CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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November 24, 2015

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: December 2, 2015 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- In 2010, the Board of Supervisors extended 22 behavioral health contracts between DPH and 18 non-profit organizations and the Regents of the University of California at San Francisco. The proposed resolutions would amend 17 of the 22 behavioral health services contracts between DPH and 14 non-profit organizations (15 contracts) and the Regents of the University of California at San Francisco (2 contracts) to (i) extend the contract terms for two years from December 31, 2015 to December 31, 2017, and (ii) increase the not-to-exceed amount of each contract.

Key Points

- In June 2015, DPH informed the Board of Supervisors of their intention to request two-year contract extensions for their behavioral health services contracts in order to meet the requirements of the Affordable Care Act and the State Department of Health Care Services 1115 demonstration waiver regarding Medi-Cal organized drug delivery system.
- The extension period would allow DPH to have sufficient time to complete the planning process, issue new RFPs, and award new contracts for behavioral health services.

Fiscal Impact

- The current total not-to-exceed amount of the 17 contracts is $651,283,455. DPH is requesting a total increase in these contracts of $225,289,816 for total contract not-to-exceed amounts of $876,573,271.
- The Budget and Legislative Analyst found the requested increase for each of the 17 contracts to be reasonable, based on actual and projected contract expenditures.

Policy Consideration

- DPH is now in the process of determining how to best align contracted services with the requirements of the Affordable Care Act and the State Department of Health Care Services 1115 demonstration, and plans to issue Requests for Proposals (RFP) in approximately March 2016. DPH considers the two-year contract extension to be necessary in order to prepare multiple RFPs for behavioral health services, stagger the timing of the issuance of these RFPs, and award new contracts, while preventing any break in service delivery.

Recommendation

- Approve the proposed resolutions.

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

In December 2010, the Board of Supervisors retroactively approved the extension of 22 contracts between the Department of Public Health (DPH) and 18 non-profit organizations and the Regents of the University of California at San Francisco for the provision of behavioral health services. The 22 contracts were extended for five years and six months from July 1, 2010 through December 31, 2015.[1] Funding for the 22 contracts was a combination of (i) General Funds, (ii) State Realignment and State General Funds, (iii) Federal Medi-Cal and other Federal funds, (iv) Work Orders, grants, and other State funds, and (v) 12 percent contingencies on the total combined not-to-exceed amount, which did not have a designated funding source.

In June 2015, DPH informed the Board of Supervisors of their intention to request two-year contract extensions for their behavioral health services contracts in order to meet the requirements of the Affordable Care Act. DPH has been involved in a planning process to optimize and integrate contracted community based services into DPH's San Francisco Health Network, an integrated service delivery system. The extension period would allow DPH to have sufficient time to complete the planning process, issue new RFPs, and award new contracts for behavioral health services.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would amend 17 of the 22 behavioral health services contracts between DPH and 14 non-profit organizations (15 contracts) and the Regents of the University of California at San Francisco (2 contracts) to (i) extend the contract terms for two years from December 31, 2015 to December 31, 2017, and (ii) increase the not-to-exceed amount of each contract, as shown in the Table 1 below.

The 14 non-profit organizations include Alternative Family Services, HealthRight360 (formerly Walden House), Baker Places, Central City Hospitality House, Community Awareness and Treatment Services, Conard House, Edgewood Center for Children and Families, Family Service Agency of San Francisco, Hyde Street Community Service, Instituto Familiar de la Raza, Progress

[1] The 18 non-profit organizations included Alternative Family Services, Asian American Recovery Services (now HealthRight360), Baker Places, Bayview Hunters Point Foundation for Community Improvement, Central City Hospitality House, Community Awareness and Treatment Services, Community Vocational Enterprises, Conard House, Edgewood Center for Children and Families, Family Service Agency, Hyde Street Community Service, Instituto Familiar de la Raza, Progress Foundation, Richmond Area Multi-Services (two contracts), San Francisco Study Center, Seneca Center, Walden House (now HealthRight360), and Westside Community Mental Health Center.

Foundation, Richmond Area Multi-Services (two contracts), Seneca Center, and Westside Community Mental Health Center.[2]

In addition to meeting new requirements for the Affordable Care Act, DPH must also comply with the State Department of Health Care Services 1115 demonstration waiver regarding Medi-Cal organized drug delivery system, which was approved by the State in August 2015. Ms. Michelle Ruggels, Director of the DPH Business Office, explained that DPH will need to make significant changes to the current substance abuse delivery system and in some cases, create new service models. DPH is now in the process of determining how to best align contracted services with the requirements of the Affordable Care Act and the State Department of Health Care Services 1115 demonstration waiver.

FISCAL IMPACT

The current total not-to-exceed amount of the 17 contracts is $$651,283,455. DPH is requesting a total increase in these contracts of $225,289,816 for total contract not-to-exceed amounts of $876,573,271, as shown in the Table below.

[2] There are five outstanding contracts that were extended in 2010 but are not included in the proposed resolution. The Bayview Hunters Point Foundation for Community Improvement contract was approved for a two-year extension by the Board of Supervisors in October 2015. The San Francisco Study Center, Asian American Recovery Services (now HealthRight360), and Community Vocational Enterprises no longer have contracts with DPH. One additional Regents of the University of California at San Francisco contract will be submitted for review at a later date.

Table. Current and Proposed Contract Not-to-Exceed Amounts[3]

Contractor	Item No.	Current Not-to-Exceed Amount	Requested Increase	Revised Not-to-Exceed Amount
Alternative Family Services	15-1030	$11,057,200	$7,674,939	$18,732,139
Baker Places	15-1031	69,445,722	15,981,652	85,427,374
Central City Hospitality	15-1032	15,923,347	3,636,666	19,560,013
Community Awareness and Treatment Services	15-1033	35,699,175	6,454,201	42,153,376
Conard House	15-1034	37,192,197	16,867,780	54,059,977
Edgewood Center for Children and Families	15-1035	36,958,528	19,276,057	56,234,585
Family Service Agency of San Francisco	15-1036	45,483,140	14,976,909	60,460,049
HealthRight360 (former Walden contract)	15-1038	69,451,787	22,073,719	91,525,506
Hyde Street Community Services	15-1039	17,162,210	5,968,409	23,130,619
Instituto Familiar de la Raza	15-1040	14,219,161	11,917,749	26,136,910
Progress Foundation	15-1043	92,018,333	28,972,744	120,991,077
The Regents of the University of California San Francisco (CCM)[1]	15-1044	24,962,815	9,380,507	34,343,322
The Regents of the University of California San Francisco (CCM-SPR)[2]	15-1046	32,024,839	22,521,671	54,546,510
Richmond Area Multi-Services, Inc. (RAMS - Children)	15-1047	19,904,452	9,721,109	29,625,561
Richmond Area Multi-Services, Inc. (RAMS - Adults)	15-1048	22,602,062	10,989,524	33,591,586
Seneca Center	15-1049	63,495,327	6,134,854	69,630,181
Westwide Community Mental Health Center	15-1050	43,683,160	12,741,326	56,424,486
Total		**$651,283,455**	**$225,289,816**	**$876,573,271**

Source: Department of Public Health staff.

The Budget and Legislative Analyst found the requested increase for each of the 17 contracts to be reasonable, based on actual and projected contract expenditures.

[3] DPH will submit specific revised resolutions to the December 2, 2015 Budget and Finance Committee with corrected language or amounts. The Table above is based on the revised resolutions.

Five Contracts have Significant Expenditure Increases

Alternative Family Services (increase of $7,674,939). According to Ms. Michelle Ruggels, DPH Director of Business Office, DPH costs for this contract have increased because the Department is required to serve an increasing number of foster care children who are San Francisco residents but who are placed outside of the county. DPH contracted with Alternative Family Services to ensure that DPH complies with State mandates to complete assessments for all out-of-county placements. Previously 30-40 percent of foster care youth received an assessment. DPH now completes assessments for all foster care youth placements, and has budgeted for the associated cost increases.

Edgewood Center for Children and Families (increase of $19,276,057). In 2014, DPH received a State grant in the amount of $1,751,827 funded with Mental Health Services Act funding, which will fund two new DPH programs including the Youth Crisis Stabilization Center and the Mobile Crisis Team (File 14-0511).[4] According to Ms. Ruggels, the remaining portion of these program costs will be reimbursed by Medi-Cal for those clients with Medi-Cal eligibility.

The Regents of the University of California at San Francisco: Citywide Case Management – Single Point of Responsibility (CCM-SPR; increase of 22,521,671). DPH has expanded all intensive care management programs. In FY 2012-13, DPH transferred the Citywide Forensics program from the Citywide Case Management program to Citywide Case Management program for Single Point of Responsibility (CCM-SPR) as the CCM-SPR contract uses a capitation model rather than fee-for-service.[5] During this time, DPH also expanded the Citywide Focus program, which provides outpatient mental health services to reduce unnecessary institutional care for high risk and mentally ill transitional aged youth, adults, and older adults. Both of these programs are funded through the federal Mental Health Services Act.

Richmond Area Multi-Services, Inc. for Children (RAMS Children; increase of $9,721,109). DPH costs for implementing Wellness Centers in high schools increased as the Wellness programs have been gradually expanded to additional high schools. DPH will receive reimbursements for program costs from Medi-Cal.

Richmond Area Multi-Services, Inc. for Adults (increase of $10,989,524). Program costs will increase mainly because of four programs, including the I-Ability Vocational IT program, Asian Pacific Islander Mental Health Collaborative, the Peer Specialist Mental Health Certificate program, and the Broderick Street Adult Residential Facility. All of these programs will be funded by the State Mental Health Services Act.

POLICY CONSIDERATION

Ms. Ruggels advised that the purpose of extending the current contract period by two years until December 31, 2017 is to allow the Department to:

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[4] DPH received this grant to participate in a program entitled Mental Health Triage Personnel Grant for the period from April 1, 2014 through June 30, 2014.

[5] Under a capitation model, the contractor is paid a flat fee for each client rather than a fee for each service.

(a) Complete its planning process to identify any service model changes necessary to better meet the needs of the Department's integrated service delivery system, the San Francisco Health Network, in response to the implementation of the Affordable Care Act;

(b) Finalize its plan for addressing the new requirements of the State Department of Health Care Services 1115 demonstration waiver (Drug Medi-Cal Organized Delivery System) approved by the State in August 2015, which will require significant changes to the current substance abuse delivery system, including entirely new service models; and

(c) Prepare multiple RFPs for behavioral health services, stagger the timing of the issuance of these RFPs, and award new contracts, while preventing any break in service delivery.

DPH will finalize its RFP schedule, which is estimated to be completed by March 2016, pending the completion of an evaluation of community-based services that meet the requirements of the Affordable Care Act and the State's 1115 demonstration waiver.

According to Ms. Ruggels, DPH will prepare a schedule for the issuance of the multiple RFPs for behavioral health services that includes the timeline of the issuance of the RFPs, as well as the effective date of the new services. DPH will submit the new contracts to the Board of Supervisors for approval in accordance with Charter Section 9.118(b).

RECOMMENDATION

Approve the proposed resolutions.

Item 7 File 15-1023	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively approve a new lease between the San Francisco International Airport (Airport) and the federal Drug Enforcement Administration (DEA) to continue to occupy administrative office space in Terminal 3 at the Airport. The lease commenced on October 1, 2015 with a term of five years, ending on September 30, 2020. The annual rent payment to be made by DEA to the Airport totals $431,763, consisting of $404,442 rent and $27,315 operating costs.

Key Points

- In June 2010, the Airport executed a five-year lease with the DEA for approximately 2,612 square feet for administrative office space in Terminal 3 at the Airport. Under the existing lease, annual rent and operating costs payable by DEA to the Airport was $341,075. The lease commenced on October 1, 2010, and expired on September 30, 2015. The lease has remained on month-to-month holdover status since it expired.
- The Airport seeks retroactive approval to execute a new lease with DEA. The lease commenced on October 1, 2015 with a term of five years, ending on September 30, 2020. The annual rent payment to be made by DEA to the Airport totals $431,763, consisting of $404,442 rent and $27,315 operating costs.
- According to Ms. Diane Artz, Senior Property Manager, approval of the proposed lease is retroactive because there were delays in negotiations between the Airport and DEA, which delayed introducing the resolution for approval by the Board of Supervisors prior to the September 30, 2015 expiration date under the existing lease.

Fiscal Impact

- The total annual payment to be made by DEA to the Airport is $431,757, consisting of $404,442 for annual rent and $27,315 in operating costs. DEA is to pay the Airport $2,158,785 in total rent under the proposed new five year lease term.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a 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

In June 2010, the San Francisco International Airport (Airport) executed a five-year lease with the federal Drug Enforcement Administration (DEA) for approximately 2,612 square feet for administrative office space in Terminal 3 at the Airport. Under the existing lease, annual rent and operating costs[1] payable by DEA to the Airport was $341,075.

The lease commenced on October 1, 2010, and expired on September 30, 2015. The lease has remained on month-to-month holdover status since it expired. As shown in Table 1 below, DEA paid the Airport $1,705,375 in total rent and operating costs over the five-year lease term.

Table 1: Annual Rent Received by Airport from Lease with DEA

Year	Annual Rent	Operating Costs	Annual Payment
1	$317,149	$23,926	$341,075
2	317,149	23,926	341,075
3	317,149	23,926	341,075
4	317,149	23,926	341,075
5	317,149	23,926	341,075
Total	**$1,585,745**	**$119,630**	**$1,705,375**

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve a new lease between the Airport and DEA to continue to occupy administrative office space in Terminal 3 at the Airport. The lease commenced on October 1, 2015 with a term of five years, ending on September 30, 2020. The annual rent payment to be made by DEA to the Airport totals $431,757, consisting of $404,442 rent and $27,315 operating costs. Table 2 below summarizes the key lease terms.

[1] Operating costs consist of janitorial services, re-lamping of light fixtures, and utilities.

Table 2: Key Lease Provisions for Lease between Airport and DEA

Permitted use	Operations and administrative offices
Square footage	2,612 square feet of office space and eight parking spaces
Term	10/1/2015 - 9/30/2020
Annual Rent	$404,442 ($154.84 per square foot) Will remain fixed over the five year lease term.
Operating Costs including janitorial, electrical, water/sewage	$27,315 ($10.46 per square foot) Will remain fixed over the five year lease term.

According to Ms. Diane Artz, Senior Property Manager, the Airport's Rates and Charges, set FY 2015-16 rent for this type of space at $137.78 per square foot per year. The proposed rent of $154.84 per square foot per year, which is fixed over five years, was based on the Airport's Rates and Charges for FY 2015-16 and included a negotiated annual escalation in rent. The proposed operating costs of $10.46 per square foot per year, which are also fixed over five years, were based on projected costs.

According to Ms. Artz, approval of the proposed lease is retroactive because there were delays in negotiations between the Airport and DEA, which delayed introducing the resolution for approval by the Board of Supervisors prior to the September 30, 2015 expiration date under the existing lease.

FISCAL IMPACT

As shown in Table 3 below, the total annual payment to be made by DEA to the Airport is $431,757, consisting of $404,442 for annual rent and $27,315 in operating costs. DEA is to pay the Airport $2,158,785 in total rent and operating costs under the proposed new five year lease term.

Table 3: Total Payments from DEA to the Airport under Proposed Lease

Year	Annual Rent	Operating Costs	Annual Payment
1	$404,442	$27,315	$431,757
2	404,442	27,315	431,757
3	404,442	27,315	431,757
4	404,442	27,315	431,757
5	404,442	27,315	431,757
Total	**$2,022,210**	**$136,575**	**$2,158,785**

RECOMMENDATION

Approve the proposed resolution.

Item 22 File 15-1025	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease of approximately five years and six months between the San Francisco International Airport (Airport) and Compañia Panameña de Aviación (COPA) for COPA to commence flight operations and rent terminal space at the Airport.

Key Points

- In 2011, Airport negotiated a new Lease and Use Agreement with its domestic and international airlines that operate at the Airport. This Agreement 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 fees paid by the airlines to the Airport, permitted uses of the premises, use of common facilities, and numerous other provisions.
- On August 11, 2015, the Airport approved a lease with COPA to commence flight operations and rent terminal space at the Airport under provisions of the 2011 Lease and Use Agreement. COPA began flight operations on August 17, 2015. Provisions of the COPA lease adhere to the provisions set forth under the 2011 Lease and Use Agreement.

Fiscal Impact

- The Airport estimates rent for International Terminal Exclusive Space to be paid by COPA to the Airport to be $839,573 over the five year term of the proposed new lease. Annual rent increases are determined by Airport Finance Division, and are estimated to range from 6.5 percent to 8.0 percent per year. The Airport does not currently have an estimate for Joint Use and Landing Fees.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a term of ten years or more, including options to extend, or that has anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In 2011, the San Francisco International Airport (Airport) negotiated a new Lease and Use Agreement (Agreement) with its domestic and international airlines that operate at the Airport. This Agreement 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 fees paid by the airlines to the Airport, permitted uses of the premises, use of common facilities, and numerous other provisions. The 2011 Lease and Use Agreement will expire on June 30, 2021.

On August 11, 2015, the San Francisco Airport Commission (Commission) approved a lease with Compañia Panameña de Aviación (COPA) to commence flight operations and rent terminal space at the Airport under provisions of the 2011 Lease and Use Agreement. COPA began flight operations on August 17, 2015.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a lease of approximately five years and six months between the Airport as Landlord and COPA as Tenant for COPA to commence flight operations and rent terminal space at the Airport. Key provisions of the lease are shown in Table 1 below:

Table 1: Key Provisions of Lease between Airport and COPA

Term	Lease commences upon approval by the Board of Supervisors and expires on June 30, 2021, approximately 5 years and 6 months
International Terminal Exclusive Use Space	606 square feet
International Terminal Joint Use Space	631,987
Terminal Rent for Exclusive Use Space	$206.66 per square foot $125,235.06 annually
Rent Adjustment	Rent adjusted annually by Airport's Finance and Department[1]
Fees	Joint Use Space fee is determined annually by formula. Landing Fees are determined by Airport Rates and Charges.
Utilities	COPA to pay utilities, including gas, water, sewer, IT, and trash removal.
Deposit	Two months of terminal area rentals, landing fees, usage fees, per rates and charges.

Joint Use Space fees are determined through a formula based on multiple variables that change each year. The Airport determines the fee amounts annually based on data collected from the previous period[2]. Landing Fees are determined by the Airport's Rates and Charges and are to be paid by COPA based on its fleet mix and flight schedules. Ms. Diane Artz, Senior Property Manager at the Airport, states that because of the many variables related to Joint Use Fee and Landing Fee calculations, the Airport cannot project Joint Use and Landing fees for the fiscal years following FY 2015-16. In lieu of Joint Use fees, COPA will pay a per passenger fee of $11.15 when COPA will be added to the Joint Use Formula.

FISCAL IMPACT

As shown in Table 2 below, the Airport estimates total rent for International Terminal Exclusive Space to be paid by COPA to the Airport to be $839,573 over the five year and six month term of the proposed new lease. Annual rent increases are determined by Airport Finance Division, and are estimated to range from 6.5 percent to 8.0 percent per year. As stated previously, the Airport does not currently have an estimate for Joint Use and Landing Fees. Table 2 below shows the estimated rent to be paid by COPA to the Airport through the approximate five year and six month lease term.

[1] Each year, the Airport's Finance Department develops a forecast for revenue and expenses. The Airport then uses this forecast to adjust the rates for each category of rental space at the Airport.

[2] In the event there are several airlines that either commence or terminate flight operations in any given year, the Airport reserves the right to make mid-year adjustments.

Table 2: Estimated Rent Paid by COPA to Airport through Lease Term

Fiscal Year	Square Feet	Rent	Rent Percent Increase	Annual Rent
FY 2015-16	606	$206.66		$73,054[3]
FY 2016-17	606	220.71	6.8%	133,752
FY 2017-18	606	235.50	6.7%	142,713
FY 2018-19	606	251.51	6.8%	152,418
FY 2019-20	606	267.86	6.5%	162,325
FY 2020-21	606	289.29	8.0%	175,311
Total				**$839,573**

RECOMMENDATION

Approve the proposed resolution.

[3] Includes pro-rated rent for first year of operation.

Item 36 **File 15-1145**	**Department:** Mayor Board of Supervisors

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution adopts a two-year fixed budget for multiple City departments for FY 2016-17 and FY 2017-18, including: (1) Academy of Sciences; (2) Adult Probation; (3) Airport; (4) Arts Commission; (5) Asian Art Museum; (6) Assessor-Recorder; (7) Board of Appeals; (8) Building Inspection; (9) Child Support Services; (10) Children and Families Commission; (11) City Attorney; (12) City Planning; (13) Civil Service; (14) Controller; (15) County Education; (16) District Attorney; (17) Economic and Workforce Development; (18) Elections; (19) Retirement System; (20) Environment; (21) Ethics; (22) Fine Arts Museums; (23) Administrative Services; (24) Technology; (25) Health Service System; (26) Human Resources; (27) Human Rights; (28) Juvenile Probation; (29) Law Library; (30) Mayor; (31) Port; (32) Public Library; (33) Public Utilities Commission; (34) Rent Arbitration; (35) Status of Women; (36) Treasurer-Tax Collector; (37) Superior Court; and, (38) War Memorial.

Key Points

- Under City Charter Section 9.101, the Mayor and Board of Supervisors are authorized to determine in an even-numbered fiscal year that the upcoming budget for some or all City departments should be a fixed two-year budget. The Board of Supervisors only reviews the budget in the second year if there are significant changes in revenues or expenditures.

Policy Consideration

- According to several reports reviewed by the Budget and Legislative Analyst, there are advantages and disadvantages to two-year fixed budgets, but one of the main disadvantages is that it reduces the Board of Supervisors appropriation authority.
- The resolution does not have specific criteria for determining which City departments' two-year budgets will be fixed. The Board of Supervisors should amend the proposed resolution to set criteria.

Recommendations

- The Board of Supervisors should amend the proposed resolution to set criteria defining which City departments should continue to be two-year rolling budgets rather than two-year fixed budgets. This criteria should include that all City departments that receive \$10,000,000 or more in annual General Fund support and provide services to the public should continue to be reviewed annually as part of the two-year rolling budget rather than every two years as part of the two-year fixed budget. Implementation of this recommendation would result in the following departments continuing to be reviewed annually by the Board of Supervisors: Adult Probation, District Attorney, Superior Court, Juvenile Probation, Office of Economic and Workforce Development, Treasurer/Tax Collector, Assessor/Recorder, Mayor, Fine Arts Museum, and Elections. This would include: District Attorney, Adult Probation, Superior Court, Juvenile Probation, Office of Economic and Workforce Development, Treasurer/Tax Collector, Assessor/Recorder, Mayor, Fine Arts Museums, and Elections.
- Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.101 states that no later than February 1 of any even-numbered fiscal year, the Mayor and the Board of Supervisors by resolution may determine that the upcoming budgetary cycle or cycles for some or all City departments and offices shall be a fixed budgetary cycle or cycles in which the biennial budget will remain in effect for two fiscal years.

BACKGROUND

In November 2009, the voters passed Proposition A, which, among other changes to the budget process, amended the City Charter to adopt rolling two-year budget cycles and allow for the Mayor and the Board of Supervisors to establish fixed two-year budget cycles for some or all departments. Previous to the passage of Proposition A, the City adopted one-year budgets for all departments, except for the Municipal Transportation Agency (MTA).

As shown in Table 1 below, the MTA was the first City department to implement a two-year fixed budget. Following the passage of Proposition A in 2009, the City implemented fixed two-year budget cycles for three enterprise departments: the Airport, Port, and Public Utilities Commission in FY 2012-13 and FY 2013-14. The City subsequently implemented a two-year fixed budget cycle for Child Support Services, the Public Library, and the Retirement System in FY 2014-15 and FY 2015-16.

Table 1: Implementation of Fixed Two-Year Budget Cycles

Department	1st Two-Year Fixed Budget
Municipal Transportation Agency	FY 2008-09 & 2009-10
Airport	FY 2012-13 & 2013-14
Port	FY 2012-13 & 2013-14
Public Utilities Commission	FY 2012-13 & 2013-14
Child Support Services	FY 2014-15 & 2015-16
Public Library	FY 2014-15 & 2015-16
Retirement System	FY 2014-15 & 2015-16

DETAILS OF PROPOSED LEGISLATION

The proposed resolution expands the two-year fixed budget cycle from seven departments to 39, including 25 departments that receive General Fund support as shown in Table 2 below. In all, the resolution would place $377.6 million in General Fund support and $2.4 billion in overall funds into a fixed two-year budget cycle.

Table 2: FY 2016-17 General Fund Support in New Departments Proposed for Two-Year Fixed Budget

Department	FY 2016-17 General Fund Support
District Attorney	$46,779,572
GSA- City Administrator	43,183,060
Juvenile Probation	35,368,183
Superior Court	31,232,757
Economic & Workforce Development	25,973,700
Treasurer/Tax Collector	24,431,883
Assessor/Recorder	19,028,332
Mayor	19,269,306
Adult Probation	17,549,597
Fine Arts Museum	15,560,242
Human Resources	14,887,246
Elections	13,206,118
City Attorney	12,905,153
Controller	10,929,462
Asian Art Museum	9,617,919
Arts Commission	9,721,933
Status of Women	6,415,560
Academy of Sciences	5,408,021
Ethics Commission	4,640,260
GSA- Technology	3,766,057
Human Rights Commission	2,509,244
City Planning	2,603,268
Law Library	1,642,927
Civil Service Commission	832,490
County Education Office	116,000
Environment	0
Board of Appeals	0
Building Inspection	0
Children & Families Commission	0
Health Service System	0
Rent Arbitration Board	0
War Memorial	0
Total	**$377,578,290**

Source: FY 2015-16 and FY 2016-17 Annual Appropriation Ordinance

According to the proposed resolution, the budgets of the departments on the two-year fixed budget may be adjusted for the following significant increases or decreases in revenues and expenditures:

- More than 5 percent revenue increase or decrease in the budgets of the Airport, Building Inspection, Child Support Services, Children and Families Commission, Environment, Public Library, Port, Public Utilities Commission, Rent Arbitration Board, Retirement, and War Memorial;
- More than 2.5 percent revenue increase or decrease in the General Fund; and
- Increase or decrease in expenditures due to the revenue increases or decreases noted above.

The proposed resolution requires (a) the Controller to submit a report on significant increases or decreases in revenues or expenditures to the Board of Supervisors by May 1, 2017; and (b) the Mayor to submit proposed budget amendments responding to the Controller's report to the Board of Supervisors by June 1, 2017. The proposed budget amendments are subject to Board of Supervisors appropriation approval.

POLICY CONSIDERATION

Comparison of Two-Year Fixed and Two-Year Rolling Budgets

Except for the seven City departments shown in Table 1 above that have fixed two-year budgets, City departments have two-year rolling budgets. Under two-year rolling budgets, the Board of Supervisors has annual appropriation authority. The Board of Supervisors has appropriation authority over each year of the two-year rolling budget in the first fiscal year, and retains appropriation authority over the second year of the two-year rolling budget in the following fiscal year.[1] Under two-year fixed budgets, the Board of Supervisors only has appropriation authority every other year.

According to several reports reviewed by the Budget and Legislative Analyst, there are advantages and disadvantages to two-year fixed budgets, but one of the main disadvantages is that it reduces the Board of Supervisors appropriation authority.

Advantages

Proponents of fixed two-year budget cycles argue that it would result in greater stability for City services, encourage long-term financial planning, and increase funding reliability to City departments and contractors.[2] While some of these advantages exist in the current system of rolling two-year budgets, in which City departments can plan for expenditures in the second year, proponents consider the fixed two-year budget to give greater funding reliability.

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[1] For example, for City departments with two-year rolling budgets the Board of Supervisors reviewed the FY 2015-16 and FY 2016-17 budgets in June 2015 and the Board of Supervisors will review the FY 2016-17 and FY 2017-18 budgets in June 2016.

[2] "Proposition A – Budget Process", SPUR Voter Guide 2009

Proponents of fixed two-year budget cycles also point to time saved by staff and elected officials in the second year of the budget cycle that was formerly devoted to processing essentially repetitive base budget amounts on an annual basis.[3]

Disadvantages

One of the main disadvantages of the fixed two-year budget cycle is that it reduces the Board of Supervisors' budgetary authority. The budget approval process is one of the Board of Supervisors main tools under the Charter to set City policy.[4]

Other disadvantages of the fixed two-year budget include difficulties in forecasting revenues and expenditures, and in incorporating economic and environmental changes.[5]

The resolution does not have specific criteria for determining which City departments' two-year budgets will be fixed and which will be rolling budgets

According to Ms. Kate Howard, Mayor's Budget Director, the process for selecting departments for two-year fixed budget cycles was based on each department's size, level of revenue stability, and functions. According to Ms. Howard, the criteria for selecting departments to be on a two-year fixed budget included (1) smaller City departments and departments with less revenue fluctuation and (2) departments with functions determined to be "administrative", primarily providing services to other City departments.

Departments with significant public health, welfare, and safety functions were specifically excluded from the two-year fixed cycle. Eleven General Fund departments that would remain on a two-year rolling budget cycle include Public Health, Police, Human Services, Fire, Sheriff, Public Works, Recreation and Park, Emergency Management, Children Youth and their Families, Public Defender, and the Board of Supervisors.

The Board of Supervisors should amend the proposed resolution to set criteria defining which City departments should continue to be two-year rolling budgets rather than two-year fixed budgets. This criteria should include that all City departments that receive $10,000,000 or more in annual General Fund support and provide services to the public should continue to be reviewed annually as part of the two-year rolling budget rather than every two years as part of the two-year fixed budget. Implementation of this recommendation would result in the following departments continuing to be reviewed annually by the Board of Supervisors as part of the two-year rolling budget rather than every two years as part of the two-year fixed budget: Adult Probation, District Attorney, Superior Court, Juvenile Probation, Office of Economic and Workforce Development, Treasurer/Tax Collector, Assessor/Recorder, Mayor, Fine Arts Museums, and Elections.

[3] "Analysis of a Prospective Conversion to a Biennial Budget Process", Report to Milwaukee County Board of Supervisors, December 2002

[4] According to the Government Finance Officers Association report, "An Elected Official's Guide to Multi-Year Budgeting", November 2006, legislative bodies may perceive a loss of budgetary control and oversight when two-year budgets are implemented.

[5] Government Finance Officers Association report, "An Elected Official's Guide to Multi-Year Budgeting", November 2006

RECOMMENDATIONS

1. The Board of Supervisors should amend the proposed resolution to set criteria defining which City departments should continue to be two-year rolling budgets rather than two-year fixed budgets. This criteria should include that all City departments that receive $10,000,000 or more in annual General Fund support and provide services to the public should continue to be reviewed annually as part of the two-year rolling budget rather than every two years as part of the two-year fixed budget. Implementation of this recommendation would result in the following departments continuing to be reviewed annually by the Board of Supervisors as part of the two-year rolling budget rather than every two years as part of the two-year fixed budget: Adult Probation, District Attorney, Superior Court, Juvenile Probation, Office of Economic and Workforce Development, Treasurer/Tax Collector, Assessor/Recorder, Mayor, Fine Arts Museums, and Elections.

2. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

Items 37 through 41 **Files 15-1174, 15-1175, 15-1184, 15-1185 & 15-1187**	**Departments:** Department of Public Works (DPW) Controller's Office of Public Finance Sheriff's Department

EXECUTIVE SUMMARY

Legislative Objectives

The proposed legislation related to the Jail Replacement Project would authorize: (1) the Sheriff's Department to accept Board of State and Community Corrections (BSCC) funds of $80,000,000; (2) acquisition of property for the replacement jail, and execution of the purchase agreement without further Board of Supervisors approval; (3) issuance of up to $11,300,000 as a match to the BSCC funds; (5) issuance of up to $215,000,000 of Certificates of Participation (COPs), and (e) appropriation of $215,000,000 in COPs.

Key Points

- The City has determined that County Jails No. 3 and No. 4, located in the Hall of Justice (HOJ), are seismically deficient and outdated. The proposed replacement jail is 384 beds located on property adjacent to the HOJ.
- Total projects costs for a new replacement jail facility are estimated to be $240,000,000. The BSCC awarded the Sheriff's Department $80,000,000 to partially fund construction of a new jail. The balance of funding of $160,000,000 would come from the issuance of COPs.
- The BSCC funds require a match of $24,000,000, of which $12,690,000 were previously appropriated General Fund monies, and $11,310,000 are commercial paper.
- The BSCC funds additionally require that the City must obtain title to the property no later than 90 days of the award, by February 11, 2016.

Fiscal Impact

- File 15-1175 would appropriate $215,000,000 in COPs including: $160,000,000 for Jail Replacement Project costs, $48,305,000 for associated financing costs, and $6,695,000 to allow for market fluctuations.

Policy Consideration

- File 15-1184 authorizes the Director of Real Estate to purchase four properties for the Jail Replacement Project without further approval by the Board of Supervisors if the purchase price is fair market value. According to the Director of Real Estate, bringing the purchase agreement back to the Board of Supervisors for approval is not feasible because the property purchase needs to close and the City obtain title by February 11, 2016.
- While the legislation does not define how "fair market value" will be determined, the appraised value is $14,350,000; however the legislation does not define the amount for the purchase price. Sale of land to a public entity does not require the seller to pay transfer tax. The value to the sellers of not paying transfer tax is not included in determination of fair market value.

Policy Consideration (continued)

- The proposed replacement jail would include 384 beds, based on a 2014 study of average daily inmate population by the Budget and Legislative Analyst. However, in June 2015, the Controller's Office published a report that forecasts a need for only 120 to 393 beds in a new facility. The low end of the forecast range of 120 beds is 264 beds less than the proposed 384 replacement beds

Recommendations

- Amend File 15-1175 to specify that the COPs proceeds will be used to refund $12,690,000 in General Fund monies, which were previously appropriated by the Board of Supervisors in FY 2012-13 through FY 2015-16 to fund Jail Replacement Program costs.
- Amend File 15-1184 to require the Director of Real Estate to report on the details of the purchase agreement(s) for the four properties to be acquired within five days of the execution of the purchase agreement. As noted above, under the proposed resolution, the Directory of Real Estate would be authorized to purchase the subject properties without further Board of Supervisors approval.
- Amend File 15-1184 to state that the Director of Real Estate is authorized to acquire the four properties for "up to $14,500,000".
- Amend File 15-1184 to request the Director of Real Estate to include consideration of the benefit to the sellers of not paying $248,850 in real property transfer taxes in the negotiations of the final purchase price.
- Approval of the proposed resolutions (15-1184, 15-1185, 15-1187) and ordinances (15-1174 and 15-1175) are a policy matter for the Board of Supervisors.

MANDATE STATEMENTS

File 15-1187: City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

File 15-1185: Charter Section 9.113(e) states that the Board of Supervisors shall have the power to borrow money by the issuance of tax anticipation notes, temporary notes, commercial paper, or any other short-term debt instruments in the manner provided by state law or City ordinance.

File 15-1175: 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.

File 15-1174: Charter Section 9.118 requires Board of Supervisors approval for (1) contracts exceeding ten years or expenditures of $10,000,000; and (2) leases with a term of over ten years or expenditures of over $10,000,000. The proposed not-to-exceed issuance of $215,000,000 of Certificates of Participation requires the City to enter into a lease which exceeds ten years and $10,000,000.

File 15-1184: Administrative Code Section 23.1 requires Board of Supervisors approval of all resolutions and ordinances approving real property transactions. Administrative Code Section 23.4 requires Board of Supervisors approval of the granting of real property to the City before the Director of Real Estate can accept the deed to the property.

BACKGROUND

The City's Capital Planning Committee has determined that County Jails No. 3 and No. 4, located in the Hall of Justice (HOJ) at 850 Bryant Street, are seismically deficient and outdated. Replacing County Jails No. 3 and No. 4 has been a high priority in the City's Ten-Year Capital Plan since 2006.

Project Description

The proposal for a replacement jail has 384 beds, a 57 percent decrease from the 903 beds currently in County Jails No. 3 and No. 4. The replacement jail with 384 beds would reduce the system wide number of beds by 21 percent.[1]

In addition to being seismically deficient, the design of County Jails No. 3 and No. 4 is outdated, using unsafe linear housing units and has insufficient medical, health and program spaces. The proposed replacement jail would be designed similar to County Jail #5 located in San Bruno, with a modern direct supervision layout including modular housing units, increased program space and increased space for the medical and mental health treatment services. Table 1

[1] The Sheriff's Department has 2,515 beds in five county jails. Replacing the 903 beds in County Jails No. 3 and 4 with 384 beds in the proposed replacement jail reduces the total number of beds to 1,996, a reduction of 519 beds. Of the existing 2,515 beds, only 2,438 are deemed useable.

below compares square footage in the existing County Jails No. 3 and No. 4 to the proposed replacement jail.

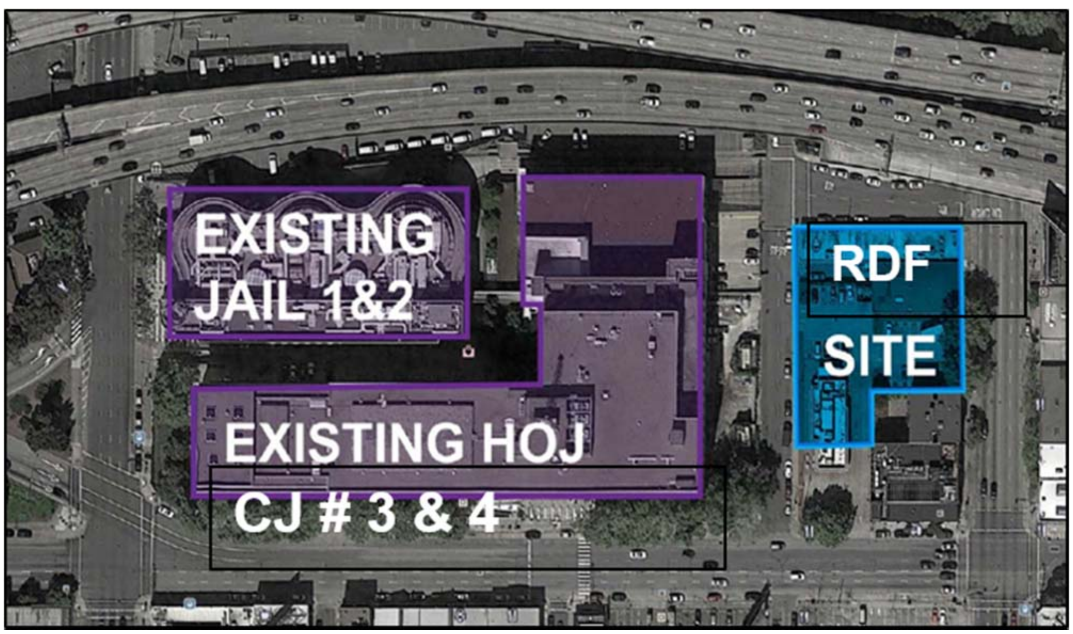
Table 1: Comparison of Number of Beds and Square Feet

Space Type	Current CJs #3 & #4	Replacement Jail	Percentage Change
Number of Beds	903	384	-57%
	Square Feet	Square Feet	
Housing	41,300	15,000	-64%
Dayroom	22,200	50,000	125%
Classrooms- Program Areas	680	9,000	1224%
Exercise Yard	5,900	5,100	-14%
Medical/Health Services	1,200	7,000	483%
Total Square Feet	**71,280**	**86,100**	**20.8%**

Source: Presentation to November 16, 2015 Capital Planning Committee

The City's Real Estate Division is proposing to purchase four properties located at 814-820 Bryant Street, 444 6th Street, 450 6th Street and 470 6th Street, adjacent to the HOJ to construct the replacement jail, as shown in the Exhibit below.

Exhibit: Hall of Justice and New Jail Facility Site Map



Project Timeline

The Department of Public Works (DPW) expects to issue a Request for Qualifications (RFQ) for the design-build contractor to design and construct the replacement jail in March 2016 and award the contract by November 2016. Construction is expected to commence in the September 2017 and be completed by the end of 2020.

DETAILS OF PROPOSED LEGISLATION

File 15-1187: The proposed resolution would authorize the Sheriff's Department to accept and expend $80,000,000 of funds from the Board of State and Community Corrections (BSCC) and the State Public Works Board to partially fund the construction of the new jail to replace County Jail No. 3 and County Jail No.4.

File 15-1184: The proposed resolution would authorize the acquisition of real property at 814-820 Bryant Street, 444 6th Street, 450 6th Street and 470 6th Street (Lots 009, 012, 014, 043 and 045 all in Assessor's Block 3759) from Lin Trust, Musso Trust, and Myung Chun respectively; and (b) issuance of Commercial Paper Notes in an aggregate principal amount not to exceed $14,500,000.

File 15-1185: The proposed resolution would authorize the execution and delivery of tax-exempt and/or taxable commercial paper notes in an amount up to $11,310,000 to provide interim funding to meet the matching fund requirement for the grant and for the construction of the Rehabilitation Detention Facility ("Jail Replacement Project") to replace County Jail No. 3 and County Jail No. 4.

File 15-1174: The proposed ordinance would:

- Authorize the execution and delivery of not to exceed $215,000,000 of Certificates of Participation (COPs) to finance the costs of acquisition, construction and installation of certain additions and improvements for the replacement jail;
- Authorize the issuance of commercial paper notes in advance of the delivery of the COPs;
- Authorize the Director of Public Finance to cause the preparation of documents necessary for the execution and delivery of the COPs including a Trust Agreement, Property Lease and a Lease Agreement, Purchase Contract, Official Notice of Sale and Notice of Intention to Sell Certificates including publication, approving the form of the Preliminary Official Statement and Official Statement, and approving the form of the Continuing Disclosure Certificate;
- Grant general authority to City officials to take necessary actions in connection with the authorization, execution, sale and delivery of the COPs;
- Approve modifications to documents and agreements;
- Declare the City's intent to reimburse certain expenditures; and
- Ratify previous actions taken.

File 15-1175: The proposed ordinance would appropriate $215,000,000 in Certificates of Participation (COPs) for construction of the replacement jail and associated costs in Fiscal Year (FY) 2015-16 and place these funds on Controller's Reserve pending the sale of the COPs.

California Board of State and Community Corrections (BSCC) Funds (File 15-1187)

In July 2015, the Board of Supervisors authorized the Sheriff's Department to apply for $80,000,000 in California Board of State and Community Corrections (BSCC) funds designated for construction of correctional facilities and funded by Senate Bill 863. The City previously applied for these funds in 2013, but was not awarded any funding. On November 13, 2015, the BSCC awarded the City $80,000,000 in funding as a partial funding source for the construction of the replacement jail. The BSCC requires the title of land for the replacement jail to be secured within 90 days of the conditional award, or by February 11, 2016.

Acquisition of Real Property to Construct the Replacement Jail (File 15-1184)

The City has identified four properties for the jail to replace County Jails No. 3 and No. 4 located immediately adjacent to the current HOJ, as shown in the Exhibit above. The City's Real Estate Division expects to begin negotiations with the property owners to acquire these sites upon approval of the proposed resolution.

Commercial Paper (File 15-1185)

The BSCC funds of $80,000,000 require a City match of $24,000,000. $12,690,000 in General Fund monies were previously appropriated by the Board of Supervisors in FY 2012-13 through FY 2015-16, and can be allocated toward the City's required match. The balance of the match will come from the requested $11,310,000 in commercial paper.[2]

Certificates of Participation (File 15-1174)

The Office of Public Finance expects to issue up to $215,000,000 in COPs for the Jail Replacement Project in September 2017. The COPs will be structured as an abatable[3] asset-transfer lease by and between the City and a third-party trustee, in which the City leases a City-owned property to a trustee, and the City leases back the leased property from the trustee. The City would make annual rental payments to the trustee in amounts required to repay the COPs. When they COPs are paid, the lease would terminate, and the City would return to owning the asset outright.

In this case, the asset and leased property for the COPs is expected to be a portion of City-owned San Francisco General Hospital located at 1001 Potrero Avenue (Lot 001, Block 4154). The City's General Fund secures repayment of the COPs.

Environmental Findings

On July 21, 2015, the Board of Supervisors approved the Final Mitigated Negative Declaration and Mitigation Monitoring & Reporting Program for the jail replacement project (File 15-0701).

[2] Commercial paper is a form of interim financing for capital projects that permits the City to pay project costs as project expenditures are incurred. The City's $250,000,000 Commercial Paper program was previously authorized by the Board of Supervisors. As of October 2015, the City has issued $59,300,000 in Commercial Paper, leaving $190,700,000 available to be issued.

[3] "Abatable" is a legal concept whereby the lessee reduces its rent proportionately or totally to the extent it does not have use of the leased asset..

FISCAL IMPACT

Jail Replacement Project Sources and Uses of Funds

The Jail Replacement Project budget is $240,000,000 as shown in Table 2 below.

Table 2: Sources and Uses of Funds for the Jail Replacement Project

	Total Budget
Sources of Funds	
BSCC Funds	$80,000,000
COPs Proceeds (Includes repayment of prior appropriations) – See Table 3	160,000,000
Total Sources	**$240,000,000**
Uses of Funds	
DPW Project Management	$7,520,000
Sheriff's Project Management	2,000,000
City Administrative Services	500,000
Regulatory Agency Approvals	3,500,000
Geotechnical Services/ Site Clean Up	8,200,000
Real Estate Costs/ Property Acquisition	14,875,000
Criteria Development	5,500,000
Architectural and Engineering Services	10,500,000
Site Demolition	6,000,000
Construction Management	5,000,000
Construction and Close Out	151,000,000
Construction Contingency (12% of Construction)	17,625,000
Program Contingency	7,300,000
City Services Auditor (0.2% of Project)	480,000
Total Uses	**$240,000,000**

Sources: DPW, Office of Public Finance

Appropriation of Certificates of Participation (File 15-1175)

File 15-1175 appropriates $215,000,000 in COPs proceeds, as shown in Table 3 below.

Table 3: Certificates of Participation Uses

Project Costs	
Jail Facility Construction Costs	$159,680,639
Controller's Audit Fund (0.2%)	319,361
Subtotal Project Costs	$160,000,000
Costs of Issuance	
Capitalized Interest	$28,953,214
Debt Service Reserve	17,821,498
Underwriter's Discount	729,068
Other Costs of Issuance	801,220
Subtotal Costs of Issuance	$48,305,000
Total Project and Issuance Costs	**$208,305,000**
Reserve for Market Uncertainty	$6,695,000
Total Required Appropriation	**$215,000,000**

As noted above, $12,690,000 in General Fund monies were previously appropriated by the Board of Supervisors in FY 2012-13 through FY 2015-16 to fund Jail Replacement Program costs. These previous General Fund appropriations are to be reimbursed by the COPs proceeds. Section 11 of the COPs issuance ordinance (File 15-1174) authorizes the City to reimburse prior expenditures related to the Jail Replacement Project. Therefore, the proposed ordinance should be amended to specify that the COPs proceeds will be used to refund $12,690,000 in General Fund monies.

Principal and Interest on the COPs

The Office of Public Finance estimates a 5.02 percent fixed interest rate for the COPs, with a not-to-exceed interest rate of 12 percent, resulting in approximately $98,815,666 in interest payments over the life of the COPs. The principle amount of $208,305,000, as shown in Table 3 above, plus the estimated interest payments of $98,815,666 would result in $307,120,666 in total debt service payments over the life of the COPs, as shown in Table 4 below.

Table 4: Total Debt Service Payments, Certificates of Participation

COP Payment Type	Amount
Par Amount	$208,305,000
Estimated interest payments	$98,815,666
Total	**$307,120,666**

The Office of Public Finance estimates annual average COPs payments of $15,356,033 over approximately 20 years.

The proposed ordinance would authorize the Director of Public Finance to sell the COPs by either competitive or negotiated sale. Proceeds from the issuance of COPs would be placed on

Controller's Reserve pending the sale of the COPs and/or issuance of commercial paper notes in the interim.

POLICY CONSIDERATION

Purchase of Property for the Jail Replacement Project (File 15-1184)

According to the proposed resolution (File 15-1184), the Director of Real Estate may purchase four properties - 814-820 Bryant Street, 444 6th Street, 450 6th Street, and 470 6th Street - without further Board of Supervisors approval if (a) the Real Estate Division uses standard purchase agreement forms and (b) the purchase price is no greater than fair market value.

Acquisition of Property without Board of Supervisors Approval of the Purchase Agreement

According to Mr. John Updike, Director of Real Estate, the Board of State and Community Corrections requires the City to obtain title to the property no later than 90 days after the notification of the award of BSCC funding. The City was notified of the award of BSCC funding on November 13, 2015, and must close escrow and obtain title to the properties by February 11, 2016. According to Mr. Updike, the Real Estate Division will begin negotiations for the property after approval by the Board of Supervisors, which is tentatively calendared for December 8, 2015, and would need to complete negotiations and obtain Board of Supervisors approval in early January in order to close escrow by February 11, 2016. Because of the Christmas and New Year holidays, Mr. Updike does not consider it feasible to bring the agreement for the purchase of the four properties to the Board of Supervisors in time to close escrow by February 11, 2016.

Authorizing the Director of Real Estate to acquire the four properties without further Board of Supervisors approval is a policy decision for the Board of Supervisors. If the Board of Supervisors does authorize the property acquisition without further Board of Supervisors approval, then the resolution should be amended to require the Director of Real Estate to report on the specific terms of the acquisition within five days of execution of the purchase agreement.

Fair Market Value

The proposed resolution (File 15-1184) does not define "fair market value". The Real Estate Division selected Carneghi and Partners, Inc. (Carneghi) through a competitive process to appraise the four properties. The October 2015 appraisal reports gave a combined appraised value of $14,350,000 for the four properties. According to Mr. Updike, the property sellers will likely obtain a separate appraisal that will likely show a higher appraised value. The purchase price will be based on negotiations between the City and the sellers in which the parties agree on the appraised (or fair market) value.

The proposed resolution (File 15-1184) provides for the issuance of up to $14,500,000 in commercial paper to be used as interim financing for the purchase of the property, or $150,000 more than the current appraised value of $14,350,000. However, the proposed resolution does not authorize a specific amount for the purchase of the four properties. Therefore, the proposed resolution should be amended to state that the Director of Real Estate is authorized to acquire the four properties for "up to $14,500,000", which allows for negotiations based on two or more appraisals of the four properties.

Real Property Transfer Taxes

The practice in San Francisco is for the seller of property to pay real property transfer taxes generated by the sale. However, because the City is a public entity, the sale of the four properties does not generate real property transfer taxes, which the Budget and Legislative Analyst estimates to be $248,850, based on a purchase price of $14,500,000. This amount of $248,850 represents a benefit to the sellers of the four properties, which would otherwise have been paid by the sellers if the properties were sold to a private entity instead of being sold to the City.

According to Mr. Updike, under the terms of the BSCC funding, the purchase of the four properties by the City must follow federal rules, including negotiating the purchase price based on the highest and best use as determined by the appraisals. According to Mr. Updike, consideration of the benefit to the sellers of not paying the real property transfer tax is not included in determination of the appraised value based on highest and best use, in accordance with federal rules. However, because the purchase price is a negotiated price, the Board of Supervisors should request the Director of Real Estate to include consideration of the benefit to the sellers of not paying $248,850 in real property transfer taxes in the negotiations, even though this benefit is not included in the determination of the properties' highest and best use according to federal rules.

Number of Replacement Beds Needed

Although the City's 2014-2023 Capital Plan provided for a replacement jail with 640 beds based on average daily inmate population data from 1996-2011, the current proposal is for a replacement jail with 384 beds. The Budget and Legislative Analyst's January 2014 report, "Analysis of the Proposed County Jail #3 and County Jail #4 Replacement Project", found that the City could construct a 384 bed replacement jail at the Hall of Justice. This finding was based on average daily inmate population data from 1996 to December 2013, reflecting the continued downward trend in the average daily inmate population.

According to the Controller's most recent jail population forecast published in June 2015, the average daily population in 2014 was the lowest it has been since 1982. The Controller's report forecast a need for between 120 and 393 beds to replace County Jails #3 and #4. This forecast assumes that the existing County Jail #6, which is a minimum security dormitory-style jail, and which is currently closed, would not be reopened.[4] The low end of the forecast range of 120 replacement jail beds is 264 beds less than the proposed replacement beds of 384.

[4] The Controller's June 2015 report identified limitations to re-opening County Jail #6, including the Sheriff's Department's transportation costs between San Mateo County where the jail is located and the City; lack of public transit to the jail; lack of access to in-custody programs; and lack of appropriate space for mental health and other services.

RECOMMENDATIONS

1. Amend File 15-1175 to specify that the COPs proceeds will be used to refund $12,690,000 in General Fund monies, which were previously appropriated by the Board of Supervisors in FY 2012-13 through FY 2015-16 to fund Jail Replacement Program costs.
2. Amend File 15-1184 to require the Director of Real Estate to report on the details of the purchase agreement(s) for the four properties to be acquired within five days of the execution of the purchase agreement. As noted above, under the proposed resolution, the Directory of Real Estate would be authorized to purchase the subject properties without further Board of Supervisors approval.
3. Amend File 15-1184 to state that the Director of Real Estate is authorized to acquire the four properties for "up to $14,500,000".
4. Amend File 15-1184 to request the Director of Real Estate to include consideration of the benefit to the sellers of not paying $248,850 in real property transfer taxes in the negotiations of the final purchase price.
5. Approval of the proposed resolutions (15-1184, 15-1185, 15-1187) and ordinances (15-1174 and 15-1175) are a policy matter for the Board of Supervisors.

Item 42 **File 15-1177**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance de-appropriates $1,483,000 in General Fund monies, previously appropriated to Third Party Administrator payments, and re-appropriates $1,483,000 to pay for the renovation costs related to the relocation of the Mental Health Rehabilitation Center from the third floor of 888 Potrero Avenue to Ward 7A of San Francisco General Hospital (SFGH).

Key Points

- The Mental Health Rehabilitation Center is a 24 bed mental health facility located on the third floor of the Behavioral Health Center at 888 Potrero Avenue. According to Ms. Jenny Louie, DPH Budget Manager, DPH proposes to relocate the Mental Health Rehabilitation Center to SFGH Ward 7A in order to free up the third floor of the Behavioral Health Center for a future Re-entry Respite Center. The renovation of Ward 7A for the relocation of the Mental Health Rehabilitation Center is expected to take 18 to 24 months.
- The future Re-entry Respite Center will provide transitional housing and comprehensive mental health and substance abuse services for individuals being discharged from jail and collaborative court programs. According to Ms. Louie, DPH is currently developing the program model for the implementation of the new Re-entry Respite Center following the relocation of the Mental Health Rehabilitation Center.

Fiscal Impact

- The proposed ordinance de-appropriates $1,483,000 in General Fund savings previously appropriated in FY 2014-15 to pay prior year health services claims and fees from third party administrators. According to Ms. Jenny Louie, DPH Budget Manager, the $1,483,000 is not needed because these claims and fees were less than budgeted.

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.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance de-appropriates $1,483,000 in General Fund monies, previously appropriated to Third Party Administrator payments, and re-appropriates $1,483,000 to pay for the renovation costs related to the relocation of the Mental Health Rehabilitation Center from the third floor of 888 Potrero Avenue to Ward 7A of San Francisco General Hospital (SFGH).

The Mental Health Rehabilitation Center is a 24 bed mental health facility located on the third floor of the Behavioral Health Center at 888 Potrero Avenue. According to Ms. Jenny Louie, DPH Budget Manager, DPH proposes to relocate the Mental Health Rehabilitation Center to SFGH Ward 7A in order to free up the third floor of the Behavioral Health Center for a future Re-entry Respite Center.

The future Re-entry Respite Center will provide transitional housing and comprehensive mental health and substance abuse services for individuals being discharged from jail and collaborative court programs. Clients will be provided case management, medications, outpatient services, and counseling. The estimated length of stay for each of these clients is approximately 6 to 9 months. The goal is to stabilize the clients for re-entry into permanent supportive housing.

In order to develop the Re-entry Respite Center, the Department of Public Health (DPH) will relocate the existing Mental Health Rehabilitation Center from its current location on the third floor of 888 Potrero Avenue to SFGH Ward 7A. The renovation of Ward 7A for the relocation of the Mental Health Rehabilitation Center is expected to take 18 to 24 months. According to Ms. Louie, DPH is currently developing the program model for the implementation of the new Re-entry Respite Center following the relocation of the Mental Health Rehabilitation Center.

FISCAL IMPACT

The proposed ordinance de-appropriates $1,483,000 in General Fund savings previously appropriated in FY 2014-15 to pay prior year health services claims and fees from third party administrators. According to Ms. Jenny Louie, DPH Budget Manager, the $1,483,000 is not needed because these claims and fees were less than budgeted.

The budget for the $1,483,000 appropriation to relocate the Mental Health Rehabilitation Center to SFGH Ward 7A is shown in the Table below.

Table: Construction Budget for New Re-entry Respite Center

Expenditures	Amount
General contractor	$175,000
Design contract	175,000
Permits and inspections	60,000
Hazardous material removal	34,000
Infection control	25,000
Demolition	25,000
Building and systems construction	648,730
American with Disabilities Act improvements	150,000
Subtotal Construction	1,292,730
Contingency (approximately 12%)	152,343
Insurance and bonds	37,927
Total	**$1,483,000**

Source: DPH

RECOMMENDATION

Approve the proposed ordinance.

Item 44 **Files 15-1176**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance (1) appropriates $4,000,000 from the FY 2015-16 Hetch Hetchy Power Enterprise's fund balance to provide operating capital for the CleanPowerSF program; and (2) amends the repayment term of the existing loan authorized by Ordinance 120-15 from two years to five years, and establishes the repayment term of the additional loan at five years from the launch date of CleanPowerSF in 2016.

Key Points

- In July 2015, the Board of Supervisors approved the appropriation of $4,000,000 from the FY 2014-15 Hetch Hetchy Power Enterprise's fund balance to provide short-term operating capital for the initial start-up of CleanPowerSF.
- The PUC is requesting an additional loan of $4,000,000 from the Hetch Hetchy Power Enterprise fund balance to CleanPowerSF to pay for the initial operating expenses that will be incurred before the program begins to generate revenues. PUC estimates a 45-day lag in revenues to cover expenditures, estimated to be $4,000,000 over the 45-day period. The additional loan will be used to increase the operating reserve from $4,000,000 to $8,000,000 to allow for a 90-day reserve.

Fiscal Impact

- If the proposed ordinance is approved, CleanPowerSF operating reserves will receive a total of $8,000,000 in loans from the Hetch Hetchy Power Enterprise, including the prior $4,000,000 appropriation and the requested $4,000,000 appropriation.
- The CleanPowerSF program will repay a total of $8,151,200 in principal and interest over the five-year term of the loans.

Recommendations

- Amend the proposed ordinance to place $4,000,000 in requested funds on Controller's Reserve until the date these funds are needed for energy procurement.
- Approve the proposed ordinance, as amended.

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.

Administrative Code Section 3.3(e) provides that the committee of the Board of Supervisors that has jurisdiction over the budget (i.e. Budget and Finance Committee) may place requested expenditures on reserve until release by the Committee.

BACKGROUND

Under State law, cities and counties may develop Community Choice Aggregation programs. These programs allow local governments to supply electricity to participating customers within their jurisdiction while the existing private utility (PG&E in San Francisco) continues to provide various services including billing, transmission, and distribution. The San Francisco Public Utilities Commission (PUC) is implementing a Community Choice Aggregation program (known as “CleanPowerSF”) in phases. During the first phase, select customers will be automatically enrolled in the program and will have four months to opt-out of participating. These customers will be offered (1) a standard energy product that will consist of between 33 and 50 percent renewable energy, or (2) a premium product consisting of 100 percent renewable energy.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance (1) appropriates $4,000,000 from the FY 2015-16 Hetch Hetchy Power Enterprise’s fund balance to provide operating capital for the CleanPowerSF program; and (2) amends the repayment term of the existing loan authorized by Ordinance 120-15 from two years to five years, and establishes the repayment term of the additional loan at five years from the launch date of CleanPowerSF in 2016.

The Board of Supervisors appropriated $4,000,000 in July 2015 from the FY 2014-15 Hetch Hetchy Power Enterprise’s fund balance to provide short-term operating capital for the initial start-up of CleanPowerSF (File No. 15-0491; Ordinance No. 120-15).

According to Mr. Michael Hyams, CleanPowerSF Program Director, the existing $4,000,000 appropriation was based on PUC staff’s initial estimates of the amount of operating capital needed to launch the first phase of the program. PUC staff expects (1) program revenues to lag initial program expenses by about 45 days, and (2) operating expenses for 45 days to be approximately $4,000,000. Based on financial analysis conducted since then, PUC staff has proposed a policy to have 90 days of operating expenses, or approximately $8,000,000, available in operating reserves. According to Mr. Hyams, having 90 days of operating reserves will help the program cover unexpected changes in costs and revenues.

FISCAL IMPACT

If the proposed ordinance is approved, CleanPowerSF operating reserves will receive a total of $8,000,000 in loans from the Hetch Hetchy Power Enterprise, including the prior $4,000,000 appropriation and the requested $4,000,000 appropriation. According to Mr. Hyams, the total of $8,000,000 is necessary to meet the short-term working capital needs of the CleanPowerSF program during the initial start-up period in Fiscal Year 2015-16.

CleanPowerSF will begin to repay the $8,000,000 plus interest to the Hetch Hetchy Power Enterprise in FY 2016-17 from the electricity revenues billed to customers enrolled in the CleanPowerSF program. CleanPowerSF will incur interest charges on the loan at the otherwise applicable County-wide pool rate (currently 0.63%) and will repay the Hetch Hetchy Power Enterprise no later than five years from the launch date of CleanPowerSF in 2016. Sources and uses of funds for CleanPowerSF, including annual repayment of the loan to the Hetch Hetchy Power Enterprise, are shown in Table 1 below. As shown in Table 1, the CleanPowerSF program expects to receive the $8,000,000 in loans from the Hetch Hetchy Power Enterprise in 2016, and to repay a total of $8,151,200 in principal and interest over the five-year term of the loans.

Table 1: CleanPowerSF Sources and Uses of Funds

	FYE 2016-17 (May-June)	FYE 2017-18	FYE 2018-19	FYE 2019-20	FYE 2020-21	FYE 2021-22
SOURCES						
Electricity Sales Revenue	$318,255	$29,329,172	$35,657,497	$36,715,244	$37,804,722	$38,926,885
Hetch Hetchy Loan	8,000,000	0	0	0	0	0
Total Sources	**$8,318,255**	**$29,329,172**	**$35,657,497**	**$36,715,244**	**$37,804,722**	**$38,926,885**
USES						
Energy Supply	$1,790,856	$21,781,116	$24,776,174	$25,815,577	$26,907,892	$27,853,541
Operating Costs [a]	2,284,920	7,374,513	7,745,090	7,879,888	8,018,617	7,238,207
Contingency/Rate Stabilization Reserve	4,242,478	(962,524)	981,320	877,466	700,292	0
Loan and Interest Repayment [b]	0	1,050,400	2,044,100	2,031,500	2,018,900	1,006,300
SuperGreen Programs/Projects	0	85,666	110,813	110,813	103,551	91,714
Add'l Reserve for Growth, Discounts, Etc.	0	0	0	0	55,468	2,737,123
Total Uses	**$8,318,255**	**$29,329,172**	**$35,657,497**	**$36,715,244**	**$37,804,721**	**$38,926,885**
RESERVE BALANCES (CUMULATIVE)						
Operating Reserve	$1,435,917	$2,821,434	$4,213,251	$5,617,668	$7,034,685	$7,028,385
Contingency/Rate Stabilization Reserve	$4,242,478	$3,279,955	$4,261,275	$5,138,741	$5,839,033	$5,839,033

Source: CleanPowerSF Program Director

[a] Includes annual deposit to operating reserve

[b] Loan and interest repayments between FYE 2017-18 and FYE 2021-22 will total $8,151,200.

As stated above, the proposed ordinance would extend the repayment term for the previously appropriated $4,000,000 loan from two years to five years. According to Mr. Hyams, PUC is seeking a longer repayment term to help CleanPowerSF build up its own replacement operating reserve fund. Mr. Hyams asserts that the existing two-year repayment term obligates CleanPowerSF to prioritize loan repayments over building its own reserves for self-sufficiency.

According to Mr. Hyams, PUC expects the CleanPowerSF program to need the $8,000,000 in funds beginning in May 2016 to pay for power purchase contracts because CleanPowerSF revenues will lag initial program expenses by approximately 45 days. The actual date when PUC will need these funds depends on the PUC's negotiation of the City power purchase contracts. Because of the uncertainty of the date when the CleanPowerSF program will need these funds, the Budget and Legislative Analyst recommends placing the $4,000,000 in Hetch Hetchy funds on Controller's Reserve.

RECOMMENDATIONS

1. Amend the proposed ordinance to place $4,000,000 in requested Hetch Hetchy Power Enterprise funds on Controller's Reserve until the date these funds are needed for electricity procurement.
2. Approve the proposed ordinance, as amended.

Item 45 File 15-1182	Department: Administrative Services, Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

- Resolution ratifying the purchase and sale agreement between the City and 30 Van Ness Holdings, LLC for the sale of City-owned property located at 30 Van Ness Avenue for $80,000,000.

Key Points

- 30 Van Ness Avenue, located on the northeast corner of Van Ness Avenue and Market Street, is a five-floor 180,363 square foot City-owned office building, housing five City departments. The City has a total capital investment of approximately $44,139,800 in the 30 Van Ness Avenue building, including an outstanding principal Certificates of Participation (COPs) debt balance of $28,220,000.
- On July 28, 2015, the Board of Supervisors approved an ordinance authorizing (a) the sale of 30 Van Ness Avenue for not less than $87,000,000, imposing redevelopment requirements that met or exceeded the minimum affordable housing obligations in the Market Octavia Area Plan and included a holdover lease for the City, subject to ratification by the Board of Supervisors; (b) appropriated sale proceeds to defease the outstanding COPs; (c) excluded the sale from the City's Surplus Property Ordinance; (d) affirmed CEQA findings; and (e) adopted General Plan and Planning Code findings.
- A holdover office lease will allow City departments to continue to occupy 30 Van Ness Avenue for three years, with five additional one-year options, or through December 31, 2023. The City will pay 30 Van Ness Holdings LLC $3,000,000 in rent the first year, plus operating expenses, or $30.66 per square foot annually. However, City departments currently pay Real Estate $23.16 annually, including operating costs, which is $7.50 less per square foot. Therefore, in order to cover increased rent and operating expenses, the rates charged to City departments will increase and/or be paid from the sales proceeds.

Fiscal Impacts

- Although the Board of Supervisors authorized the sale of 30 Van Ness for not less than $87,000,000, the proposed resolution would approve the sale for $80,000,000, which is $7,000,000 or 8% less.
- 30 Van Ness Holdings will also pay the City's transfer tax at a cost of $2,000,000, which is typically paid by the seller. Transfer taxes are deposited into the City's General Fund.
- If the 30 Van Ness building is sold for $80,000,000, after $440,000 for broker commission and marketing costs and paying off the outstanding debt service costs of $28,919,643, the City will receive $50,640,357 in net sale proceeds.
- The net sale proceeds will be used to pay additional rent and operating costs during the holdover lease term, fund construction for new City office space and finance additional affordable housing.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Mandate Statement

City Administrative Code Section 23.3 provides that the Director of Property may sell real property owned by the City, after the Board of Supervisors determines that the public interest or necessity will not be inconvenienced by the conveyance, authorizes the means of disposition and approves the conveyance. City Administrative Code Chapter 23A provides that it is City policy that proceeds from the sale of City surplus property be used to finance affordable housing in San Francisco.

BACKGROUND

30 Van Ness Avenue, located on the northeast corner of Van Ness Avenue and Market Street, is a five-floor 180,363 square foot City-owned office building. In May, 2001, the Board of Supervisors approved a resolution (Resolution 344-01) authorizing the City to issue up to $35,950,000 of Certificates of Participation (COPs) to partially finance the City's purchase and renovation of the 30 Van Ness Avenue property. In October of 2001, the City purchased 30 Van Ness from the Herbst Foundation for $32,000,000 and expended an additional $5,830,000, for tenant improvements, for a total initial cost of $37,830,000.

In November, 2006, the Board of Supervisors approved a resolution (Resolution 680-06) authorizing the City to issue up to $162,000,000 of COPs to finance the acquisition and renovation of additional City properties[1], which included $6,309,800 to renovate the 30 Van Ness City office building. Therefore, the City has a total capital investment of approximately $44,139,800 ($37,830,000 + $6,309,800) in the 30 Van Ness Avenue building. The City's total current outstanding principal balance on the COPs related to 30 Van Ness is $28,220,000, with debt service payments of approximately $2,500,000 annually.

Decision to Sell 30 Van Ness Avenue

City employees from the Department of Public Works, Department of Public Health, Department of Emergency Management, Office of Civic Engagement and Immigrant Affairs, and Administrative Services' Contract Monitoring Division are currently located in the 30 Van Ness City office building. The building also includes privately leased spaces on the ground floor and one suite on the third floor. All the private leases, other than Walgreens, expire before December 31, 2018.

Mr. John Updike, Director of Real Estate, advised that the existing offices at 30 Van Ness are dysfunctional because (a) the interior layout is inefficient, given current fire code requirements, (b) the building systems are not effective, and (c) this modest 5-story office building, including Walgreens on the ground floor, does not take full advantage of the transit-rich location at Van Ness and Market which could support a larger, residential mixed use development. In addition,

[1] Major acquisitions of City properties with the $162,000,000 of COPs in 2006 included the purchase of 1 South Van Ness Avenue and 1650 Mission Street.

Mr. Updike notes that the City is currently pursuing options to consolidate and upgrade City offices in the Civic Center. Mr. Updike also advises that current economic conditions are very favorable to sell real estate to maximize City monetary interests in the 30 Van Ness property.

Selection of Real Estate Investment Brokers

In early 2015, based on a competitive process with four prequalified firms, the Real Estate Division selected the lowest bidder, Newmark, Knight, Frank, Cornish & Carey (Newmark, Cornish & Carey) to provide brokerage services for the sale of 30 Van Ness. Newmark, Cornish & Carey bid the lowest commission of 0.5% of the sale price.

Offering of 30 Van Ness Avenue

On April 13, 2015, the City's Real Estate Division, working with Newmark, Cornish & Carey, issued a preliminary offer to sell 30 Van Ness Avenue. Over 100 interested parties responded. Then, a call for bids was issued and the City received 15 offers to purchase 30 Van Ness Avenue.

Based on evaluation by the City's review committee[2], the 15 offers were reduced to 11 offers, with questions sent to the 11 offerers regarding (1) affordable housing[3], (2) plans to enhance transit experience, (3) leaseback terms and conditions with the City, (4) entitlement provisions, and (5) source of capital financing. The City's review committee evaluated the 11 responses and invited the top eight offerers to respond with their: (1) best offer price with 12% affordable housing; and (2) best offer price with 20% affordable housing. The City received six responses.

The City's review committee selected the top four responses, all of which committed to primarily residential redevelopment and offered a purchase price equal to or greater than $87,000,000 for the 30 Van Ness Avenue City-owned building.

Board of Supervisors Approved Ordinance to Sell 30 Van Ness Avenue

On July 28, 2015, the Board of Supervisors approved an ordinance authorizing (a) the sale, by public competitive bid, of the City-owned property at 30 Van Ness Avenue for not less than $87,000,000, imposing redevelopment requirements that met or exceeded the minimum affordable housing obligations in the Market Octavia Area Plan and included a holdover lease for the City, subject to ratification by the Board of Supervisors; (b) appropriation of a portion of the sale proceeds for the defeasance of up to $31,770,000[4] of the outstanding COPs; (c) exclusion of the sale from the requirements of the City's Surplus Property Ordinance under Administrative Code Chapter 23A; (d) affirming the California Environmental Quality Act (CEQA) findings; and (e) adopting findings consistent with the General Plan and Planning Code Section 101.1 (File 15-0728; Ordinance 153-15). In this ordinance, the Board of Supervisors found that

[2] The City's review committee consisted of representatives from the Real Estate Division, Economic and Workforce Development, Controller's Office, Office of Public Finance, Planning Department, Mayor's Office of Housing, and Mayor's Budget Office, with advisory services provided by Newmark, Cornish & Carey.

[3] Affordable housing is defined as persons making no more than 55% of the Area Median Income (AMI). In 2015, a 4-person household making 55% of the AMI would be $56,050.

[4] As noted above, the City's total current outstanding principal balance on the COPs is $28,220,000.

the public interest or necessity would not be inconvenienced by the sale, as required under City Administrative Code Section 23.3.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would ratify the purchase and sale agreement by and between the City and County of San Francisco (City) and 30 Van Ness Holdings, LLC[5] for the sale of City-owned property located at 30 Van Ness Avenue for $80,000,000.

Holdover Lease for City

The proposed resolution specifies that the purchase and sale agreement includes a holdover office lease, to allow City departments to continue to occupy the 30 Van Ness Avenue office building, comprising approximately 152,578 square feet. The proposed holdover lease would extend from the close of escrow, estimated to occur in early January, 2016, through December 31, 2018, or three years, with five additional one-year options for renewal, or potentially through December 31, 2023. Under the holdover lease, the City would be responsible for continuing to pay for all utilities, custodial, engineering, maintenance, property management and security services.

Table 1 below shows the total annual rent and operating costs payable by the City to 30 Van Ness Holdings, LLC for each of the first three years of the holdover lease.

Table 1: Estimated Cost of 152,578 Square Foot Holdover Lease

Lease Year	Annual Rent	Annual Operating Costs	Total Costs	Rate/Square Foot/Year
Year 1: 2016	$3,000,000	1,678,358	$4,678,358	$30.66
Year 2: 2017	3,210,000	1,762,276	4,972,276	32.59
Year 3: 2018	3,434,700	1,850,390	5,285,090	34.64
Three Year Total	**$9,644,700**	**$5,291,024**	**$14,935,724**	
5 One-Year Options	10% increase/year	5% increase/year		

Mr. John Updike, Director of Real Estate advises that the proposed rates at a combined cost of $30.66 in the first year of the holdover lease are considerably favorable for the City. In comparison, Mr. Joshua Keene of the Real Estate Division advises that the current fair market value for all leases in the Civic Center/Van Ness area is approximately $51.12 per square foot per year, which is $20.46 or 67% higher than the first year of the holdover lease.

The City intends to defease the existing debt on 30 Van Ness, such that the amount currently paid by City departments previously used for debt service payments would be available to pay

[5] 30 Van Ness Holdings, LLC is a subsidiary of Related California Urban Housing, Inc.

rent to the new landlord, 30 Van Ness Holdings, LLC. City departments currently pay Real Estate \$1.93 per square foot per month, or \$23.16 annually, including operating costs, to occupy 30 Van Ness. However, as shown in Table 1 above, in 2016, the first year of the lease, Real Estate will be required to pay 30 Van Ness Holdings, LLC \$3,000,000, plus incur operating expenses, which results in a combined effective rate of \$30.66 per square foot per year. This \$30.66 initial rate is \$7.50 more per square foot than the \$23.16 rate that Real Estate collects from City departments. This annual incremental increase in expenses is estimated to be approximately \$1,144,335 (\$7.50 x 152,578 sf). Mr. Keene advises that Real Estate will have sufficient budgeted funds to cover all rent and operating expenses for the rest of FY 2015-16. To cover incremental rent and operating expenses, which as shown in Table 1 above will increase each year, Mr. Keene advises such costs will be paid from the sales proceeds. Any future budget increases to City departments not covered by sales proceeds would be subject to future Board of Supervisors appropriation approval.

Potential Development and Affordable Housing Obligations

Given that the City will be leasing back office space at 30 Van Ness for at least three years, or through December 31, 2018, such that market conditions may change during this time, it is difficult to predict what future redevelopment will be constructed at 30 Van Ness. However, Real Estate advises that if market conditions are similar to today, it is expected that this site will be redeveloped as a primarily residential rental project of between 500 to 600 units. As required by the Market Octavia Area Plan, retail would also be required on the ground floors, with potential for office spaces on the lower floors.

The proposed resolution specifies that the purchase and sale agreement include a conveyance deed imposing affordable housing requirements that meet or exceed the minimum affordable housing provisions and obligations as set forth in the Market Octavia Area Plan in Planning Code Section 416 on any future residential redevelopment at the 30 Van Ness Avenue property. Planning Code Section 416 requires inclusion of 12% affordable housing on site or 20% affordable housing off site at 55% of Area Median Income (AMI).

The purchase and sale agreement specifies that if the property is redeveloped for residential use, the developer will provide on-site not less than 15% affordable residential units or 20% affordable units if the applicable bulk limits are increased to permit 12,500 square feet.[6] In addition, the agreement states that the City in its regulatory capacity, may also require on-site affordable housing at higher percentages than this minimum, with the cost of such additional affordable housing requirements borne by the project developer. Furthermore, the agreement specifies that the City would also have the right to increase the number of affordable units up to 33%, if the City pays the developer the actual cost for such additional affordable units above the required level.

[6] Current Market Octavia Area Plan requirements limit this site's floor plate size to 10,000 square feet. While this agreement does not require the Planning Department or the Board of Supervisors to grant an exemption to this Plan, the buyer is agreeing to increase the minimum affordability on-site to 20% if such an exemption is proposed and granted in the future. These minimum affordable units may be rental units, for-sale units or any combination, in the sole discretion of the project developer.

Use and Appropriation of Funds to Repay Certificates of Participation

As discussed above, the City issued COPs of $35,950,000 in 2001 and $6,309,800 in 2006 related to the purchase and renovation of 30 Van Ness. The City's total current outstanding principal balance on the COPs related to 30 Van Ness is $28,220,000. Including accrued interest, related expenses and fees, Real Estate estimates incurring total costs of $28,919,643 to redeem the outstanding COP debt on March 1, 2016.

FISCAL IMPACT

$87,000,000 Anticipated, but $80,000,000 Cash To Be Received

As noted above, on July 28, 2015, the Board of Supervisors authorized the sale of the City-owned property at 30 Van Ness Avenue for not less than $87,000,000, imposing redevelopment requirements that meet or exceed the minimum affordable housing obligations in the Market Octavia Area Plan and included a holdover lease for the City. In addition, that ordinance waived the sale from the requirements of the City's Surplus Property Ordinance under Administrative Code Chapter 23A, wherein the sale proceeds would otherwise be required to be used for affordable housing. At the time, Mr. Updike informed the Board of Supervisors that all four offers were equal to or greater than $87,000,000. However, the proposed resolution is now requesting the Board of Supervisors to approve the sale of 30 Van Ness for $80,000,000, which is $7,000,000 or 8% less than originally authorized[7].

According to Mr. Keene, at the time the previous ordinance was approved by the Board of Supervisors, Real Estate had four potential buyers who made offers based on meeting the minimum affordable housing obligations in the Market Octavia Area Plan, which is 12%. However, based on guidance from the Mayor's Office of Housing and Community Development, the City modified negotiations with the final bidders to require a higher level of minimum affordability (15% instead of 12%) and an additional requirement that the proposers provide a pathway to achieve 33% affordability, at the City's election, recognizing that these requirements would cause a direct reduction in the offered purchase prices. In addition, based on subsequent inspections of the property and meetings with the City's Planning Department and Mayor's Office of Housing and Community Development by the potential buyers, the original high bidder withdrew their offer after realizing that the adjacent site was no longer available at an appropriate price and more extensive improvements to 30 Van Ness were required than originally anticipated.

30 Van Ness Holdings has agreed to pay the City $80,000,000 to purchase 30 Van Ness Avenue. In addition, Mr. Updike notes that the City negotiated for 30 Van Ness Holdings to pay the City's

[7] Mr. Jon Givner, Deputy City Attorney advises that although the prior ordinance authorized the sale of 30 Van Ness for not less than $87,000,000, a condition which is not being met by the proposed resolution, the previous ordinance does not need to be amended: because the Department has not met the condition that the property sell for $87,000,000 or more, the conditional approval in that ordinance is not operative and the Board of Supervisors need not amend it. However, the section of the prior ordinance waiving the application of the City's Surplus Property Ordinance under Administrative Code Chapter 23A was not conditioned on a particular sales price, so that waiver remains intact, as specified in the prior ordinance.

transfer tax, which is typically paid by the seller in San Francisco, at a cost of $2,000,000. Transfer taxes are deposited into the City's General Fund. Therefore, as shown in Table 2 below, the City will actually receive $82,000,000 from the proposed sale of 30 Van Ness.

Table 2: Value of Proposed Sale of 30 Van Ness

Sale Price	$80,000,000
Transfer Tax (2.5% of Purchase Price)	2,000,000
Total Estimated Value	**$82,000,000**

Mr. Updike also notes that the City negotiated that the developer provide not less than 15% affordable residential units on-site and potentially up to a minimum of 20% affordable residential units. In contrast, the existing Market Octavia Area Plan requires 12% affordable housing on-site. Therefore, Mr. Updike states that if the proposed site is ultimately redeveloped into 500 residential units, a minimum 15% affordability will result in 75 affordable units, rather than the existing 12% minimum requirement which would result in 60 affordable units, an increase of 15 affordable units. Mr. Updike notes that these 15 affordable units at a conservative cost of $533,333 per unit results in an additional value of $8,000,000. Therefore, Mr. Updike notes that the total value of the proposed transaction to the City is approximately $90,000,000 ($80,000,000 sale price + $2,000,000 transfer tax + $8,000,000 for additional affordable units).

Commission and Fees

Based on the agreement between Real Estate and the brokerage firm, Newmark, Cornish & Carey, the City will pay Newmark, Cornish & Carey (a) up to $40,000 for marketing materials based on actual costs, and (b) 0.5% commission based on the sale price of the 30 Van Ness building. If the 30 Van Ness building is sold for $80,000,000, the commission to Newmark, Cornish & Carey would be $400,000.

Net Revenues to the City

As shown in Table 3 below, if the City sells 30 Van Ness at the proposed $80,000,000, it will result in $50,640,357 in available net sale proceeds for the City.

Table 3: Sale Proceeds and Expenses for 30 Van Ness

Minimum Sale Price	$80,000,000
Less Broker Commission	(400,000)
Less Broker Marketing Fee (not to exceed)	(40,000)
Net Sale Proceeds	$79,560,000
Repayment of COPs (2001 and 2007), plus fees	(28,919,643)
Total Net Proceeds to City	**$50,640,357**

The $50,640,357 net proceeds from the sale of 30 Van Ness would be deposited into an account established by the Controller.

Use of Net Proceeds for Additional Rent Costs, New City Office Space and Additional Affordable Housing Needs

As discussed above, incremental expenses from the holdover lease estimated at approximately $1,144,335 annually may be needed to cover additional rent and operating expenses, depending on whether and by how much rates charged to City departments increase.

On December 9, 2014, the Board of Supervisors approved an ordinance for a Conditional Land Disposition and Acquisition Agreement with Related California Urban Housing, LLC (Related)[8] to develop a City office building at Van Ness Avenue and Mission Street. Related plans to develop this site to include (a) an approximate 463,300 gross square foot 18 story City-owned office building along 11th street and (b) an approximate 38 story, 550 multifamily residential unit development, with ground level retail, along Van Ness Avenue (Ordinance 254-14).

The City anticipates consolidating office space for five major departments in the new City-owned office building at Van Ness Avenue and Mission Street for the (a) Department of Public Works, (b) Department of Building Inspection, (c) City Planning Commission, (d) Retirement and (e) Health Services Systems, which are currently in City-owned or leased office space in the Civic Center. The new City office building's total project cost is $326,690,953. At the time of approval of Ordinance 254-14, one major source of funding for the development of this new City office building was $83,180,000 from the sale of three existing City office buildings: (1) 30 Van Ness (subject of the proposed resolution), (2) 1660 Mission Street, and (3) 1680 Mission Street[9].

The proposed resolution would approve the sale of 30 Van Ness for $80,000,000, resulting in net proceeds of an estimated $50,640,357, or 60.9% of the $83,180,000 projected revenues from the sale of three City buildings. Sales proceeds from the three City buildings that exceed $83,180,000 could be used to develop additional affordable housing at 30 Van Ness or other sites.

RECOMMENDATION

Approve the proposed resolution.

[8] Related California Urban Housing LLC created a subsidiary, Goodwill SF Urban Development, to acquire and develop this site. Related California is also the proposed buyer and potential developer for 30 Van Ness.

[9] The City anticipates putting 1660 and 1680 up for sale in February or March of 2016.

Item 48 **File 15-0817**	**Department:** Office of Labor Standards and Enforcement (OLSE)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance will amend the Administrative Code to (1) require inclusion of prevailing wage, apprenticeship, and local City hiring provisions in the sale of City property for housing development and/or in all leases where the City is the landlord; and (2) require inclusion of prevailing wage and apprenticeship requirements in all leases where the City is a tenant.

Key Points

- The Board of Supervisors annually sets prevailing wage rates for employees of businesses with particular types of City contracts.
- Currently, contractors and subcontractors performing construction improvements for the City, whether on City or leased property, are required to pay their workers the prevailing rate of wages.

Fiscal Impact

- The proposed ordinance may reduce the value of City-owned properties sold for housing development because developers will have to pay higher wages to develop the property, resulting in higher development costs. It is not known how much the new requirements may reduce sale prices for City-owned property designated for housing development.
- The local hiring requirements could decrease the number of prospective tenants for the City, making it more difficult for the City to find tenants, especially non-profit and small locally-owned businesses, willing to comply with an additional City requirement.
- The proposed ordinance expands the enforcement responsibilities of the Office of Labor Standards and Enforcement (OLSE) and the Office of Economic and Workforce Development (OEWD). It is unknown how many new complaints for noncompliance would fall under the jurisdiction of OLSE and OEWD, nor how much additional penalties would be assessed. Therefore, the potential increased costs and revenues to the City cannot be estimated at this time.

Recommendation

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

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance and shall require two readings at separate meetings of the Board of Supervisors.

The City's Administrative Code requires certain contractors that have contracts with the City, including public works contracts, to pay employees the highest general prevailing rate of wages for similar work in private employment. These requirements are enforced by the City's Office of Labor Standards Enforcement (OLSE).

BACKGROUND

The Board of Supervisors annually sets prevailing wage rates for employees of businesses which have been awarded particular types of City contracts. Table 1 below identifies the (a) specific Administrative Code Sections, (b) the dates each Administrative Code Section was last amended by the Board of Supervisors, and (c) the types of City contracts, leases, and/or operating agreements in which such businesses are required to pay prevailing wages.

Table 1: List of City Contractors Required to Pay Prevailing Wages

Administrative Code	Date of Most Recent Amendment	Type of Contract
Section 6.22 (E)	May 19, 2011	Public works or construction
Section 21C.2	February 2, 2012	Janitorial and window cleaning services
Section 21C.3	February 2, 2012	Public off-street parking lots, garages and vehicle storage facilities
Section 21C.4	February 2, 2012	Theatrical performances
Section 21C.5	February 2, 2012	Solid waste hauling services
Section 21C.6	February 2, 2012	Moving services
Section 21C.8	June 29, 2014	Trade show and special event work

In accordance with Administrative Code Sections 6.22(E) and (F), contractors and subcontractors performing construction improvements for the City, whether on City or leased property, are required to pay their workers the prevailing rate of wages.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance will amend the Administrative Code to (1) require inclusion of prevailing wage, apprenticeship, and local City hiring provisions related to the sale of City property for housing development[1] and/or in all leases where the City is the landlord; and (2) require inclusion of prevailing wage and apprenticeship requirements in all leases where the City is a tenant. The proposed ordinance would apply to all construction contracts when the City sells property for housing development or leases any property as a landlord or tenant, such that the applicable sales agreement and/or leases would be required to contain these additional Administrative Code provisions. OLSE and the Office of Economic and Workforce Development (OEWD) will be authorized to enforce these provisions.

[1] The proposed ordinance will apply to any residential or mixed-use project that includes the construction, expansion, or rehabilitation of three or more residential units.

FISCAL IMPACT

Potential Impact on Value of Properties for Sale by City

Under the proposed ordinance, the requirement to pay prevailing wages, hire apprentices, and impose additional local hiring requirements would be expanded to contractors and subcontractors performing construction work on property sold by the City for housing development. According to Ms. Claudia Gorham, Assistant Director of Real Estate, the local hiring and prevailing wage requirements for construction of such projects would likely increase the cost of development and therefore may decrease the value of City-owned properties sold for housing development. It is not known how much the new requirements may reduce sale prices for City-owned property designated for housing development.

Potential Impact on City Leases

City leases (both as landlord and as tenant) currently require that persons performing public work or tenant improvements pay prevailing wages; therefore, this provision should not materially impact the City's costs. However, under the proposed ordinance, local hiring requirements, which are not currently required, will be added to the City's leases (both as landlord and as tenant). According to Ms. Gorham, the local hiring requirements could decrease the number of prospective tenants for the City. Ms. Gorham asserts that the proposed ordinance may make it more difficult for the City to find tenants, especially non-profit and small locally-owned businesses, willing to comply with an additional City requirement.

Additional Enforcement Authorization

The proposed ordinance would expand the City's enforcement authority over (1) apprenticeship requirements, which are currently enforced by the California Department of Industrial Relations, Division of Labor Standards Enforcement (the State); and (2) wages paid by contractors on private property formerly owned by the City. According to Ms. Donna Levitt, Manager of OLSE, OLSE staff will need to receive training from the State on the apprenticeship requirements and how they are enforced on public works contracts. According to Mr. Jorge Saavedra, Compliance Officer at OLSE, expanding the City's enforcement authority over complaints related to noncompliance with apprenticeship requirements and underpayment of wages on previously-City-owned property will increase enforcement responsibilities of OLSE, but the amount and size of the newly covered contracts is unknown at this time.

Mr. Saavedra notes that costs associated with potential additional OLSE staff may be offset by additional penalties for noncompliance paid by contractors to the City. Since it is unknown how many new complaints for noncompliance would fall under the jurisdiction of OLSE, and how much additional penalties would be assessed, the potential increased costs and revenues to the City cannot be estimated at this time.

The proposed ordinance would also require OEWD to expand their enforcement of the City's local hiring provisions to cover the subject additional sales agreements and leases. Similar to OLSE, OEWD would have the authority to impose penalties for those contractors and subcontractors that fail to comply with the local hiring requirements. However, the actual number of complaints and projected penalties can also not be estimated at this time.

RECOMMENDATION

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