CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: February 26, 2020 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- **File 20-0089** is a resolution approving the City's Debt Policy, as recommended by the Controller's Office of Public Finance.
- **File 20-0088** is a resolution authorizing the issuance of up to $1,482,995,000 in refunding bonds to refund outstanding general obligation bonds. The refunding bonds would be sold in series, with the first series to be sold in 2020 in the amount of $255,000,000.
- **File 20-0038** is an ordinance appropriating up to $255 million in bond proceeds for refunding bonds, as authorized in File 20-0088.

Key Points

- File 20-0089 revises the City's Debt Policy to conform to Security and Exchange Commission rules regarding a municipality's disclosure policies to bond holders and potential investors.
- File 20-0088 authorizes the Office of Public Finance to issue refunding bonds of up to $1,482,995,000 to refund outstanding general obligation bonds. The refunding bonds could be issued in multiple series through June 30, 2025; the first series authorized by the proposed resolution would be $225,000,000 to be sold in the spring of 2020. Future issuances would be subject to Board of Supervisors approval.

Fiscal Impact

- Estimated debt service savings from the issuance of $255,000,000 in refunding bonds is $31.64 million.

Recommendations

- Amend Resolution 20-0089 to state: "The Controller or the Director of the Office of Public Finance, in consultation with the City Attorney, is hereby authorized and directed to take into account changes in federal or state law or regulatory guidance, ~~changes in best practices, or as otherwise recommended by the City's municipal advisors as are necessary or desirable~~; provided that such changes shall be filed with the Clerk of the Board within 30 days of any such change with a brief memorandum explaining the nature of the change."
- Amend File 20-0088, Section 4(c)(i) to state: "The City's current policy, based on GFOA recommended standards, is that the present value of the savings on debt service of each series of refunding bonds will be 3 percent or greater in total than the present value of the par of the bonds to be refunded. The discount rate to calculate present value should be either (a) true interest cost of the series of the refunding bonds, or (b) the discount rate that equates future debt service costs to the series of refunding bonds to their purchase price."
- Amend File 20-0088, Section 4(c)(ii) to add: "The Series of Bonds shall not have a true interest cost in excess of twelve percent (12%), <u>as is mandated by Title 5, Article 4.5, Section 53508(d) of the California Government Code</u>".
- Approve File 20-0088 as amended and File 20-0089 as amended.
- Approve File 20-0038.

MANDATE STATEMENT

File 20-0089: California Code Section 8855 requires that local governments certify 30 days prior to the sale of any bonds that it has adopted debt policies.

File 20-0088: City Charter Section 9.109 authorizes the Board of Supervisors to approve the refunding or general obligation bonds which are expected to result in net debt service savings.

File 20-0038: City Administrative Code section 3.15 requires Board of Supervisors approval for supplemental appropriation ordinances.

BACKGROUND

The City's Debt Policy

California Senate Bill (SB) 1029 provides for the issuer of state or local government debt, no later than 30 days prior to the issuance of debt, to certify that the issuer has adopted local debt polices and that the issuance is consistent with the debt policies. The Board of Supervisors previously approved the City's Debt Policy as recommended by the Controller's Office of Public Finance in January 2019 (File 18-1227).

DETAILS OF PROPOSED LEGISLATION

The Board of Supervisors is being asked to approve the following resolutions and ordinance:

- **File 20-0089:** The proposed resolution approves the City's Debt Policy, as recommended by the Controller's Office of Public Finance.
- **File 20-0088:** The proposed resolution authorizes the issuance of up to $1,482,995,000 in refunding bonds to refund outstanding general obligation bonds. The refunding bonds would be sold in series, with the first series to be sold in 2020 in the not-to-exceed amount of $255,000,000.
- **File 20-0038:** The proposed ordinance appropriates $255,000,000 of the refunding bond series to be sold in 2020.

File 20-0089: The proposed changes to the City's Debt Policy include:

Change to Negotiated Sales Provision

Currently, the Debt Policy authorizes the Director of Public Finance in consultation with the Controller to determine if new money and refunding bonds may be issued through a negotiated rather than a competitive sale under the following conditions: (1) deterioration in the City's credit rating or outlook; (2) market disruptions outside of the City's control, including new or proposed changes in taxation or sector risks; and (3) transactions consisting of variable rate debt, commercial paper, non-traditional debt structure, or public/private partnerships.

Under the proposed Debt Policy, the City's municipal advisor(s) would also be included in the consultation of when new or refunding bonds may be issued through a negotiated sale. In addition, "complex refunding" would be added as a transaction that may be issued through a negotiated sale.

Changes to Disclosure Provisions

Appendix I of the Debt Policy details the City's Municipal Finance Disclosure Policies and Procedures. The changes to Appendix I are required to conform with recent changes to Security and Exchange Commission (SEC) Rule 15c2-12, regarding a municipality's disclosure policies to bond holders and potential investors. The changes pertain primarily to the Disclosure Practice Working Group, and outline in specific detail the City's procedures and guidelines surrounding its obligation to disclose (1) certain listed events that could impact credit rating, credit quality, and default probability; (2) changes in financial and economic circumstances that affect repayment capacity; and (3) any changes in the rights of bond holders that could expose owners to increased risk and financial liability. Such events or changes will need to be disclosed electronically within 10 business days and made public to investors through a disclosure announcement that will be posted on the Municipal Securities Rulemaking Board Electronic Municipal Market Access system.

Other proposed changes to Appendix I include:

- Providing for the Office of Public Finance to develop additional disclosures for bonds issued by Community Facilities Districts or Infrastructure Financing Districts or Special Assessment Districts, and for Green Bonds, unrelated to federal and state security laws; and
- Provisions (1) for disclosure documents for issuers of conduit financing (such as multi-family revenue bonds) to indemnify the City against untrue statements in the disclosure documents; and (2) for offering statements to contain disclaimers that the information supplied by the City is limited.

File 20-0088: The proposed resolution authorizes the issuance of up to $1,482,995,000 in refunding bonds to refund outstanding general obligation bonds. The refunding bonds would be sold in series, with the first series to be sold in 2020 in the not-to-exceed amount of $255,000,000.

The proposed resolution approves actions and documents (including modifications) for the issuance of the refunding bonds, including:

- The form and terms of the refunding bonds; and execution, authentication, and registration of the refunding bonds;
- Appointment of depositories, verification agents, and other agents for the refunding bonds;
- The property tax levy for repayment of the refunding bonds;
- Procedures for the competitive or negotiated sales, including the forms of the Official Notice of Sale and Notice of Intention to Sale, and the selection of underwriters and the execution and delivery of bond purchase contracts;

- The execution, delivery, or distribution of continuing disclosure certificates, escrow agreements relating to the prior general obligation bonds, and Preliminary Official Statement and Official Statement for sale of refunding bonds in an amount not-to-exceed $255 million; and
- Payment of costs of issuance.

Terms of Refunding Bonds

As noted above, the proposed resolution would authorize the sale of the first series of refunding bonds in 2020 in an amount not-to-exceed $255 million. Future sales would be subject to Board of Supervisors approval. The terms for the sale of refunding bonds include:

- Debt service on the refunding bonds should result in present value savings of 3 percent of the outstanding principal amount on the prior general obligation bonds;
- True interest cost of the refunding bonds should not exceed 12 percent;[1]
- The maturity date of the refunding bonds is no later than the maturity date of the prior general obligation bonds;
- Costs of issuance of the refunding bonds does not exceed 2 percent of the principal amount of the bonds;
- The purchase price of the refunding bonds is not less than the par amount of the bonds;
- If the refunding bonds are sold through a negotiated sale, the underwriter's discount[2] cannot exceed 1 percent; and
- If the refunding bonds are sold using credit enhancements (such as bond insurance or letters of credit), the present value savings of using the credit enhancements must exceed the cost of the credit enhancements.

Under the proposed resolution, the Director of Public Finance determines the amount, date, and other provisions for the future sale of refunding bonds, up to the authorized amount of $1,482,995,000. As noted above, future sales of refunding bonds would be subject to Board of Supervisors approval.

In order to clarify the intent of the proposed resolution (File 20-0088):

- Section 4(c)(i), which provides for present value savings of 3 percent of the outstanding principal amount on the prior general obligation bonds, should be revised to state: "The City's current policy, based on GFOA recommended standards, is that the present value of the savings on debt service of each series of refunding bonds will be 3 percent or greater in total than the present value of the par of the bonds to be refunded. The discount rate to calculate present value should be either (a) true interest cost of the series

[1] "True interest cost" is the rate that sets the present value of principal and interest payments equal to the net proceeds from the bond issuance.

[2] The "underwriter's discount" is the difference between the price paid to the issuer of the bonds and the price at which the bonds are offered for sale to investors.

of the refunding bonds, or (b) the discount rate that equates future debt service costs to the series of refunding bonds to their purchase price."

- Section 4(c)(ii), which provides for the true interest cost of the refunding bonds, should be revised to add: "as is mandated by Title 5, Article 4.5, Section 53508(d) of the California Government Code."

Outstanding General Obligation Bonds

The City previously issued series of general obligation bonds totaling $3,125,290,000 between 2008 and 2018 which contain principal maturities that are currently outstanding and could be optionally redeemed before June 15, 2025, as authorized by File 20-0088, of which $1,842,405,000 is outstanding, as shown in the Attachment. The proposed ordinance would authorize refunding of $1,482,995,000 of the outstanding balance of $1,842,405,000.

FISCAL IMPACT

The Office of Public Finance has identified $233,095,000 in outstanding general obligation bonds to be refunded by a maximum par of $255,000,000 in refunding bonds to be sold in 2020, as shown in Exhibit 1 below.

Exhibit 1: Series 2020-R1 General Obligation Refunding Candidates

Prior Bonds	Original Par Amount	Refundable Par Amount
Refunding Series 2008-R1	$232,075,000	$3,480,000
Series 2010 E (Earthquake Safety and Emergency Response, 2010)	79,520,000	35,730,000
Series 2012A (Earthquake Safety and Emergency Response, 2010)	183,330,000	108,025,000
Series 2012B (Clean & Safe Neighborhood Parks, 2008)	73,355,000	42,425,000
Series 2012C (Road Repaving & Street Safety, 2011)	74,295,000	43,435,000
Total	**$642,575,000**	**$233,095,000**

Source: Office of Public Finance

File 20-0038 is an ordinance that would appropriate up to $255 million in bond proceeds, shown in Exhibit 2 below. According to the Office of Public Finance, total estimated bond proceeds are $238.0 million, including the estimated par amount of refunding bonds of $198.9 million and a premium paid by investors of $39.1 million above the par amount[3], as shown in Exhibit 2 below.

According to the Office of Public Finance, the estimated amount to be refunded in $236.8 million, which includes $233.1 million in principle balance (see Exhibit 1 above) and $3.7 million in interest accrual prior to the refunding of the bonds. Issuance costs of $1.2 million result in total bond uses of $238.0 million, as shown in Exhibit 2 below.

The variance between estimated bond sources and uses of $238.0 million and the appropriation amount of $255.0 million are to provide a reserve for market uncertainty and potential interest rate changes.

[3] A premium bond trades above the face value of the bond. Investors may pay a premium if the fixed interest rate is expected to be higher than the market interest rate over the term of the bond.

Exhibit 2: Estimated Source & Uses of 2020 Refunding Bonds

Sources	**Appropriation (File 20-0038)**	**Estimated Actuals**
Refunding Bond Proceeds		
Par Amount		$198,925,000
Premium		39,099,597
Total Sources	**$255,000,000**	**$238,024,597**
Uses		
Refunding Escrow	$253,219,913	$236,800,136
Delivery Date Expenses		
Cost of Issuance	951,337	905,805
Underwriter's Discount	828,750	318,656
Subtotal Delivery Date Expenses	1,780,087	1,224,416
Total Uses	**$255,000,000**	**$238,024,597**
Reserve for Market Uncertainty	$0	16,975,403
Not-to-Exceed Par Amount	**$255,000,000**	**$255,000,000**

Source: Office of Public Finance, Montague DeRose and Associates, LLC

Debt Service Savings

According to the Office of Public Finance, based on bond market conditions as of January 24, 2020, the City could issue Series 2020-R1 tax-exempt refunding bonds in the Spring of 2020 in order to realize savings. Based on current market conditions, the Office of Public Finance estimates that the Series 2020-R1 refunding bonds will be sold at an interest rate of 2.19 percent and result in $31.64 million in total debt service savings.

The proposed resolution requires refunding bonds to achieve 3 percent present value savings of the par value of the refunded bonds. The net present value of the debt service savings of the proposed refunding bonds is estimated to be $26.83 million, equal to 11.51 percent of the par value of the refunded bonds[4], well above the 3 percent minimum present value savings threshold.

Debt Issuance Costs

The proposed resolution requires the costs of issuance to not exceed 2 percent, and for a negotiated sale, the underwriter's discount to not exceed 1 percent of the principal amount of the refunding bonds. The combined cost of issuance and underwriters discount is estimated at $1,224,461, which is less than 1 percent of the principal amount, below the threshold in the proposed resolution. The Office of Public Finance proposes allowing for a negotiated sale of the refunding bonds because of the series to be refunded includes multiple separate series with different initial origination dates, and multiple interest rates payable over time on each of the refunded series.

3 According to the Office of Public Finance's calculations, the present value of debt service savings of $26,826,167 is equal to 11.15 percent of the refunded par amount of $233,095,000 (Exhibit 1 above).

Debt Limit

The City Charter imposes a limit on general obligation bond debt of 3 percent of the assessed value of property in the City.[5] As of January 1, 2020, the City has approximately $2.39 billion in aggregate principal amount of general obligation bonds outstanding, equal to approximately 0.85 percent of the net assessed value in FY 2019-20.[6]

POLICY CONSIDERATION

Board of Supervisors Approval of the City's Debt Policy

The proposed resolution approving changes to the Debt Policy (File 20-0089) authorizes the Controller or the Director of the Office of Public Finance, in consultation with the City Attorney, to make changes to the Debt Policy to take into account changes in law or best practices, or that are recommended by the City's financial advisors. These changes would be filed with the Clerk of the Board with a brief memorandum explaining the nature of the change. The Budget and Legislative Analyst recommends amending the language of File 20-0089 to retain the Board of Supervisors practice of approving all aspects of the City's Debt Policy over which the City has local discretion, including changes in best practices or recommendations of the City's financial advisors.

RECOMMENDATIONS

- Amend Resolution 20-0089 to state: "The Controller or the Director of the Office of Public Finance, in consultation with the City Attorney, is hereby authorized and directed to take into account changes in federal or state law or regulatory guidance, ~~changes in best practices, or as otherwise recommended by the City's municipal advisors as are necessary or desirable~~; provided that such changes shall be filed with the Clerk of the Board within 30 days of any such change with a brief memorandum explaining the nature of the change."
- Amend File 20-0088, Section 4(c)(i) to state: "The City's current policy, based on GFOA recommended standards, is that the present value of the savings on debt service of each series of refunding bonds will be 3 percent or greater in total than the present value of the par of the bonds to be refunded. The discount rate to calculate present value should be either (a) true interest cost of the series of the refunding bonds, or (b) the discount rate that equates future debt service costs to the series of refunding bonds to their purchase price."
- Amend File 20-0088, Section 4(c)(ii) to add: "The Series of Bonds shall not have a true interest cost in excess of twelve percent (12%), <u>as is mandated by Title 5, Article 4.5, Section 53508(d) of the California Government Code</u>".
- Approve File 20-0088 as amended and File 20-0089 as amended.
- Approve File 20-0038.

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[5] Net of non-reimbursable expenses and homeowner exemptions.

[6] According to Table A-26 in the Preliminary Official Statement, the total outstanding general obligation bond principal is $2,389,312,972. As noted in the Attachment to this report, of the $2,389,312,972 in outstanding general obligation bond debt, $1,842,405,000 could be refunded through June 30, 2025.

Attachment: Current General Obligation Refunding Candidates

Prior Bonds	Original Par Amount	Outstanding Par Amount	Refundable Par Amount
2020 GO Refunding Candidates *(Callable on or before June 15, 2020)*			
Refunding Series 2008-R1	$232,075,000	$3,480,000	$3,480,000
Series 2010E (Earthquake Safety & Emergency Response, 2010)	$79,520,000	$38,335,000	$35,730,000
Series 2012A (Earthquake Safety & Emergency Response, 2010)	$183,330,000	$114,990,000	$108,025,000
Series 2012B (Clean & Safe Neighborhood Parks, 2008)	$73,355,000	$45,285,000	$42,425,000
Series 2012C (Road Repaving & Street Safety, 2011)	$74,295,000	$46,360,000	$43,435,000
Subtotal 2020 GO Refunding Candidates	$642,575,000	$248,450,000	$233,095,000
2021 GO Refunding Candidates *(Callable on June 15, 2021 or December 15, 2021)*			
Series 2013A (Clean & Safe Neighborhood Parks, 2012)	$71,970,000	$38,780,000	$34,690,000
Series 2013B (Earthquake Safety & Emergency Response, 2010)	$31,020,000	$16,720,000	$14,955,000
Series 2013C (Road Repaving & Street Safety, 2011)	$129,560,000	$69,785,000	$62,425,000
Refunding Series 2011-R1	$339,475,000	$149,240,000	$94,125,000
Subtotal 2021 GO Refunding Candidates	$572,025,000	$274,525,000	$206,195,000
2022 GO Refunding Candidates *(Callable on June 15, 2022)*			
Series 2012D (SFGH & Trauma Center Earthquake Safety, 2008)	$251,100,000	$147,770,000	$121,115,000
Series 2014A (SFGH & Trauma Center Earthquake Safety, 2008)	$209,955,000	$154,035,000	$128,575,000
Series 2012E (Earthquake Safety & Emergency Response, 2010)	$38,265,000	$28,380,000	$23,260,000
Series 2014C (Earthquake Safety & Emergency Response, 2010)	$54,950,000	$40,095,000	$34,045,000
Series 2014D (Earthquake Safety & Emergency Response, 2014)	$100,670,000	$73,435,000	$62,355,000
Subtotal 2022 GO Refunding Candidates	$654,940,000	$443,715,000	$369,350,000
2023 GO Refunding Candidates *(Callable on June 15, 2023)*			
Series 2015B (Transportation & Road Improvement Bonds, 2014)	$67,005,000	$41,870,000	$33,740,000
Refunding Series 2015-R1	$293,910,000	$234,310,000	$164,190,000
Series 2016A (Clean & Safe Neighborhood Parks, 2008)	$8,695,000	$7,195,000	$5,735,000
Series 2016B (Clean & Safe Neighborhood Parks, 2012)	$43,220,000	$23,355,000	$18,620,000
Series 2016C (Earthquake Safety & Emergency Response, 2010)	$25,215,000	$21,435,000	$17,190,000
Series 2016D (Earthquake Safety & Emergency Response, 2014)	$109,595,000	$72,305,000	$58,000,000
Series 2016E (Road Repaving & Street Safety, 2011)	$44,145,000	$37,515,000	$30,095,000
Subtotal 2023 GO Refunding Candidates	$591,785,000	$437,985,000	$327,570,000
2024 GO Refunding Candidates *(Callable on June 15, 2024)*			
Series 2017A (Public Health & Safety, 2016)	$173,120,000	$116,925,000	$90,670,000
Series 2018E (Public Health & Safety, 2016)	$49,955,000	$36,370,000	$29,475,000
Series 2018A (Clean & Safe Neighborhood Parks, 2012)	$76,710,000	$44,855,000	$35,400,000
Series 2018B (Transportation & Road Improvement Bonds, 2014)	$174,445,000	$102,010,000	$80,505,000
Series 2018C (Earthquake Safety & Emergency Response, 2014)	$189,735,000	$137,570,000	$110,735,000
Subtotal 2024 GO Refunding Candidates	$663,965,000	$437,730,000	$346,785,000
Total GO Refunding Candidates Callable 2020 - 2024 [1]	$3,125,290,000	$1,842,405,000	$1,482,995,000

[1] Note that there are no GO Bonds callable 6/15/2025.

Source: Memorandum provided by the Office of Public Finance

Item 4 **File 20-0090**	**Department:** Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve San Francisco Municipal Transportation Agency's (SFMTA) contract for armed and unarmed security guard services with Universal Protection Service, LP, dba Allied Universal Security Services, for a term of three years, with three one-year options to extend, at a total amount over the six-year term not to exceed $59,028,401. The proposed resolution would also affirm SFMTA's determination that the contract is not a "project" under the California Environmental Quality Act (CEQA).

Key Points

- SFMTA utilizes contracted armed and unarmed security guards at SFMTA facilities. Most locations use unarmed security guards, but armed security guards are used for pass sale locations, the ballpark detail, fare collection, and vending machine collections. SFMTA estimates that approximately 204,000 hours of unarmed security and 29,000 hours of armed security would be needed annually. However, the unarmed service is expected to increase to approximately 215,000 hours to support the operations of the Central Subway.
- SFMTA's current agreement with Cypress Private Security for these services expires on March 31, 2020. SFMTA selected Allied Universal (which purchased Cypress Private Security) following a Request for Proposals (RFP) process. The proposed contract would be for an initial three-year term through April 2023, with three one-year options to extend at the discretion of the SFMTA Director.

Fiscal Impact

- The total contract not-to-exceed amount is $59,028,401 over the total six-year term, including the initial three-year term and the three one-year extension options. Sufficient funding for the first two years of the contract is included in the Department's proposed FY 2020-22 two-year budgets.

Recommendations

- Amend the proposed resolution to clarify that the contract not-to-exceed amount is $28,119,281 for the initial three-year term, with a total not to exceed $59,028,401 if the three one-year options to extend are exercised.
- Approve the proposed resolution, as amended.

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

City Charter Section 10.104.15 states that the City may contract for positions if, on an annual basis, such positions are determined by the Controller and approved by the Board of Supervisors to be less expensive than City employees. The San Francisco Municipal Transportation Agency (SFMTA) utilizes contracted armed and unarmed security guards at SMTA facilities. SFMTA's current agreement with Cypress Private Security for these services expires on March 31, 2020.

In October 2018, the SFMTA Board of Directors approved the issuance of a Request for Proposals (RFP) to select a new security service provider. In December 2018, SFMTA received four proposals, and a selection panel scored them as shown in Table 1 below.[1]

Table 1: Proposers and Scores from RFP

Proposer	Score
Cypress Private Security	114.75
Allied Universal	111.43
National Security Industries & Services	82.94
American Guard Services	60.23

Cypress Private Security, the existing security provider, was deemed the highest scoring responsive and responsible proposer. In June 2019, as negotiations were in progress, Cypress notified SFMTA that Allied Universal was purchasing all of Cypress's assets and that Cypress employees would become Allied Universal employees. In December 2019, the SFMTA Board approved a contract with Allied Universal.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a contract between SFMTA and Universal Protection Service, LP, dba Allied Universal Security Services, for a term of three years, from April 2020 to April 2023, with three one-year options to extend the term, at a total amount not to exceed $59,028,401. The proposed resolution allows the SFMTA Director to exercise each of the three contract extensions without further Board of Supervisors' approval.

[1] The members of the selection panel were the SFMTA Manager of the Transit Management Center, the SFMTA Manager of Revenue Operations and Collection, the San Francisco Police Department (SFPD) Lieutenant of the SFMTA Detail, and the SFPD Sergeant of the SFMTA K9 unit.

To comply with a 20 percent Local Business Enterprise requirement, the proposed contract allows for subcontracting with the following three firms: (1) Black Bear Security Services, Inc.; (2) Marina Security Services, Inc.; and (3) Treeline Security, Inc.

Under the proposed contract, Allied Universal would provide: (1) site management of SFMTA properties; (2) plan schedule, perform, and manage all security personnel deployments; (3) protection for SFMTA staff responsible for handling cash; (4) incident reports, annual reports, and daily activity logs for security staff; (5) supplying all required uniforms and equipment;[2] (6) proof of at least 24 hours of annual training for all security staff, who must have Security Guard Licenses issued by the State; and (7) payment of prevailing wages and employee retention for the prior contractor's employees. The proposed contract specifies staffing schedules, including shifts and posts, for security staff.

Most locations would use unarmed security guards, but armed security guards would be used for pass sale locations, the ballpark detail, fare collection, and vending machine collections. SFMTA estimates that approximately 204,000 hours of unarmed security and 29,000 hours of armed security would be needed annually. However, the unarmed service is expected to increase to approximately 215,000 hours to support the operations of the Central Subway. This increase of 9,048 hours is reflected below in the increase in Mobile Patrol hours between years 1 and 2 of the proposed contract. Total estimated annual hours by position are shown in Table 2 below.

Table 2: Estimated Annual Hours by Position

Position	Year 1	Year 2	Year 3	Option Year 1	Option Year 2	Option Year 3	Total
Unarmed Officer	126,860	126,860	126,860	126,860	126,860	126,860	761,160
Video Surveillance	30,836	30,836	30,836	30,836	30,836	30,836	185,016
Security Console	8,736	8,736	8,736	8,736	8,736	8,736	52,416
Mobile Patrol	29,536	38,584	41,600	41,600	41,600	41,600	234,520
Armed Officer	28,756	28,756	28,756	28,756	28,756	28,756	172,536
ADA Observer	4,368	4,368	4,368	4,368	4,368	4,368	26,208
Badging Clerk[3]	2,080	2,080	2,080	2,080	2,080	2,080	12,480
Armed Supervisor	2,080	2,080	2,080	2,080	2,080	2,080	12,480
Total	**233,252**	**242,300**	**245,316**	**245,316**	**245,316**	**245,316**	**1,456,816**

Source: Appendix B of Proposed Contract

According to Mr. Steven Lee, SFMTA Finance and Technology Division Senior Manager, Allied Universal is projected to provide approximately 187,076 hours of staffing in the final year of its current contract. As shown above, year 1 of the proposed contract would increase service levels by 46,176 hours or 24.7 percent relative to the current security staffing levels. According to Mr.

[2] Equipment includes flashlights, handcuffs, batons, whistles, semi-automatic pistols (armed staff only), chemical agents, body armor, vehicles, and cell phones.

[3] According to Ms. Kimberly Burrus, SFMTA Chief Security Officer, the Badging Clerk provides employee ID badges for every employee. Based on a manager's authorization, the Badging Clerk assigns the granted access to the employee's badge. The Badging Clerk also deactivates badges upon separation from the agency.

Lee, the additional needed hours were determined by an assessment of various SFMTA locations.[4]

The proposed resolution would also affirm SFMTA's determine that the contract is not a "project" under the California Environmental Quality Act (CEQA).

FISCAL IMPACT

The proposed contract would have an amount not to exceed $28,119,281 for the initial three-year term. If SFMTA exercises the three options to extend, the total not-to-exceed amount would be $59,028,401. As noted above, the proposed resolution allows SFMTA to exercise each contract extension without further Board of Supervisors' approval. The estimated annual cost by position is shown in Table 3 below.

Table 3: Estimated Annual Contract Expenditures by Position

Position	Year 1	Year 2	Year 3	Option Year 1	Option Year 2	Option Year 3	Total
Unarmed Officer	$4,485,688	$4,583,686	$4,708,417	$4,832,485	$4,956,717	$5,078,941	$28,645,934
Video Surveillance	1,131,274	1,154,941	1,185,105	1,215,108	1,245,151	1,274,981	7,206,560
Security Console	320,496	327,201	335,746	344,246	352,758	361,209	2,041,656
Mobile Patrol	1,083,582	1,445,876	1,598,793	1,639,269	1,679,799	1,720,042	9,167,360
Armed Officer	1,123,676	1,145,487	1,173,358	1,201,078	1,228,836	1,256,856	7,129,290
ADA Observer	148,651	152,047	156,364	160,658	164,957	169,148	951,826
Badging Clerk	83,211	84,782	86,790	88,788	90,789	92,821	527,181
Armed Supervisor	86,663	88,220	90,216	92,201	94,188	96,231	547,718
Labor Subtotal	*$8,463,241*	*$8,982,238*	*$9,334,789*	*$9,573,833*	*$9,813,194*	*$10,050,229*	*$56,217,525*
Contingency (5%)	423,162	449,112	466,739	478,692	490,660	502,511	2,810,876
Total	$8,886,403	$9,431,350	$9,801,528	$10,052,525	$10,303,854	$10,552,740	$59,028,400

Source: Appendix B of Proposed Contract

[4] The additional hours are as follows: 4,160 in Flynn Division, 2,080 in Muni Metro East South Gate, 12,480 in Subway Patrol, 2,080 in Subway Patrol Gap, 2,080 in Green Division, 4,160 in Potrero Division Lower, 5,824 in Presidio Division, 4,160 in Woods Division, 2,912 in 1301 Marin St. Islais Creek, 2,080 in Kirkland Division, and 4,160 in the Video Surveillance Program.

Sufficient funding for the first two years of the contract is included in SFMTA's proposed FY 2020-22 two-year budgets, pending SFMTA Board of Directors, Mayor's Office, and Board of Supervisors approval.[5]

According to Mr. Lee, the five percent contingency is necessary given the size and complexity of the system, the potential for the need to address unforeseeable emergencies, and to be able to adjust services, if necessary, over the term of the agreement.

The proposed resolution, as written, implies that the total not-to-exceed amount for the initial three-year term is $59,028,401. The Budget and Legislative Analyst recommends amending the resolution to clarify that the not-to-exceed amount for the initial three-year term is $28,119,281, with a total not to exceed $59,028,401 if the three one-year options to extend are exercised.

RECOMMENDATIONS

1. Amend the proposed resolution to clarify that the contract not-to-exceed amount is $28,119,281 for the initial three-year term, with a total not to exceed $59,028,401 if the three one-year options to extend are exercised.
2. Approve the proposed resolution, as amended.

[5] Under City Charter Section 8A.106, the SFMTA budget must be approved by the SFMTA Board of Directors and the Mayor, who then forwards the budget to the Board of Supervisors. The Board of Supervisors cannot change SFMTA'S proposed budgets but may reject them with a minimum of seven votes, however in doing so it must approve an interim budget sufficient for the Agency to fund all of its operations.

Item 7 **File 20-0005**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 1 to the Curbside Management Services contract between San Francisco International Airport (Airport) and FSP PPM Management, LLC (FSP PPM), exercising the one-year option to extend the contract through June 2021, and increasing the not-to-exceed amount of the contract by $10,428,565, from $19,522,294 to $29,950,859.

Key Points

- In 1999, the Airport established the Curbside Management Program to consolidate the management and monitoring of the Airport's ground transportation services and increase the utilization of ground transportation through improved customer service. In 2016, after conducting a Request for Proposals (RFP), the Airport selected FSP PPM to operate the Curbside Management Program. The Board of Supervisors approved a contract with FSP PPM, for a term of four years, from July 2016 through June 2020, and an amount not to exceed $19,522,294, with a one-year option to extend the term through June 2021.
- In June 2019, the Airport moved all Transportation Network Company (TNC) pickups to the fifth floor of the domestic parking garage to reduce congestion on terminal roadways. The Airport then added an additional TNC staging lot to address congestion along Millbrae Avenue. Due to these changes, extended hours of operations at TNC Lots 1 and 2, and taxi services at the Grand Hyatt Hotel, FSP PPM has increased its staffing at the Airport from approximately 64.4 full-time equivalent (FTE) employees to 96 FTE employees in FY 2020-21, an increase of 50 percent.
- According to the Airport, FSP PPM has met performance standards during the contract term, and the Airport wishes to exercise the one-year option to extend the contract. In December 2019, the Airport Commission approved Modification No. 1, extending the contract through June 2021 and increasing the not-to-exceed amount of the contract to $29,950,859.

Fiscal Impact

- Actual contract expenditures over the three-year period from FY 2016-17 through FY 2018-19 are $14,528,919. Projected expenditures in FY 2019-20 are $7,584,820 and in FY 2020-21 are $7,868,372, resulting actual and budgeted expenditures over five years of $29,982,111 (or $31,252 more than the not-to-exceed amount of $29,950,859). The increased spending in FY 2019-20 and FY 2020-21 is due to the increase in staffing from 64.4 positions to 96 positions, noted above.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

In 1999, San Francisco International Airport (Airport) established the Curbside Management Program to consolidate the management and monitoring of the Airport's ground transportation services and increase the utilization of ground transportation through improved customer service.

In 2016, the Airport conducted a Request for Proposals (RFP) to select a new contractor to operate the Curbside Management Program. FSP PPM Management, LLC (FSP PPM), which had been the existing contractor, was deemed the highest scoring responsive and responsible proposer and was awarded a contract. In July 2016, the Board of Supervisors retroactively approved a contract with FSP PPM for a term of four years, from July 2016 through June 2020, and an amount not to exceed $19,522,294, and a one-year option to extend through June 2021 (File 16-0741, Resolution 333-16).

In June 2019, the Airport moved all Transportation Network Company (TNC) pickups to the fifth floor of the domestic parking garage to reduce congestion on terminal roadways. The Airport then added an additional TNC staging lot to address congestion along Millbrae Avenue. These changes required FSP PPM to hire additional staff, which requires additional funding for the contract. In December 2019, the Airport Commission approved Modification No. 1 to the FSP PPM contract, exercising the one-year option to extend through June 2021, and increasing the not-to-exceed amount by $10,428,565, for a total not to exceed $29,950,859.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 1 to the Airport's Curbside Management Program contract with FSP PPM, exercising the one-year option to extend the contract through June 2021, and increasing the not-to-exceed amount by $10,428,565, for a total not to exceed $29,950,859.

The scope of work for the FSP PPM contract includes management of the curbside and staging lots used by commercial ground transportation operators, taxi dispatching, and taxi Smart A-Card management that enables revenue collection of taxi trip fees. FSP PPM also performs janitorial services for the ground transportation facilities.

The current FSP PPM contract budget includes funding for approximately 64.4 full-time equivalent (FTE) employees. The proposed Modification No. 1 budget increases total FTE positions to 96 in FY 2020-21, or an approximately 52 percent increase over the previous staffing levels. According to Mr. Daniel Pino, Airport Landside Operations, the additional positions are needed because of the new TNC Lot 3, extended hours of operations at TNC Lots 1 and 2, TNC operations at Levels 4 and 5 of the domestic parking garage, TNC pick up and drop off at the International Terminal, and taxi services at the Grand Hyatt hotel.

Under the contract, FSP PPM is evaluated annually on ten performance measures. According to Mr. Pino, FSP PPM has performed at the highest level through the contract.

FISCAL IMPACT

The proposed contract would increase the not-to-exceed amount of the contract by $10,428,565, for a total not to exceed $29,950,859. The additional $10,428,565 includes an increase of $2,560,193 to the FY 2019-20 not-to-exceed amount, increasing from $5,024,627 to $7,584,821, and a not-to-exceed amount of $7,868,372 for the FY 2020-21 option year. Annual expenditures are shown in Table 1 below.

Table 1: Annual Contract Expenditures

Year	Amount
FY 2016-17 (Actual)	$4,290,625
FY 2017-18 (Actual)	4,708,282
FY 2018-19 (Actual)	5,530,012
FY 2019-20 (Projected)	7,584,820
FY 2020-21 (Projected)	7,868,372
Total	**$29,982,111**

Note: Total actual and projected contract expenditures of $29,982,111 are $31,252 more than the not-to-exceed amount of $29,950,859. According to Mr. Pino, the Airport will work with the contractor to ensure that expenditures do not exceed the contract not-to-exceed amount.

The breakdown for the final two years of the contract budget is shown in Table 2 below. According to Ms. Dyanna Quizon, Airport Government Affairs Manager, the proposed Modification No. 1 provides sufficient authority to fully fund the contract through the end of its term in June 2021.

Table 2: Contract Budget FY 2019-20 and FY 2020-21

	FTE	FY 2019-20	FTE	FY 2020-21
Position				
General Manager	1.00	$141,659	1.00	$146,040
Assistant General Manager	1.00	58,220	1.00	118,770
Curbside Managers	3.00	299,461	3.00	299,869
Taxi/TNC Supervisors	9.00	772,386	8.00	688,307
SRV/Limo Supervisors	2.00	169,390	2.00	153,027
Taxi/TNC Dispatchers	57.00	4,622,718	74.00	5,366,819
SRV/Limo Lot Monitors	17.00	579,041	3.00	180,740
Administrative Assistants	3.00	222,721	3.00	189,232
Janitors	1.00	62,692	1.00	60,235
Labor Subtotal	94.00	$6,928,289	96.00	$7,203,039
Profit (6.7%)		464,195		482,604
Other Direct Costs		95,657		85,529
Administrative Fee		96,679		97,200
Total		**$7,584,820**		**$7,868,372**

Source: Airport

According to Mr. Pino, sufficient funding is available in the FY 2019-20 Airport Operating Budget.

RECOMMENDATION

Approve the proposed resolution.

Item 8 File 20-0082	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 2 to the license and services agreement between San Francisco International Airport (Airport) and Airport Research and Development Foundation (ARDF), extending the term for three years through March 12, 2023, reducing the cap of the Administrative Services Fee from $250,000 to $144,000 annually for the period of March 13, 2020 through March 12, 2023, for a total not to exceed $1,682,000 for the total term of March 13, 2015 through March 12, 2023, and providing for a two-year option to extend through March 12, 2025.

Key Points

- In 2014, the Airport began issuing permits to Transportation Network Companies (TNCs), such as Uber and Lyft. Airport staff developed an application-based commercial ground transportation (ABCT) system in-house, which can monitor TNC trips to the Airport and collect the appropriate fees. The ABCT system can be licensed to other airports that charge trip fees to TNCs.
- In March 2015, the Board of Supervisors approved a license and service agreement with Airport Research and Development Foundation (ARDF), in which the Airport would license the ABCT system to ARDF. ARDF monitors TNC trips and collects trip fees on behalf of the Airport, and the Airport pays ARDF an Administrative Services Fee of five percent of total trip fee revenues, capped at $250,000 per year.
- The contract had an initial two-year term, from March 13, 2015 through March 12, 2017, with three one-year options to extend through March 12, 2020. In June 2017, the Board of Supervisors retroactively approved Modification No. 1 to the contract, exercising all three one-year options to extend through March 12, 2020.

Fiscal Impact

- The Airport has paid $1,250,000 in Administrative Services Fees to ARDF for the period of March 13, 2015 through March 12, 2020. The proposed Modification No. 2 would cap the Administrative Services fee at $144,000 annually for the three-year extension term, for a total not to exceed $1,682,000 for the total eight-year term.
- In calendar year 2019, the Airport received $55,281,845 in TNC fees and fines. The Airport also received $291,704 in Service Development Fees from ARDF licensing out the ABCT system to other Airports. If annual revenues remain constant, the Airport would receive $166,288,647 in net revenues over the three-year extension period.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

In 2014, San Francisco International Airport (Airport) began issuing permits to Transportation Network Companies (TNCs), such as Uber and Lyft. Airport staff developed an application-based commercial ground transportation (ABCT) system in-house, which can monitor TNC trips to the Airport and collect the appropriate fees. The ABCT system is technically compatible with the TNCs that have permits to pick up and drop off Airport passengers.

The ABCT system defines a perimeter around the Airport using geographic coordinates. TNCs are required by the terms of their permits to operate at the Airport to send data to the Airport's ABCT system any time that one of their respective vehicles enters, leaves, picks up, or drops off passengers within the perimeter. The ABCT system stores this trip data for future auditing and passes this trip data to the Airport's financial system for invoicing. The ABCT system can be licensed to other airports that charge trip fees to TNCs.

In March 2015, the Board of Supervisors approved a license and services agreement between the Airport and Airport Research and Development Foundation (ARDF), in which the Airport would license the ABCT system to ARDF (File 15-0152).[1] The contract had an initial two-year term, from March 13, 2015 through March 12, 2017, with three one-year options to extend through March 12, 2020. In June 2017, the Board of Supervisors retroactively approved Modification No. 1 to the contract, exercising all three one-year options to extend through March 12, 2020, and capping the Administrative Services Fee paid by the Airport to ARDF at $250,000 annually in the extension period (File 17-0322).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 2 to the license and services agreement between the Airport and ARDF, extending the term of the contract by three years through March 12, 2023, and reducing the cap of the Administrative Services Fee to $144,000 annually, for a total not to exceed $1,682,000 over the eight-year term, and providing for a two-year option to extend through March 12, 2025. The two-year option to extend the agreement would be subject to Board of Supervisors approval.

[1] The contract was awarded to ARDF on a sole source basis. The Airport investigated companies that could serve as its licensee and determined that a not-for-profit trade organization representing the interests of the Airport industry was the only option because it could use the ABCT system to provide services to other airports at reasonable rates. Of the not-for-profit trade organizations representing the interests of the airport industry, the Airport determined that ARDF was the only such organization with the technical expertise and clearinghouse capabilities to adequately provide the desired services.

Under the license and services agreement, ARDF monitors TNC trips and collects trip fees on behalf of the Airport. The Airport pays ARDF an Administrative Services Fee of five percent of total trip fee revenues.[2] Modification No. 1, approved by the Board of Supervisors in June 2017, capped the Administrative Services Fee at $250,000 annually. The Airport has paid a total of $1,250,000 in Administrative Services Fees for the period of March 13, 2015 through March 12, 2020. The proposed Modification No. 2 would further reduce the cap of the Administrative Services Fee to $144,000 annually. According to Mr. Seth Morgan, Airport Transportation Planner, the reason for the reduced cap is that the bulk of the work developing the ABCT system is complete.

Under the license and services agreement, the ABCT system remains the exclusive property of the City. ARDF may enter into service agreements with other airports to implement and operate the ABCT system, including (1) collecting Administrative Services Fees from participating airports; and (2) paying to the Airport the Service Development Fee, equal to 25 percent of total Administrative Services Fee revenues received from the participating airports. As of January 2020, 29 other airports have entered into agreements with ARDF to use the ABCT system.

FISCAL IMPACT

Under the proposed Modification No. 2, the Airport would pay ARDF an amount not to exceed $432,000 in Administrative Services Fees for the three-year period from March 13, 2020 through March 12, 2023, for a total not to exceed $1,682,000 for the eight-year period from March 13, 2015 through March 12, 2023.

The Airport would also receive TNC fee revenues collected through the ABCT system, as well as the Service Development Fee paid by ARDF, equal to 25 percent of total Administrative Services Fee revenues received from the participating Airports. In calendar year 2019, the Airport received $53,066,945 in TNC trip fees, as well as $2,214,900 in TNC fines, for total revenue of $55,281,845. The Airport also received $291,704 in Service Development Fees. Assuming that annual revenues remain constant over the three-year term of the contract extension,[3] the Airport would receive net revenues of $166,288,647, as shown in Table 1 below.

Table 1: Airport TNC Revenue Projections over Extension Period

	Amount Per Year	Three-Year Total
TNC Revenues	$55,281,845	$165,845,535
Service Development Fees	291,704	875,112
Administrative Services Fees (Paid to ARDF)	(144,000)	(432,000)
Total	**$55,429,549**	**$166,288,647**

[2] In the Airport's FY 2019-20 Rates and Charges, the TNC fee paid to the Airport is $4.50 per trip.

[3] The Airport's TNC revenues have increased significantly each year since permitting began in 2014: $1,630,232 in 2014 (four months), $12,829,921 in 2015, $23,201,719 in 2016, $32,391,707 in 2017, $46,882,120 in 2018, and $55,281,845 in 2019.

RECOMMENDATION

Approve the proposed resolution.

Item 10 File 20-0044	Department: Department of Homelessness and Supportive Housing Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would (1) approve a lease between the City and 33 Gough, LLC for property located at 33 Gough Street for a term of three years at a base rent of $1,259,300 per year; and (2) authorize the Director of Property to execute documents, make certain modifications and take certain actions in furtherance of the lease and the resolution to commence following Board approval. The property at 33 Gough Street includes a 49,000 square foot building and two adjacent parking lots.

Key Points

- The Navigation Center model was first piloted in March 2015 to provide a low-barrier, service-rich alternative to traditional homeless shelters, with the goal of transitioning people off the streets and into longer-term solutions. As of January 2020, seven Navigation Centers are active.
- The Board of Supervisors approved an ordinance in April 2019 (File 19-0047, Ordinance 61-19) to streamline the process for entering leases and contracts for homeless shelters in order to expedite the opening of homeless service sites, including Navigation Centers.
- The landlord is offering a short-term, three-year lease because the eventual use of the property at 33 Gough Street is to be redeveloped as an affordable and workforce housing residential development with a likely mix of market rate and affordable units. The landlord is unwilling to commit beyond three years because it expects it may be able to start construction as early as 2023.

Fiscal Impact

- The proposed lease provides an annual base rent of $1,259,300 (or $104,941.67 per month) for each year of the three-year proposed lease. There are no annual rent adjustments. Total leasing costs over the 3-year lease term for 33 Gough Street are estimated at $4,303,458.
- In addition to leasing costs, the proposed lease requires the City to pay for utilities, services, routine maintenance and repair and other operating expenses. These costs have been incorporated into the operating costs for the proposed SAFE Navigation Center at the site. The proposed annual operating costs for a 200-bed SAFE Navigation Center site will be $7,492,225.
- The Department of Homelessness and Supportive Housing plans to utilize the Educational Revenue Augmentation Fund (ERAF) monies that were appropriated in the Department of Homelessness and Supportive Housing's FY 2019-20 budget to fund the leasing costs for the entire 3-year lease, as well as two years of the operating costs of the SAFE Navigation Center. For the third year of the operating costs, the department plans to utilize the Homeless Housing and Assistance Program (HHAP) State grant and other state funding.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Section 23.27 requires Board of Supervisors approval of leases of one year or more in which the City is the tenant.

BACKGROUND

The Navigation Center model was first piloted in March 2015 to provide a low-barrier, service-rich alternative to traditional homeless shelters, with the goal of transitioning people off the streets and into longer-term solutions. As of January 2020, seven Navigation Centers are active.

The Board of Supervisors approved an ordinance in April 2019 (File 19-0047, Ordinance 61-19) to streamline the process for entering leases and contracts for homeless shelters in order to expedite the opening of homeless service sites, including Navigation Centers.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) approve a lease between the City and 33 Gough, LLC for property located at 33 Gough Street for a term of three years at a base rent of $1,259,300 per year; and (2) authorize the Director of Property to execute documents, make certain modifications and take certain actions in furtherance of the lease and the resolution to commence following Board approval. The property at 33 Gough Street includes a 49,000 square foot building and two adjacent parking lots.

According to Ms. Dylan Rose Schneider, Manager of Policy and Legislative Affairs at the Department of Homelessness and Supportive Housing, the site at 33 Gough Street will be used as a temporary approximately 200-bed Upper Market SAFE Navigation Center[1] serving unsheltered adults experiencing homelessness. Ms. Schneider states that the site will pilot enhanced shelter health services to meet the needs of acute residents staying at the shelter, as well as triage and stabilization services. The two adjacent parking lots at the site will be used for SAFE Navigation Center services and amenities including bathroom and shower facilities, shipping containers for client storage, a total of four parking spaces dedicated to the site to be used for accessible parking spaces and delivery parking spaces, an accessible pedestrian path and outdoor community space.

Table 1 below lists the terms of the proposed lease.

[1] SAFE Navigation Centers are low-threshold, high-service temporary shelter programs for adults experiencing homelessness in San Francisco.

Table 1. Proposed Lease Terms for 33 Gough Street

Landlord	33 Gough, LLC
Tenant	City
Area	49,000 square feet and two adjacent two parking lots
Rent (monthly and annual)	• $104,941.67 (monthly) • $1,259,300 (annually) • Rent abatement for the first month after the commencement date of lease
Rent adjustments	None
Payment Installations	• First Payment: Single payment, at a rate of $104,941.67 per month, prorated for the time period that spans the date that is between the Rent Commencement Date and June 30, 2020, payable on the Rent Commencement Date. • Second Payment: $1,259,300 due on or before August 1, 2020 (for the period July 1, 2020 – June 30, 2021). • Third Payment: $1,259,300 due on or before August 1, 2021 (for the period July 1, 2021 – June 30, 2022). • Final Payment (of initial term): Single payment at a rate of $104,941.67 per month, prorated for the time period that spans the date July 1, 2022 and the Expiration Date. • Holdover rent (with consent)[2]: $115,435.83 per month • Holdover rent (without consent): $209,884 per month
Term	36 months or 3 years. Estimated commencement date on or around March 1, 2020.
Options to extend	None
Services and Operations	City to pay real estate taxes and landlord's insurance, as well as all other operating expenses (e.g., utilities) of the building.
Tenant and Capital Improvements	City to perform and pay for capital and tenant improvements needed to occupy and operate the property for the intended purposes.
Landlord Improvements	City and landlord may mutually agree to have landlord perform certain remediation or other work at the direction of the Department of Public Works.
Additional Services	None expected to be contracted through landlord.

[2] If the landlord allows the City to holdover upon expiration of the term, for example six months after the three years, the City would pay holdover rent with consent. However, if the landlord informs the City that it cannot stay any longer once the three years is up and the City still holds over, there would be a penalty, and the City would pay the holdover rent without consent. According to Ms. Schneider, the department does not anticipate any issues on vacating the premises with appropriate notice.

Short-Term Lease

According to Mr. Josh Keene, Special Projects and Transactions Manager at the Real Estate Division, the landlord is offering a short-term, three-year lease because the eventual use of the property at 33 Gough Street is to be redeveloped as an affordable and workforce housing residential development with a likely mix of market rate and affordable units. The landlord is unwilling to commit beyond three years because it expects it may be able to start construction as early as 2023. The property is owned by City College but the landlord has property control under a long-term lease agreement with City College. According to Mr. Keene, the City is not party to that agreement, nor is City College party to this proposed lease. Mr. Keene states that the potential future housing development on the property is currently in pre-development (which includes design and entitlement planning and other pre-construction activities).

The building on the property will be delivered vacant to the City upon the commencement date of the proposed lease, and no later than one month after the commencement date, the parking areas will be delivered vacant.

Capital and Tenant Improvements

Under the proposed lease, the City will perform and pay for capital and tenant improvements needed to occupy and operate the property for the intended purposes as a Navigation Center site. According to Ms. Schneider, the project design for capital and tenant improvements is currently in the early conceptual planning stages and has not been defined. Consequently, costs for improvements have not been identified.

According to Ms. Schneider, it is anticipated that the proposed Upper Market SAFE Navigation Center at 33 Gough Street would be operational by late Fall 2020, allowing for over two years of the lease to be utilized for services.

FISCAL IMPACT

The proposed lease provides an annual base rent of $1,259,300 (or $104,941.67 per month) for each year of the three-year proposed lease. There are no annual rent adjustments. Rent abatement of $104,941.67 for the first month will occur after the proposed lease's commencement date[3]. Table 2 below summarizes the leasing costs of the three-year term of the proposed lease. Total leasing costs over the 3-year lease term for 33 Gough Street are estimated at $4,303,458.

[3] According to Mr. Keene, this was a concession the City negotiated given that the City will have capital/tenant improvements to perform before it can occupy the premises.

Table 2. Total Leasing Costs Under Proposed Lease for 33 Gough Street

Year	Base Rent (Per Square Feet)	Square Feet	Total Rent Payments	Taxes and Insurance[4]	Total Leasing Costs
1[5]	$25.70	49,000	$1,154,358	$200,000	$1,354,358
2	25.70	49,000	1,259,300	210,000	1,469,300
3	25.70	49,000	1,259,300	220,500	1,479,800
Total			**$3,672,958**	**$630,500**	**$4,303,458**

According to Mr. Keene, there are no known similar facilities available in the area with a comparable predevelopment timeline. Mr. Keene states that the fair market rental rate for general office use in SOMA West is currently approximately $65 per square foot per year. The negotiated base rent of $25.70 per square foot per year of the proposed lease is at or below the fair market rental value estimate. In addition, the proposed base rent does not meet the independent appraisal requirement threshold of $45 per square foot per year as stipulated under Section 23.27 of the Administrative Code[6].

Proposed Operating Costs of SAFE Navigation Center

In addition to leasing costs, as noted above in Table 2, the proposed lease requires the City to pay for utilities, services, routine maintenance and repair and other operating expenses. These costs have been incorporated into the operating costs for the proposed SAFE Navigation Center at the site. According to Ms. Schneider, the proposed annual operating costs for a 200-bed SAFE Navigation Center site will be $7,492,225, as shown in Table 3 below[7].

Table 3. Proposed Annual Operating Costs for 200-Bed SAFE Navigation Center at 33 Gough Street

Operating Costs	Amount
Salaries and Benefits[8]	$4,268,430
Operating Expense[9]	672,200
Indirect Cost	741,095
Other Expenses[10]	1,810,500
Total Costs	**$7,492,225**

[4] This assumes 5 percent growth per year.
[5] Year 1 includes one month of rent abatement ($104,941.67 credit removed from Year 1 Total Leasing Costs).
[6] Per City Charter Section 23.27, the Director of Property shall determine the Market Rent of such lease based on a review of available and relevant data. If the Market Rent of the lease is more than $45 per square foot per year as base rent, the Director of Property shall obtain an appraisal for such Lease.
[7] The nonprofit operator has not been selected yet.
[8] This includes staffing costs for a Program Director, Site Manager, Program Assistant, Shift Supervisors, Client Support Coordinators, Janitorial Workers, Case Managers, Case Manager Supervisor, Program Data Manager, Food Services Coordinators, Activities Coordinator, and Intake and Resources Coordinator.
[9] This includes costs such as utilities, building maintenance supplies and repair, office supplies, garbage removal, cleaning/janitorial supplies, client food, among other costs.
[10] This includes subcontractor costs for security service, temporary staffing, street cleaning, laundry service, mental health clinician, meal costs, among other costs.

According to Ms. Schneider, the operating costs reflect additional staffing and additional intake hours as part of the site's pilot of enhanced shelter services.

Source of Funds

According to Ms. Schneider, the Department of Homelessness and Supportive Housing plans to utilize the Educational Revenue Augmentation Fund (ERAF) monies that were appropriated in the Department of Homelessness and Supportive Housing's FY 2019-20 budget to fund the leasing costs for the entire 3-year lease, as well as two years of the operating costs of the SAFE Navigation Center. For the third year of the operating costs, the department plans to utilize the Homeless Housing and Assistance Program (HHAP) State grant and other state funding.

RECOMMENDATION

Approve the proposed resolution.