenue to the Port for Phase 1 of the Seawall Program. Repayment of the bonds, including interest, would require approximately \$730,400,000 of debt service over 25 years. Using FY 2017-18 assessments, property taxpayers would each pay an average of approximately \$13.23 annually per \$100,000 of assessed value to repay the bonds. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> • Approval of the proposed ordinance and resolutions is a policy decision for the Board of Supervisors. 	

MANDATE STATEMENT

According to Article 16, Section 18(a) of the State of California Constitution, no county, city, town, township, board of education, or school district, shall incur any indebtedness or liability for any purpose exceeding in any year the income and revenue provided for such year, without the approval of two-thirds of the voters of the public entity voting at an election to be held for that purpose. Section 9.105 of the City's Charter provides that the Board of Supervisors is authorized to approve the issuance and sale of General Obligation bonds in accordance with State law or local procedures adopted by ordinance.

City Administrative Code Section 2.34 requires that a resolution of public interest and necessity for the acquisition, construction or completion of any municipal improvement be adopted by the Board of Supervisors not less than 141 days before the election at which such proposal will be submitted to the voters. These time limits may be waived by resolution of the Board of Supervisors.

BACKGROUND

The Embarcadero Seawall, which is over 100 years old, supports San Francisco's piers, wharves, businesses, tourist destinations, recreational amenities, and key infrastructure, including Bay Area Rapid Transit, Muni Metro, and ferry networks. The Seawall also provides flood protection to downtown San Francisco, protecting over \$100 billion of assets and economic activity.

Analysis conducted by the Port of San Francisco (Port) determined that the Seawall would likely be significantly damaged in a major earthquake. The risk is compounded by increased likelihood of flooding due to sea level rise. The Embarcadero is both a key evacuation route and access route for first responders in the event of a disaster. The Seawall is named as a critical infrastructure priority and as part of the General Obligation Bond Program in the City's FY 2018-27 Capital Plan. Phase 1 of the Seawall Program, which includes seismic improvements, flood protections, and mitigation and enhancement measures, is estimated to cost approximately \$500,000,000 through 2027.

Due to the project scale, the Port is unable to fund the Seawall Program through its operating revenues. In addition to anticipated funding from the United States Army Corps of Engineers (USACE), the State of California, and various City departments, the Port estimates that issuance of \$425,000,000 of General Obligation bonds is needed to fund the Seawall Program. The City's Capital Planning Committee at their April 16, 2018 meeting recommended a November 2018 ballot measure to authorize \$425,000,000 in General Obligation bonds to reconstruct the Seawall.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance (File 18-0454) and resolutions (File 18-0461 and 18-0462) would:

- i. Place a proposition on the November 6, 2018 San Francisco election ballot to incur \$425,000,000 of bonded debt for the Seawall Program;

- ii. Authorize landlords to pass through 50 percent of the property tax increase to residential tenants;
- iii. Amend the FY 2018-27 Capital Plan to increase the proposed Seawall Bond from \$350,000,000 to \$425,000,000 to fund Phase 1 of the Seawall Program;
- iv. Find the Seawall Program is in the public interest and necessity and that the estimated project cost is too large to be funded by ordinary revenues and will require bonded indebtedness;
- v. Affirm the Planning Department’s determination under the California Environmental Quality Act (CEQA);
- vi. Find that the proposed bond conforms with the eight priority policies of the Planning Code and the General Plan; and
- vii. Waive the time requirements of Administrative Code Section 2.34.

The California State Constitution requires two-thirds voter approval for the City to issue General Obligation bonds. If the bonds are approved and issued, the Citizen’s General Obligation Bond Oversight Committee would annually review expenditures to ensure that funds are used appropriately. An overview of possible uses of funds is shown in Table 1 below.

Table 1: Possible Uses of Bond Funding

Investment Category	Possible Uses
Project Implementation	<ul style="list-style-type: none"> • Program development, planning, and pre-design • Design, engineering, and other soft costs • Construction management
Earthquake Improvements	<ul style="list-style-type: none"> • Ground strengthening and liquefaction remediation • Bulkhead wall, wharf, and pier retrofits and replacements • Bulkhead building retrofits and seismic joints • Pier building retrofits • Critical facility retrofits and replacements • Utility replacements, relocations, and bypasses • Matching funds for public and private sources • Other life safety improvements
Flood Protection Measures	<ul style="list-style-type: none"> • Flood walls and barriers • Surface grade changes • Flood proofing • Planning for future adaptation • Enhanced foundation for future adaptation • Other flood control improvements
Mitigation & Enhancement	<ul style="list-style-type: none"> • Public access enhancements • Transportation and mobility improvements • Environmental benefits • Other public benefits

FISCAL IMPACT

The ballot measure authorized by the proposed ordinance and resolution, if approved by voters, would provide \$425,000,000 in bond proceeds to the Port to fund Phase 1 of the Seawall program. According to Mr. Vishal Trivedi, Controller's Office Financial Analyst, bonds would likely be issued in three separate sales over an approximate five-year period, and structured as 20 year bonds. Interest and principal payments are estimated to be \$730,400,000 over 25 years. Based on the citywide total assessed value of properties in FY 2017-18, property taxpayers would each pay an average of approximately \$13.23 per \$100,000 of assessed value annually, over the course of 25 years. For residential rental properties, one half of the property tax assessment to repay the bonds may be passed on to tenants.

City policy, defined in the 2018-27 Capital Plan, requires that the issuance of new General Obligation bonds will not increase the property tax rate above FY 2005-06 levels. According to Mr. Trivedi, if the voters approve the proposed \$425,000,000 in new General Obligation Bond authority, the City's property tax rate for all outstanding General Obligation Bond authority is expected to be maintained within the FY 2005-06 policy constraints.

According to Ms. Katharine Petrucione, Port Chief Financial Officer, the Port will be unable to provide a detailed project list until CEQA analysis is performed. An approximate sources and uses of funds for the total \$500,000,000 Seawall Program Phase 1 is shown in Table 2 below.

Table 2: Sources and Uses of Seawall Program, Phase 1

Sources	Amount
General Obligation Bonds	\$425,000,000
Port Capital	8,000,000
San Francisco Municipal Transportation Agency	1,000,000
Planning Department	1,000,000
USACE	10,000,000
State Sources*	55,000,000
Total Sources	\$500,000,000
Uses	Amount
Port Staff Costs	\$9,215,893
Public Outreach	1,695,270
USACE ¹	6,262,550
Planning/Engineering	38,477,718
Final Design	43,700,000
Construction	355,591,891
<i>Subtotal</i>	<i>\$454,943,321</i>
Contingency (10%)	45,056,678
Total Uses	\$500,000,000

*State sources pending legislative action

POLICY CONSIDERATION

Approval of the proposed resolution (File 18-0462) requires two-thirds or more of the Board of Supervisors approval and approval by the Mayor. In addition, approval of this \$425,000,000 General Obligation Bond would require approval by at least two-thirds of San Francisco voters.

RECOMMENDATION

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

¹ According to Ms. Petrucione, USACE is currently evaluating the feasibility of implementing a flood protection project along the Embarcadero. A decision on the project, which would use both USACE and Port funds, is expected in Fall 2018.