CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: September 24, 2014 Budget and Finance Committee Meeting

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Item 5 File 14-0910	Department: Department of Child Support Services

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would exercise an option under the existing lease between the City as Tenant and the Conner Children Trust No. 2 as landlord for 33,998 square feet of space in the building located at 617 Mission Street/109 New Montgomery Street to continue to provide office space for the Department of Child Support Services (DCSS). The proposed resolution would (1) extend the lease for an additional five years from January 1, 2015 through December 31, 2019; and (2) increase the annual base rent from $905,320 ($26.63 per sq. ft.) to $1,453,415 ($42.75 per sq. ft.), an increase of $548,095, or 61 percent.

Key Points

- DCSS was established in 1999 when the California State Legislature passed the State Child Support Reform Act. As a result of this legislation, DCSS receives one hundred percent of its funding from the California Department of Child Support Services and is not supported by the City of San Francisco's General Fund.
- The City originally entered into a lease with Conner Children's Trust No. 2 in March 1995 to lease the current space at 617 Mission St./109 New Montgomery St. The lease has been extended three times, in 2002, 2007, and 2010.
- The proposed resolution would approve an extension to the lease for an additional five years through December 31, 2019 and increase the annual rent to $1,453,415 ($42.75 per sq. ft.).

Fiscal Impacts

- DCSS's annual rent for 617 Mission Street/109 New Montgomery Street under the proposed lease extension will increase by $548,095, or 61 percent, from $905,320 to $1,453,415.
- According to Mr. Charlie Dunn, Senior Real Property Officer at Real Estate Division, the proposed annual rent of $42.75 per square foot is still below fair market value, despite the 61 percent increase in the rent amount.
- The budget for DCSS is comprised entirely of funding from the California Department of Child Support Services and the increase in rent amount will not require funding from the San Francisco General Fund.
- The increased rent of $1,453,415 was previously approved by the Board of Supervisors in the DCSS FY 2014/15 budget.

Recommendation

Approve the proposed resolution.

MANDATE STATEMENT

San Francisco Charter Section 9.118 (b) states that any contracts or agreements entered into by a department, board or commission having a term in excess of ten years, or requiring anticipated expenditures by the City and County of ten million dollars, or the modification or amendments to such contract or agreement having an impact of more than $500,000 shall be subject to approval by the Board of Supervisors by resolution.

City Administrative Code Section 23.27 states that, except as otherwise provided by the Charter or Administrative Code, all leases on behalf of the City as tenant shall be subject to approval by the Board of Supervisors by resolution.

BACKGROUND

The San Francisco Department of Child Support Services (DCSS) works with parents and guardians to ensure that children and families receive court-ordered financial and medical support. Services provided by DCSS include: (1) establishing paternity; (2) locating absent parents; (3) requesting child support orders from the Superior Court; (4) requesting medical support orders from the Court; (5) enforcing child support orders; (5) modifying child support orders; and (6) enforcing spousal support orders in conjunction with child support.

DCSS was established in 1999 when the California State Legislature passed the State Child Support Reform Act. That legislation created the California Department of Child Support Services and moved administration of child support programs from local District Attorney's offices to newly created local child support agencies. Additionally, that legislation moved responsibility for determining program expenditures and budgets from the counties to the State. As a result of these changes, DCSS receives one hundred percent of its funding from the California Department of Child Support Services.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would exercise an option under the existing lease between the City as tenant and the Conner Children Trust No. 2 as landlord for 33,998 square feet of space in the building located at 617 Mission Street/109 New Montgomery Street to continue to provide office space for DCSS. The proposed resolution would (1) extend the lease for an additional five years from January 1, 2015 through December 31, 2019; and (2) increase the annual base rent from $905,320 ($26.63 per sq. ft.) to $1,453,415 ($42.75 per sq. ft.), an increase of $548,095, or 61 percent.

The City originally entered into a lease with Conner Children's Trust No. 2 in March 1995 to lease the current space at 617 Mission St./109 New Montgomery St. for Child Support Services, which was under the jurisdiction of the District Attorney's Office at that time. The 33,998 square foot space included use of a portion of the ground floor, the entire second, third, and fourth floors, and basement storage. Annual base rent for the lease was $509,970 ($15 per sq. ft.) with a term of seven years, expiring on August 31, 2002. The lease agreement contained one option to extend the lease for an additional term of five years.

In 2002, the Board of Supervisors approved Resolution 112-02 which exercised the option to extend the lease through July 31, 2007 and provided for one additional option to extend the lease for five years through July 31, 2012. Annual base rent during this period was adjusted from the original amount of $509,970 based on the Consumer Price Index (CPI). In 2007, the Board of Supervisors approved Resolution 438-07 which exercised the additional option extending the lease term through July 31, 2012. Annual base rent during the option term was $902,640 ($26.55 per sq. ft.) from August 1, 2007 to January 31, 2010, and increased to $952,968 ($28.03 per sq. ft.) from February 1, 2010 to the end of the lease term of July, 31 2012.

In 2010, the Board of Supervisors approved Resolution 506-10 which amended the lease to: (1) reduce the annual base rent to $905,320 ($26.63 per sq. ft.); (2) extend the lease through December 31, 2014; (3) provide one option to extend the lease for an additional five years through December 31, 2019; and (4) should the lease option be exercised, increase the rent to 95 percent of market rate for comparable space.

FISCAL IMPACT

DCSS's annual rent for 617 Mission Street/109 New Montgomery Street under the proposed lease extension will increase by $548,095 or 61 percent, from $905,320 to $1,453,415. The rent per square foot will increase from $26.63 per square foot per year to $42.75 per square foot per year. The rent will be fixed over the five year lease extension.

Despite the 61 percent increase in the rent amount, according to Mr. Charlie Dunn, Senior Real Property Officer at Real Estate Division, the proposed annual rent of $42.75 per square foot is less than the annual rent per square foot for four comparable sites located near 617 Mission Street/ 109 New Montgomery Street, which ranged from $54 to $61[1]. According to Mr. Dunn, the proposed 61 percent rent increase would still be below fair market value.

According to Ms. Karen Roye, Director of DCSS, DCSS's current location at 617 Mission St./109 New Montgomery St. is advantageous for the Department's program operations, because it is neutral in respect to gang territory and provides a safe atmosphere for clients. Additionally, the ground floor entrance contains infrastructure that is well suited to provide security for this population. According to Mr. Dunn, these factors limit the potential options to move DCSS to alternative sites.

As stated previously, the budget for the DCSS is comprised entirely of funding from the California Department of Child Support Services. According to Ms. Roye, the California

[1] The Real Estate Division compared the following four properties from May 2013 through December 2013: 405 Howard Street; 560 Mission Street; 140 New Montgomery Street; and 501 2nd Street. According to the commercial real estate firm, CBRE, Inc., the average asking rate per square foot for commercial property in the financial district from April 2014 through June 2014 was from $61.17 per square foot to $63.55 per square foot.

Department of Child Support Services has provided funding for the 61 percent increase in rent through the budget allocation for Fiscal Year 2014/15.

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 14-0911**	**Department:** San Francisco Municipal Transit Agency

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would (1) approve an amendment to the San Francisco Municipal Transit Agency's (SFMTA) Operating Budget for FY 2014-15 and FY 2015-16, and (2) approve an amendment to the SFMTA Fare Table to provide free Muni service by providing free Clipper cards to 19 to 22 year old students enrolled in the San Francisco Unified School District's (SFUSD) Special Education Services Program in FY 2014-15 and FY 2015-16.

Key Points

- Free Muni for Youth was implemented by low and moderate income San Francisco residents ages 5 to 17 in March 2013. The original program was a 16-month pilot through June 2014. The SFMTA Board of Directors voted to extend the program for an additional two years through June 2016 and to include 18 year olds as of November 1, 2014. The estimated annual cost of this program is $4,300,000.
- SFUSD currently reimburses SFMTA for the cost of providing free Muni service by providing free Clipper cards to 19 to 22 year old students enrolled in Special Education Services Program. On August 19, 2014, the SFMTA Board of Directors adopted Resolution No. 14-133, authorizing Free Muni for Youth for 19-22 year old students enrolled in SFUSD's Special Education Services Program.
- Although the proposed free Muni service by providing free Clipper cards for 19 to 22 year old students enrolled in SFUSD's Special Education Services Program is designated for low and moderate income youth, the proposed resolution does not specify this income level. Therefore, the proposed resolution should be amended to state that the proposed free Muni service by providing free Clipper cards for 19 to 22 year old students enrolled in SFUSD's Special Education Services Program is designated for low and moderate income youth.

Fiscal Impact

According to Ms. Diana Hammons, Senior Manager at SFMTA, providing free Muni service by providing free Clipper cards to 19 to 22 year old students enrolled in SFUSD's Special Education Services Program would result in estimated reduced revenues to SFMTA of $163,000 annually. Ms. Hammons states that such reduced revenues would be absorbed by the operating budget.

Recommendations

- Amend the proposed resolution to state that the proposed free Clipper cards for 19 to 22 year old students enrolled in SFUSD's Special Education Services Program is designated for low and moderate income youth.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT

Any proposed change in fares or route abandonments shall be submitted to the Board of Supervisors as part of the San Francisco Municipal Transit Agency's (SFMTA) budget or as a budget amendment under San Francisco City Charter Section 8A.106, and may be rejected at that time by a seven-elevenths vote of the Board of Supervisors on the budget or budget amendment.

BACKGROUND

Free Muni for Youth

On March 1, 2013, the San Francisco Municipal Transit Agency (SFMTA) launched Free Muni for Youth, a 16-month pilot program waiving Muni fares for low and moderate income youth residing in San Francisco between the ages of 5 and 17 to last through June 30, 2014. On April 15, 2014, the SFMTA Board of Directors approved extending this program for two more years and expanding it to include 18 year olds. Free Muni for Youth was included in SFMTA's Fiscal Year (FY) 2014-15 and FY 2015-16 budgets; extending the program to 18 year olds as of November 1, 2014.

According to Ms. Diana Hammons, Senior Manager at SFMTA, the estimated annual cost to SFMTA from lost Muni revenue and administrative costs due to Free Muni for Youth for low and moderate San Francisco residents ages 5 through 18 is approximately $4,300,000.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) approve an amendment to the SFMTA's Operating Budget for FY 2014-15 and FY 2015-16, and (2) approve an amendment to the SFMTA Fare Table to provide free Muni service by providing free Clipper cards to 19 to 22 year old low and moderate income students enrolled in the San Francisco Unified School District's (SFUSD) Special Education Services Program in FY 2014-15 and FY 2015-16.

Expanding Free Muni for Youth

SFUSD currently reimburses SFMTA for the cost of providing free Clipper cards to 18 to 22 year old students enrolled in Special Education Services Program. 18 year old students enrolled in SFUSD's Special Education Services Program will be eligible for the Free Muni for Youth Program when it is extended to all moderate and low income 18 year olds on November 1, 2014. According to the August 10, 2014 SFMTA staff report to the SFMTA Board of Directors, the cost to SFUSD of providing this service reduces the SFUSD's funding to provide other services to these students.

According to Ms. Hammons, approximately 200 students from SFUSD's Special Education Services Program would qualify for free Muni service by providing free Clipper cards based on income eligibility under the proposed program. On August 19, 2014, the SFMTA Board of Directors adopted Resolution No. 14-133, authorizing free Muni service by providing free Clipper cards for 19-22 year old students enrolled in SFUSD's Special Education Services

Program. According to the August 10, 2014 SFMTA staff report to the SFMTA Board of Directors, providing free Muni service by providing free Clipper cards to 19-22 year old students enrolled in SFUSD's Special Education Services Program supports the SFMTA Strategic Plan goals, which are:

- Goal 1: Create a safer transportation experience for everyone;
- Goal 2: Make transit, walking, bicycling, taxi, ridesharing and carsharing the most attractive and preferred means of travel;
- Goal 3: Improve the environment and quality of life in San Francisco;
- Goal 4: Create a workplace that delivers outstanding service;

The San Francisco Planning Department, determined that the proposed program and changes to SFMTA's schedule of fares is exempt from environmental review pursuant to California Public Resource Code Section 21080(b)(8) and California Environmental Quality Act guidelines.

Although according to the SFMTA, the proposed free Muni service by providing free Clipper cards for 19 to 22 year old students enrolled in SFUSD's Special Education Services Program is designated for low and moderate income youth, the proposed resolution does not specify this income level. Therefore, the proposed resolution should be amended to state that the proposed free Muni service by providing free Clipper cards for 19 to 22 year old students enrolled in SFUSD's Special Education Services Program is designated for low and moderate income youth.

FISCAL IMPACT

According to Ms. Hammons, providing free Muni service by providing free Clipper cards to 19 to 22 year old low and moderate income students enrolled in SFUSD's Special Education Services Program would result in estimated reduced revenues to SFMTA of $163,000 annually. Ms. Hammons states that such reduced revenues would be absorbed by the SFMTA's operating budget.

RECOMMENDATIONS

1. Amend the proposed resolution to state that the proposed free Muni service by providing free Clipper cards for 19 to 22 year old students enrolled in SFUSD's Special Education Services Program is designated for low and moderate income students.

2. Approve the proposed resolution, as amended.

Item 7 File 14-0955	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would increase the Wastewater Enterprise Commercial Paper authorization by a principal aggregate not-to-exceed amount of $200,000,000 from the existing authorized amount not to exceed $300,000,000 to the requested authorized amount not to exceed $500,000,000 to finance fiscal year 2014-15 capital projects including some projects in the Sewer System Improvement Program.

Key Points

- Master planning for the PUC Sewer System Improvement Program (SSIP) began in 2004 with the goal of bringing the City's aging sewer system to a state of good repair and ensuring continued regulatory compliance and system reliability.
- In August 2012, the PUC approved phase I of the SSIP for an amount of approximately $6.9 billion over the 20-year period from 2012 to 2032.
- In October 2006, the Board of Supervisors approved an ordinance (File 06-1298) that authorized the PUC to issue Wastewater Enterprise Commercial Paper in the aggregate principal amount not to exceed $150,000,000.
- In May 2012, the Board of Supervisors approved an ordinance (File 12-0354) that increased the PUC's authority by $150,000,000 from an aggregate principal not-to-exceed amount of $150,000,000 to an aggregate principal not-to-exceed amount of $300,000,000.

Fiscal Impact

- The proposed resolution would increase the Wastewater Enterprise Commercial Paper authorization by an amount not to exceed $200,000,000, which has associated bank fees, dealer fees, and interest payments that are estimated to be $1,285,000 and depending on when the PUC issues the commercial paper.
- Bank fees, dealer fees, and interest payments are not included in the $200,000,000 principal aggregate not-to-exceed amount and will be repaid with Wastewater Enterprise Revenue Bond proceeds to be issued in the spring of 2015.
- Approving the proposed resolution would not increase the PUC's debt service payments for Wastewater Enterprise Revenue Bonds.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Charter Section 8B.124 states that the Public Utilities Commission may issue revenue bonds, including notes, commercial paper, or other forms of indebtedness in order to reconstruct, replace, expand, repair or improve Public Utilities Commission water facilities or clean water facilities and that such debt issuances are subject to a two-thirds approval by the Board of Supervisors.

Background

Master planning for the PUC Sewer System Improvement Program (SSIP) began in 2004 with the goal of bringing the City's aging sewer system to a state of good repair and ensuring continued regulatory compliance and system reliability. In August 2012, the PUC approved phase I of the SSIP for an amount of approximately $6.9 billion over the 20-year period from 2012 to 2032.

The PUC will redeem any revenue bonds, including notes, commercial paper, or other forms of indebtedness used to finance SSIP projects from revenues collected from sewer service fees charged to San Francisco residents and businesses. As a technical matter, the PUC may issue commercial paper in advance of an anticipated revenue bond sale in order to provide a short-term funding source for projects under the SSIP.[1]

In October 2006, the Board of Supervisors approved an ordinance (File 06-1298) that authorized the PUC to issue Wastewater Enterprise Commercial Paper in the aggregate principal amount not to exceed $150,000,000. In May 2012, the Board of Supervisors approved an ordinance (File 12-0354) that increased the PUC's authority by $150,000,000 from an aggregate principal not-to-exceed amount of $150,000,000 to an aggregate principal not-to-exceed amount of $300,000,000.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would increase the PUC Wastewater Enterprise Commercial Paper authorization for projects in the Wastewater Enterprise, including the SSIP and non-SSIP projects, by $200,000,000 from the existing principal aggregate not-to-exceed amount of $300,000,000 to a principal aggregate not-to-exceed amount of $500,000,000.

According to Mr. Carlos Jacobo, PUC budget director, as of September 16, 2014, the PUC had expended, encumbered and allocated $297,146,264 against its existing $300,000,000 authority for Wastewater Enterprise Commercial Paper, leaving a balance of $2,853,736. The PUC is requesting the increased authorization of $200,000,000 in order to provide funding for projects in FY 2014-15, as shown in Table 1 below.

[1] Commercial paper is short term debt (no more than 270 days) that can be used to fund capital projects pending the sale of longer term revenue bonds. The revenue bond proceeds are used to repay the commercial paper.

Table 1: Summary of Fiscal Year 2014-15 Projects to Be Funded With Commercial Paper and Wastewater Enterprise Revenue Bonds

Sources of Funds	
Existing Commercial Paper Authority	$2,853,736
Requested Commercial Paper Authority	200,000,000
Repayment of Outstanding Commercial Paper with Revenue Bonds	51,788,264
Total Sources	**$254,642,000**
Uses of Funds	
Project Costs	
Biosolids/Digester Project Budget	$42,600,000
Collection System Renewal and Replacement	40,422,000
Treatment Plant Improvements-Southeast	42,420,000
Stormwater Management	37,300,000
Program-Wide Management	28,000,000
Treatment Plant Improvements	22,100,000
Collection System Improvements	16,500,000
Central Bayside System Improvements	14,000,000
Southeast Community Center	7,000,000
Urban Watershed Assessment Project	3,000,000
Collection System/Pump Stations	1,300,000
Total Uses	**$254,642,000**

In order to finance the fiscal year 2014-15 capital projects shown in Table 1 above, the PUC is planning to use the balance of previously authorized and available Wastewater Enterprise Commercial Paper, the requested $200,000,000 in additional Wastewater Enterprise Commercial Paper authority, and $51,788,264 in currently allocated Wastewater Enterprise Commercial Paper that will be repaid and made available by Wastewater Enterprise Revenue Bonds. In May 2014, the Board of Supervisors approved a resolution and ordinance (Files 14-0481 and 14-0483) that authorized the PUC to issue and sell Wastewater Enterprise Revenue Bonds in the not-to-exceed principal aggregate amount of $819,035,941. According to Mr. Jacobo, the PUC intends to issue Wastewater Enterprise Revenue Bonds in the spring of 2015 and will use those bond proceeds to convert short-term commercial paper debt into long-term revenue debt.

FISCAL IMPACT

The proposed resolution would increase the PUC's authorization to issue Wastewater Enterprise Commercial Paper by the principal aggregate amount not to exceed $200,000,000, from the existing authorized amount of not to exceed $300,000,000 to the requested authorized amount not to exceed $500,000,000. According to Mr. Jacobo, the commercial paper will be used to finance Fiscal Year 2014-15 SSIP and non-SSIP projects, as identified in

Table 1 above, pending the sale of Wastewater Enterprise Revenue Bonds in the spring of 2015, and will not increase the PUC's long-term debt authority or debt service costs.

Table 2 below shows the maximum amount of Wastewater Enterprise Commercial Paper revenues that the PUC could issue under the requested authorized amount not to exceed $200,000,000, including the associated bank fees, interest payments, and dealer fees.

Table 2: Summary of Principal and Annual Interest and Fees Costs[2]

Principal Amount Available for Projects	$200,000,000
Barclays Bank Fees *(0.375% on$100 Million Annually)*	375,000
State Street Bank Fees *(0.310% on $100 Million Annually)*	310,000
Dealer Fees *(0.05% Annually)*	100,000
Interest Payments *(0.25% Annually)*	500,000
Total Costs	**$201,285,000**

The principal aggregate not-to-exceed $200,000,000 amount included in the proposed resolution will be entirely used to finance capital projects and does not include the bank fees, dealer fees, or interest payments. According to Mr. Mike Brown, PUC Capital Finance, the bank fees, dealer fees, and interest payments will be made from proceeds from Wastewater Enterprise Revenue Bonds to be issued in the spring of 2015.

RECOMMENDATION

Approve the proposed resolution.

[2] The actual amount of fees will vary depending on when the PUC issues commercial paper

Item 8 File 14-0983	Department: Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would approve a new 10-year master lease between the City and 250 Kearny St, LLC, to provide up to 136 units of supportive housing for homeless veterans.

Key Points

- Under the Human Services Agency's (HSA) master lease program, HSA generally contracts with non-profit organizations to lease single room occupancy (SRO) hotels from private owners, provide property management, and offer support services to residents.
- The HSA is proposing to enter into a 10-year master lease with 250 Kearny Street, LLC for 136 SRO units to provide supportive housing for up to 136 chronically homeless veterans and other tenants.

Fiscal Impact

- The proposed master lease is for $1,942,080 in the first year, increasing by 2 percent per year for the 10-year term. Total first year costs are $2,612,960, including lease, utilities and property management costs. U.S. Department of Housing and Urban Development (HUD) Veterans Affairs Supportive Housing Program (VASH) and the federal McKinney-Vento Homeless Assistance Act will provide $1,752,120 (67 percent) and the City's General Fund will provide $860,840 (33 percent) of first year total costs of $2,612,960.
- The first year monthly rent per SRO unit is $1,190, which is $399 or 50.4 percent more than the rent of $791 per unit per month for the City's next highest master lease between DPH and the landlord for the LeNain Hotel at 730 Eddy Street. According to the Director of Real Estate, the City's previous master leases have initial commencement dates of several years ago, and therefore the proposed master lease for 250 Kearny Street cannot be compared to the previous master leases because the proposed master lease is being transacted in a different housing market. The Director of Real Estate states that residential rents over the past four years have increased at rate of approximately 10 percent per year. According to the Director of Real Estate, the proposed higher rent per unit per month for 250 Kearny Street is justified because the building is newly renovated with more amenities than other buildings.
- According to the Director of Real Estate, the proposed first-year rent of $1,190 per unit, or $1,192,080 annually, was based on several months of negotiations between the Real Estate Division and the landlord. According to the Director of Real Estate, fair market value for this property was difficult to evaluate because there were no transactions of comparable buildings of 50 units or more in the reporting period (fourth quarter of 2013), and there are no similar completely rehabilitated SRO hotels comparable to 250 Kearny Street that can provide comparable rental data. According to the Director of Real Estate, there was a verified counter offer for this property made by a legitimate party for a term longer than 10 years at a rate in excess of $1,400 per unit per month.

Policy Consideration

- The Board of Supervisors and the Board of Supervisors Budget and Legislative Analyst have not had sufficient time to review the proposed master lease. According to the Director of Real Estate, in order to secure HUD-VASH funding for the proposed master lease, the lease must be finalized by October 1, 2014, and therefore must be submitted to the Board of Supervisors for final approval no later than September 30, 2014.
- Although the Administrative Code states that leases in which the City is the tenant and rent exceeds $5,000 per month are subject to approval by the Board of Supervisors, the Administrative Code does not require that proposed terms for major leases be endorsed by the Board of Supervisors or that the final leases be submitted to the Board of Supervisors in a timely manner so that the Board of Supervisors and the Budget and Legislative Analyst can make a thorough review. In this instance, the landlord for 250 Kearny Street approached the City about a possible master lease within the past year and the Real Estate Division has worked toward a master lease beginning in early 2014. If the proposed terms of the master lease had been submitted to the Board of Supervisors at an earlier date, the Board could have endorsed the lease terms or might have requested changes to certain lease terms.

Recommendation

- The Budget and Legislative Analyst cannot recommend approval of the proposed master lease at this time because neither the Board of Supervisors nor the Board of Supervisors Budget and Legislative Analyst has been given sufficient time to thoroughly evaluate all of the lease terms. However, if the Board of Supervisors does not approve the proposed master lease, the City may lose up to 136 supportive housing units for homeless veterans and associated federal HUD-VASH voucher funding of $1,695,600 in the first year.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Administrative Code 23.27 states that any lease with a term of one year or longer or with rent of $5,000 or more per month and where the City is the tenant is subject to Board of Supervisors approval.

Background

The building located at 250 Kearny Street in San Francisco, known as the Stanford Hotel, is a private single room occupancy (SRO) hotel. The owner, 250 Kearny Street, LLC, completed a major renovation of the building at a cost of $7,000,000 according to Mr. John Updike, Director of Real Estate, to bring it into code compliance, resulting in 136 units with private baths and a common kitchen on the lower level.

Master Lease Program

The Human Services Agency (HSA) is proposing a new master lease between the City, as tenant, and 250 Kearny Street, LLC, as landlord, to provide supportive housing to homeless veterans. Under the HSA's master lease program, the HSA contracts with non-profit organizations to (a) lease SRO hotels from the private owners, (b) serve as property managers, and (c) provide supportive services, such as substance abuse programs, to adults.

Under the master lease program, HSA subsidizes the rents of the SRO hotel residents from various funding sources, including Care Not Cash[1] and federal grants. SRO hotel residents pay a portion of the rent, based on their income.

As of January 2013, HSA had contracts for 27 master lease SRO hotels comprising 2,494 units of housing.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new 10-year master lease between the City and 250 Kearny Street, LLC, to provide up to 136 units of supportive housing for veterans and subject to the provisions shown in Table 1 below.

[1] Care Not Cash, which was approved by San Francisco voters in November 2002, provides housing and services in lieu of cash grants to single adults in the County Adult Assistance Program (CAAP). 1,288 of the HSA's 2,494 SRO units are funded by the Care Not Cash program, which is funded by the City's General Fund.

Table 1: Provisions of the Proposed Master Lease Between the City and 250 Kearny St, LLC.

Term	10 Years
Options	Five-year option at the sole discretion of the City
Annual Rent	$1,942,080 in the first year increasing by two percent each year thereafter
Monthly Rent	$161,840 in the first year
Deposit	None
Utilities	Payable by the City, estimated at $170,000 per year

The proposed master lease will apply to the entire building of 136 units and common spaces and will be used to provide permanent supportive housing to (a) approximately 125 chronically homeless veterans that are eligible for rent vouchers through the U.S. Department of Housing and Urban Development Veterans Affairs Supportive Housing program (HUD-VASH), (b) approximately five veterans that are not eligible for HUD-VASH vouchers but who would be eligible for funding under the federal McKinney Vento Homeless Assistance Act, and (c) six tenants who moved out of the building during renovations and who will be returning under the rental terms that were in effect before renovations began.

Chronically Homeless Veterans

According to Ms. Megan Owens, Local Homeless Coordinating Board Policy Analyst, there are 575 households that are currently approved for HUD-VASH vouchers in San Francisco but only approximately 492 of those households, or 86 percent, are currently able to use the HUD-VASH vouchers with 83, or 14 percent, unable to find housing under the voucher program, as shown in Table 2 below.

Table 2: Number of Households Able to Use HUD-VASH Vouchers in San Francisco

Units Available Through City Master Leases	92
Households Able to Currently Use HUD-VASH Vouchers Through Private Landlords	400
Number of Households Unable to Use HUD-VASH Vouchers	83
Total	**575**

According to Ms. Owens, the City, in working with shelter and housing providers in San Francisco, has identified 497 chronically homeless veterans who may be eligible for HUD-VASH vouchers and who could move into the SRO units at 250 Kearny Street provided through the proposed master lease.

Property Manager

While the City would be a signatory under the proposed master lease, the City will contract with a non-profit organization for property management services. The HSA released a competitive Request for Proposals (RFP) on September 5, 2014 with a closure date of October 6, 2014. According to Mr. David Curto, Human Services Agency Contracts and Facilities Director, the HSA anticipates awarding the property management contract in November 2014.

Until the actual proposals are submitted, the HSA does not know which nonprofit organization will be selected to provide property management services or how much the property management contract will actually cost the City.

According to Mr. Updike, the HSA is requesting the proposed master lease agreement prior to awarding the property management contract in order to be compliant with federal regulations and in order to secure the HUD-VASH voucher authority.

According to Ms. Owens, the property management contract will be for an initial term of five years and for an estimated amount of $2.5 million. Therefore, this property management contract would not be subject to Board of Supervisors approval because it is less than the Charter threshold for Board of Supervisors approval for a contract of more than 10 years or $10 million or more.

Under the proposed master lease, the HSA would pay for property management services and the U.S. Veterans Administration will pay for the support services.

FISCAL IMPACT

The proposed resolution would authorize a new 10-year master lease agreement between the City and 250 Kearny Street, LLC for 136 SRO units at a cost to the City of $1,190 per unit and increasing by 2 percent each year.

Table 3 below shows the estimated annual rent required under the proposed master lease payable by the City to the landlord and including the estimated costs of utilities and the property management contract discussed above. Total costs to the City are $27,974,030 over the 10-year term of the proposed master lease.

Table 3: Estimated Costs Over the 10-Year Term of the Proposed Master Lease

Year	Units	Monthly Rent Estimate	Annual Rent Estimate (Increase by 2% per Year)	Annual Utilities	Property Management Contract	Annual Total
1	136	$1,190.00	$1,942,080	$190,400	$480,480	$2,612,960
2	136	1,213.80	1,980,921	190,400	480,480	2,651,801
3	136	1,238.08	2,020,540	190,400	480,480	2,691,420
4	136	1,262.84	2,060,950	190,400	480,480	2,731,830
5	136	1,288.09	2,102,169	190,400	480,480	2,773,049
6	136	1,313.86	2,144,213	190,400	480,480	2,815,093
7	136	1,340.13	2,187,097	190,400	480,480	2,857,977
8	136	1,366.94	2,230,839	190,400	480,480	2,901,719
9	136	1,394.27	2,275,456	190,400	480,480	2,946,336
10	136	1,422.16	2,320,965	190,400	480,480	2,991,845
10 Year	**Total**		**$21,265,230**	**$1,904,000**	**$4,804,800**	**$27,974,030**

Fair Market Value

The proposed resolution states that "The master lease rate for the Property has been determined by the Director of Property to be no greater than fair market rental value." According to Mr. Updike, the proposed first-year rent of $1,190 per unit, or $1,192,080 annually, was based on several months of negotiations between the Real Estate Division and the landlord. According to Mr. Updike, fair market value for this property is difficult to evaluate because there were no transactions of comparable buildings of 50 units or more in the reporting period (fourth quarter of 2013), and there are no similar completely rehabilitated SRO hotels comparable to 250 Kearny Street that can provide comparable rental data.

Human Services Agency Budgeted Expenditures

According to Mr. Curto, the HSA will pay for the master lease and related costs, estimated to be $2,612,960 in the first year as shown in Table 3 above, using HUD-VASH vouchers at approximately $1,695,600, Continuum of Care Vouchers[2] at $56,520 , and General Fund monies of approximately $860,840. Mr. Curto states that these funds were previously appropriated by the Board of Supervisors in HSA's FY 2014-15 budget.

Section 8.2 of the proposed master lease states that the City and the landlord share responsibility for routine and extraordinary maintenance, replacement or repair costs and that the City is responsible for the first $205,000 of such costs each year with the landlord is responsible for any costs exceeding $205,000. According to Mr. Curto, the HSA has not yet identified approximately $100,000 of funding for such costs and is working with the Mayor's office to identify funds in the current budget or other sources.

POLICY CONSIDERATION

The proposed master lease for 250 Kearny Street is more expensive than the City's other master leases

Under the proposed master lease for 250 Kearny Street, the rent is $1,190 per unit per month in the first year, which is $399 or 50.4 percent more than the rent of $791 per unit per month for the City's next highest cost master lease between DPH and the landlord of LeNain Hotel at 730 Eddy Street.[3] According to Mr. Updike, because the City's previous master leases have initial commencement dates of several years ago, the proposed master lease for 250 Kearny Street cannot be compared to the previous master leases because the proposed master lease is being transacted in a different housing market. Mr. Updike states that residential rents over the past four years have increased at a rate of approximately 10 percent per year, or nearly 40 percent between 2010 and 2014. According to Mr. Updike, there was a verified counter offer for this property made by a legitimate party for a term longer than 10 years at a rate in excess of $1,400 per unit per month.

[2] Continuum of Care Vouchers are issued under the federal McKinney-Vento Homeless Assistance Act.

[3] The Budget and Legislative Analyst obtained FY 2013-14 budgeted expenditures for all DPH and HSA master leases. The rents ranged from $122 to $791 per unit per month. Variations in rent are based on location of the property, type and condition of hotel, original dates of the master lease, and populations served.

According to Mr. Updike, the proposed higher rent per unit per month for 250 Kearny Street is justified because (1) the building is newly renovated with more amenities than other buildings, and (2) market rents for studio apartments in the location, which are the closest comparable properties, are $2,341 per month, or $1,151 more than the proposed rent of $1,190 per unit at the 250 Kearny Street building.

The City's process for master lease and other major lease agreements does not provide sufficient time for the Board of Supervisors and the Board of Supervisors' Budget and Legislative Analyst to review the agreement

According to Mr. Updike, in order to secure HUD-VASH funding for the proposed master lease, the lease must be finalized by October 1, 2014, and therefore must be submitted to the Board of Supervisors for final approval no later than September 30, 2014.

Although the Administrative Code states that leases in which the City is the tenant and rent exceeds $5,000 per month are subject to approval by the Board of Supervisors, the Administrative Code does not require that proposed terms for major leases be endorsed by the Board of Supervisors or that the final leases be submitted to the Board of Supervisors in a timely manner so that the Board of Supervisors and the Budget and Legislative Analyst can make a thorough review. In this instance, the landlord for 250 Kearny Street approached the City about a possible master lease within the past year and the Real Estate Division has worked toward a master lease beginning in early 2014. If the proposed terms of the master lease had been submitted to the Board of Supervisors at an earlier date, the Board could have endorsed the lease terms or might have requested changes to certain lease terms.

RECOMMENDATION

The Budget and Legislative Analyst cannot recommend approval of the proposed master lease at this time because neither the Board of Supervisors nor the Board of Supervisors Budget and Legislative Analyst has been given sufficient time to thoroughly evaluate all of the lease terms.. However, if the Board of Supervisors does not approve the proposed master lease, the City may lose up to 136 supportive housing units for homeless veterans and associated federal HUD-VASH voucher funding of $1,695,600 in the first year.

Item 9 File 14-0984	Department: San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objective

- Resolution approving the Seventh Amendment to the Armed and Unarmed Security Services Agreement between the City, through the SFMTA, and Cypress Security, LLC, to increase the amount of the contract by $3,000,000 from $32,900,000 to a total contract amount not to exceed $35,900,000, and to extend the term of the contract through March 31, 2015.

Key Points

- Cypress Security currently provides armed and unarmed security services under an existing agreement with SFMTA, from September 1, 2008 through September 30, 2014, for a total not-to-exceed $32,900,000, or an average of approximately $5,408,220 annually. This agreement has been previously amended six times.
- On July 16, 2014, the SFMTA received three competitive bids to provide future armed and unarmed security services from (a) Andrews International for $29,226,587, (b) Cypress Security Services for $30,537,266 and (c) ABC Security for $39,989,510.
- On September 2, 2014, the SFMTA Board of Directors approved the SFMTA entering into a new security contract with Andrews International, the lowest responsive bidder. However, on September 10, 2014, Andrews International withdrew its bid due to uncertainties regarding potential employee wages and benefits.
- The SFMTA has rejected all three recent bids and will undertake a new competitive Request for Proposal process to select a new security contractor. SFMTA estimates that a new contract for security services will be brought back to the Board of Supervisors in February, 2015.

Fiscal Impact

- Cypress Security Services currently provides 192,614 annual hours of service at hourly rates ranging from $26.66 to $40.95. The existing approximately six-year contract with Cypress Security has cost the SFMTA $32,900,000. The costs for this contract are paid through SFMTA's operating funds and included in SFMTA's FY 2014-15 budget.
- SFMTA estimates the proposed six-month extension will increase the contract by $3,000,000. Based on the actual expenditures paid in 2012 and 2013, and that SFMTA security costs typically increase during the last quarter of the year when more special events occur, the request for an additional not to exceed $3,000,000 to cover the requested six month extension of the Cypress Security contract appears reasonable.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT & BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118(b), any contracts or agreements entered into by a department having a term over ten years or requiring anticipated expenditures of $10,000,000, or the modification or amendment to such contracts or agreements having anticipated expenditures of more than $500,000, are subject to Board of Supervisors approval.

Background

Existing SFMTA Security Services Contract

On August 12, 2008, based on a competitive bidding process, the Board of Supervisors approved a new three-year contract between SFMTA and Cypress Security Services to provide armed and unarmed security services for a not-to-exceed $15,800,000 (Resolution No. 372-08). The initial contract term was from September 1, 2008 through August 31, 2011 and included one three-year option to extend.

To date, this SFMTA and Cypress Security Services contract has been amended six times to allow subcontracted services, increase salaries, change staffing and scope of work, clarify overtime billings and extend the term and increase the contract amount. Most notable, on August 2, 2011, the Board of Supervisors approved the third amendment, which authorized the SFMTA to exercise the option to extend the Cypress Security Services contract by an additional three years, or through August 31, 2014, for an additional $17,100,000 or total contract not-to-exceed $32,900,000 (Resolution No. 333-11). In addition, on July 21, 2014, the SFMTA approved the Sixth Amendment to the contract to extend the term by one month until September 30, 2014 to provide sufficient time for a new security contractor to commence operations.

Under the existing contract, Cypress Security Services is responsible for (a) armed guard services for SFMTA Revenue Operations personnel collecting fare box revenues and (b) unarmed guard services for SFMTA shops, facilities, offices, and property. Cypress Security currently operates 24 hours a day, seven days a week, with a total of 97 staff.

Recent Competitive Bids

On June 24, 2014, the SFMTA Board of Directors authorized the Director of Transportation to issue a new Invitation for Bids to provide armed and unarmed security services for three years for the SFMTA. On July 16, 2014, the SFMTA received three bids to provide armed and unarmed security services for three years with one three-year option, or a total of six years, as summarized in Table 1 below:

Table 1: Competitive Bids for SFMTA Security Services

Security Services Firms	Six Year Bids
Andrews International	$29,226,587
Cypress Security Services	30,537,266
ABC Security	39,989,510

On September 2, 2014, the SFMTA Board of Directors adopted a resolution (SFMTA Resolution No. 14-138) authorizing the Director of Transportation to execute a contract with Andrews International, the lowest responsive bidder, to provide armed and unarmed security services, for an initial three-year term with an option to extend the term for up to three additional years at SFMTA's sole discretion for a total not-to-exceed $29,226,587 over the six year period.

However, on September 10, 2014, Andrews International withdrew its bid. As a result, on September 10, 2014, the Budget and Finance Committee tabled a proposed resolution to approve a new security contract between the SFMTA and Andrews International (File 14-0871).

Therefore, the SFMTA has now rejected the three recent bids (see Table 1 above) to provide security services for the SFMTA. Mr. Ashish Patel, SFMTA Manager of Contracts and Procurement advises that SFMTA will undertake a new competitive Request for Proposal (RFP) process to select a new security contractor, which is estimated to take approximately four months to complete. Mr. Patel reports that a new six-year contract for security services would likely be brought back to the Board of Supervisors for approval in February of 2015.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Seventh Amendment to the Armed and Unarmed Security Services Agreement between the City, through the SFMTA, and Cypress Security to increase the amount of the contract by $3,000,000, from $32,900,000 to a total contract amount not to exceed $35,900,000, and to extend the term of the contract by six months or through March 31, 2015.

The existing contract with Cypress Security extends through September 30, 2014. This Seventh Amendment would extend the term by six months or through March 31, 2015 to provide the SFMTA with sufficient time to complete a new competitive RFP process for private security services. As noted above, SFMTA estimates bringing back a new contract for security services to the Board of Supervisors for approval in February of 2015, which would provide approximately one month of overlap to allow for transition for a potential new contractor.

According to Mr. Patel, Cypress Security will continue to provide security services 24 hours a day, seven days a week with its existing staff, under the management of the SFMTA Director of Security. In general, SFTMA advises that these private security guards work at the SFMTA facilities throughout the City, including transit stations, vehicle storage yards and service centers. These security guards are the first deterrent for inappropriate activity and guard against vandalism, by ensuring the safety of the public and SFMTA personnel and property.

The specific security services include:

(1) Armed Security Services: ongoing at various fare collections and pass sales locations, including Hyde and Beach, Market and Powell, Presidio and Portsmouth sites and payroll check delivery, subway collections, ballpark detail and subway patrol;

(2) Unarmed Security Services: ongoing mobile patrols, graffiti patrols, Muni Metro East (North and South Gates and video console), Security Operations Center, Revenue Control Center, Islais Creek, 1399 Marin, Flynn, Woods, Geneva, video surveillance units, Potrero, Presidio, Kirkland; and

(3) Two Americans with Disabilities Act (ADA) observers.[1]

FISCAL IMPACT

Cypress Security Services currently provides 192,614 annual hours of service for the SFMTA and hourly rates that range from $26.66 to $40.95 depending upon the type of security services provided, as summarized in Table 2 below.

Table 2: Comparison of Annual Hours and Hourly Rates of Contractor Security Services

Cypress Security	Armed Hours	Unarmed Hours	Miscellaneous Hours	Total Security Hours
Number of Hours	33,354	105,024	54,236	192,614
Hourly Rates	$30.34	$26.66	$28.13-$40.95	

As noted above, SFMTA's existing contract with Cypress Security Services is for a total not-to-exceed $32,900,000 over an approximate six-year term or an average of approximately $5,408,220 annually. Table 3 below shows the actual and projected expenditures totaling $32,899,999 to be paid by the SFMTA to Cypress Security through September 30, 2014. Mr. Patel advises that the costs for this Cypress Security contract are paid through SFMTA's operating funds and are included in SFMTA's FY 2014-15 budget.

[1] This ADA Observer program was established as a result of a court decree to ensure SFMTA's adherence to the ADA requirements.

Table 3: Actual Expenditures Under Existing Cypress Security Contract

Calendar Year	Actual Expenditures Paid
2008 (September 1-December 31)	$1,333,639
2009	4,915,074
2010	4,879,976
2011	5,503,644
2012	6,292,977
2013	6,159,567
2014 (January 1- September 30 projected-9 months)	3,815,122
Total	**$32,899,999**

SFMTA staff estimate that the proposed additional six months of security services with Cypress Security will cost up to $3,000,000. Including an additional $3,000,000 in the existing not-to-exceed $32,900,000 contract with Cypress Security will result in a total contract authorization not-to-exceed $35,900,000. According to SFMTA, as Cypress Security salaries and benefit costs have increased, the annual costs for the Cypress Security contract have generally increased over the contract term.

SFMTA security costs typically increase during the last quarter of the year when special events occur, such as the Hardly Strictly Bluegrass concert, Halloween, Thanksgiving, Christmas and New Year's Eve. Based on the actual expenditures paid in 2012 and 2013, as shown in Table 3 above, and that SFMTA's costs typically increase during the last quarter of the year, the request for an additional not to exceed $3,000,000 to cover the requested six month extension of the Cypress Security contract appears reasonable.

RECOMMENDATION

Approve the proposed resolution.