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: July 17, 2024 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a new lease at 598 Portola Drive between the City, as landlord, and Twin Peaks Petroleum, as tenant, for a term of 20 years, commencing upon approval of the Board of Supervisors and Mayor, with initial annual base rent of $156,600 and three percent annual increases thereafter, and a ten-year option to extend the lease.

Key Points

- A gasoline service station, with a convenience store and garage, has operated at 598 Portola Drive since 1972, when the Board of Supervisors originally approved a 15-year lease with Mobil Oil. Subsequent leases were also approved by the Board of Supervisors. In October 2020, the Board of Supervisors considered, but did not approve, a 25-year lease with the gas station owner (File 20-0965).
- The proposed lease has a 20-year initial term to allow the tenant to amortize the $1.5 million cost of installing new underground storage tanks, as required by State law. Under Section 24 of the proposed lease, Twin Peaks Petroleum will have to replace the underground storage tanks by the end of 2025, otherwise the lease automatically terminates. Under the existing lease, the tenant must remove the tanks and other improvements when the lease ends. The proposed lease adds a requirement that the tenant is responsible for remediating any hazardous materials following removal of the tanks at the end of the lease. The lease also allows the tenant to repurpose the site for alternative fuel sales.

Fiscal Impact

- The proposed lease would increase the annual rent paid by Twin Peaks Petroleum to the City by $28,758 in the initial year, from $127,842 to $156,600. The rent would then increase by three percent annually. Over the initial 20-year term of the lease, the City would receive approximately $4.2 million in base rent.

Policy Consideration

- The 598 Portola Drive site contains the only privately-operated gasoline station located on City-owned property. The lease of City property has continued for the past 52 years, or since 1972, without any competitive bidding.
- If the lease is terminated, according to the Director of Property, it would take approximately two to four years to find a new tenant and redevelop the site, leaving it vacant for that time. During that time, the City may have to fund security at the site.

Recommendation

- Approval of the proposed resolution is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten or more years, including options to renew, or having anticipated revenue to the City of $1,000,000 or more, is subject to Board of Supervisors approval.

Administrative Code Section 23.33 states that it is City policy that all leases of real property that are expected to produce more than $2,500 per month in revenue be awarded in accordance with competitive bidding procedures, unless the Board of Supervisors find such procedures are impractical or impossible.

BACKGROUND

The City originally acquired the property at 598 Portola Drive near Twin Peaks as part of the Laguna Honda site in the late 1800s. An approximately 15-acre portion of the Laguna Honda site was transferred to the Juvenile Probation Department in 1947 for development of the Youth Guidance Center, while the 598 Portola Drive property was retained by the Department of Public Health.

A gasoline service station, with a convenience store and garage, has operated at 598 Portola Drive since 1972, when the Board of Supervisors originally approved a 15-year lease with Mobil Oil (Resolution 466-72). In 1994, The Board of Supervisors approved a new 10-year lease with Twin Peaks Petroleum, Inc., the successor in interest to Mr. Michael Gharib, who had acquired the Mobil Oil franchise in 1985 (File 65-94-11).[1] The lease included a five-year option to extend, for a total term of 15 years through June 2009. In June 2004, the Board of Supervisors approved an amendment to the 1994 lease, increasing the option term to 10 years, and then exercised the 10-year extension through June 2014, to allow for the amortization of a State-mandated underground fuel tank replacement (File 04-0636). In October 2015, the Board of Supervisors approved a new five-year lease through October 2020, with a five-year option to extend through October 2025 (File 15-0895). In October 2020, the Board of Supervisors considered, but did not approve, a new 25-year lease with the gas station owner (File 20-0965). Other than the original 1972 lease, the leases were all awarded on a sole-source basis.

The Real Estate Division (RED) has negotiated a new 20-year lease with Twin Peaks Petroleum, with a ten-year option to extend, detailed below.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease at 598 Portola Drive between the City, as landlord, and Twin Peaks Petroleum, as tenant, for a term of 20 years, commencing upon approval of the Board of Supervisors and Mayor, with initial annual base rent of $156,600 and three percent annual increases thereafter, and a ten-year option to extend the lease. The proposed resolution would also (1) find the competitive bidding procedures required by Chapter

[1] Records could not be located to account for the seven-year period between expiration of the 1972 lease in 1987 and the authorization of a new lease in 1994.

23.33 of the Administrative Code are impractical, and (2) specifically approve the portion of the lease that would indemnify and hold the City harmless for claims and costs incurred by the tenant's use of the property as a gas station.

The proposed base rent is consistent with an independent appraisal that was completed in May 2024.[2] Of note, the proposed rent of $156,600 is less than the $200,200 lease that was not approved by the Board of Supervisors in October 2020. Since that time, commercial rents have declined citywide.

The key provisions of the existing lease and proposed lease are shown in Table 1 below.

Exhibit 1: Key Terms of Existing and Proposed Leases

	Existing Lease	Proposed New Lease
Lease Term	Ten years, from November 2015 through October 2025	20 years, following Board and Mayor approval
Premises	14,499 square feet	14,499 square feet
Options to Extend	No further options to extend	One 10-year option
Initial Annual Base Rent	$110,920 (currently $127,842 or $8.85 per square foot)	$156,600 (or $10.80 per square foot)
Rent Adjustment	3% annually	3% annually, Base Rent Reset if Option to Extend is Exercised
Tenant Improvement Allowance	None	None
Utilities and Services	Paid by tenant	Paid by tenant
Underground Storage Tanks	Tenant to remove tanks at lease end, as well as all other improvements	Tenant must replace tanks by December 31, 2025; Tenant to remove tanks at lease end as well as all other improvements; Tenant is responsible for hazardous material remediation following tank removal

Source: Existing and Proposed Leases

Underground Storage Tank Replacement

The proposed lease has a 20-year initial term to allow the tenant to amortize the cost of installing new underground storage tanks, as required by State law.[3] According to vendor quotes provided by the gas station owner to the City, the total cost to acquire and install the new tanks is approximately $1.5 million. Under Section 24 of the proposed lease, Twin Peaks Petroleum will have to replace the underground storage tanks by the end of 2025, otherwise the lease

[2] An appraisal was not required by Administrative Code Section 23.30 because the Real Estate Division determined that the market rate of the site was less than $45 per square foot. The initial base rent in the proposed lease is $10.80 per square foot.

[3] Senate Bill (SB) 445 (Stats. 2014, Ch. 547)

automatically terminates. The proposed lease adds a requirement that the tenant is responsible for remediating any hazardous materials following removal of the tanks at the end of the lease.

The prior lease was amended in 2004 to provide for the tenant to replace the underground fuel tank as required by the State and to extend the lease term to amortize the costs of the underground fuel storage tank replacement. According to Real Estate's discussions with the tenant, the underground fuel tank replacement schedule was extended by the State and now must be replaced by December 31, 2025 in accordance with State requirements.

The site and underground storage tanks are inspected by the San Francisco Department of Public Health, Hazardous Materials and Waste Program. The most recent inspection was on July 18, 2023. The inspection found "minor" violations of State law and required the gas station owner to electronically submit documentation to the State Environmental Reporting System.

The lease also allows the tenant to repurpose the site for alternative fuel sales.

FISCAL IMPACT

The proposed lease would increase the annual rent paid by Twin Peaks Petroleum to the City by $28,758 in the initial year, from $127,842 to $156,600. The rent would then increase by three percent annually. Over the initial 20-year term of the lease, the City would receive approximately $4.2 million in base rent.

POLICY CONSIDERATION

Proposed Sole-Source Lease

The 598 Portola Drive site contains the only privately-operated gasoline station located on City-owned property. In addition, this lease of City property as a gasoline station, convenience store, and service garage has continued for the past 52 years, or since 1972, without any competitive bidding since the original establishment of the station in 1972 under an initial 15-year lease. Furthermore, the proposed new 20-year lease with one ten-year extension option would be awarded without undergoing a competitive bidding process.

In accordance with Administrative Code Section 23.33, all leases of City real property resulting in more than $2,500 per month in revenue must be awarded in accordance with competitive bidding procedures, unless such bidding procedures are impractical or impossible. According to the proposed resolution, a competitive bidding process is impractical because the tenant owns all of the equipment at the site.

Use of City Property

As noted in the Budget and Legislative Analyst's 2017 *Performance Audit of the City's Real Estate Division,* the City does not have an explicit policy for the use of public property for private purposes. As noted in the audit report, "The City does have a policy, codified in Administrative Code Section 23.A, to prioritize the use of surplus City property for development of affordable housing. However, the City has missed opportunities to use City property to better serve the City's policy priorities." The audit report noted that "At the time of the lease expiration (for 598 Portola Drive) in June 2014, the City missed the opportunity to reconsider the current property's use as a gas station and pursue a mixed-use development that would better conform to the City's housing goals."

Risk of Vacant Space

If the lease is terminated, according to the Director of Property, it would take approximately two to four years to find a new tenant and redevelop the site, leaving it vacant for that time. If the property is sold, the City would have to subdivide the property to create a new parcel. Since the Board last considered leasing this property in 2020, the city's population and commercial rents have both declined, which could make finding a new tenant more difficult at this time.

As we discuss in our report in File 24-0704, the City is funding 24-hour security at a vacant City-owned property at 1515 South Van Ness. The City may also need to do so at this property if it is vacant.

Policy Decision

Because the proposed lease was not award as part of a competitive process and other vendors and uses have not been fully considered for the property, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

RECOMMENDATION

Approval of the proposed resolution is a policy matter for the Board of Supervisors.

Item 2 **File 24-0674**	**Department:** Office of Contract Administration

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a new contract between the Office of Contract Administration (OCA) and Rexel USA for electrical supplies for citywide use, for a three-year term starting August 1, 2024 through July 31, 2027 and a not-to-exceed amount of $26,200,000, with an option to extend the term for four additional years.

Key Points

- City departments procure electrical supplies from OCA's contracts as well as department-issued contracts and stand-alone purchase orders. The majority of expenditures for electrical supplies (71 percent) occur through OCA term contracts, and all contracts for citywide electrical supplies have expired as of June 30, 2024.
- In January 2024, OCA issued an invitation for bids for citywide electrical supplies. The Department determined that Rexel USA was the lowest responsive bidder for all three supply categories: Aggregates, 1, 2, and 3.
- The contract includes contract terms and conditions to hold the vendor accountable for product delivery timeframes; product availability, condition, and inspection; and reporting requirements.

Fiscal Impact

- The City has expended an average of about $3.9 million annually for electrical supplies via OCA term contracts, suggesting that the contract's not-to-exceed amount of $26.2 million is a reasonable estimate of the total expenditures over seven years (the initial three-year term plus optional four-year extension). The Public Utilities Commission and the Airport were the primary users of electrical supplies, representing 82 percent (or, $15.7 million) of the $19.3 million of total expenditures.
- The City may purchase electrical supplies from three supply categories: Aggregates 1, 2, and 3. For Aggregates 1 and 2, the discount percentage from the manufacturer's list price remains the same for the term of the contract. For Aggregate 3, unit prices are listed in the agreement, rather than the discount percentage. Per the agreement, in the event that a specific item is not identified under Aggregate 3, then Rexel USA may sell the item based on the discount percentage listed in Aggregates 1 and 2.

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

Rexel USA, Inc.

Rexel USA is a company that provides wholesale electrical, industrial, lighting tools, control and automation products, according to its website.

Selection Process

In January 2024, the Office of Contract Administration (OCA) issued an invitation for bids for citywide electrical supplies. The Department determined that Rexel USA was the lowest responsive bidder for all three bid categories: Aggregates, 1, 2, and 3. Aggregate 1 refers to electrical supplies manufactured by 12 electrical supplies manufacturers, offering a discount percentage from the manufacturer's list price.[1] Aggregate 2 refers to electrical supplies manufactured by seven manufacturers that the City uses regularly as well as a set of 296 manufacturers that the City uses the least, also offering a discount from the manufacturer's list price. Aggregate 3 refers to a total of 36 electrical supplies manufacturers offering a total of 258 individual products, such as batteries, electrical hardware, lamps, and wire. Two bidders, Rexel USA and Alameda Electrical Distributors, Inc., responded to OCA's invitation for bids; Rexel USA was selected based solely on price, according to OCA.

City departments procure electrical supplies from OCA's contracts as well as department-issued contracts and stand-alone purchase orders. The most frequently purchased electrical items include: electrical hardware, wire, and batteries. The OCA as-needed term contracts are used by City departments based on their business needs and funding sources, according to OCA. The majority of expenditures for electrical supplies (71 percent) occur through OCA term contracts, according to OCA. All contracts for citywide electrical supplies have expired as of June 30, 2024.[2]

[1] The twelve electrical supplies manufacturers in Aggregate 1 are: Abb Installation Products, Inc.; Acuity Brands Lighting; Cooper B-Line; Cooper Lighting; Encore Wire Corp.; Fluke Corp.; Hubbell Wiring Device – Kellems; Lutron Electronics Co.; Oldcastle Infrastructure, Inc.; Rab Lighting; Siemens Industry, Inc.; and Square D.

[2] The Office of Contract Administration has held citywide electrical supplies contracts with Alameda Electrical Distributors, Inc.; Buckles-Smith Electric Co.; and Maltby Electric Supply Co., Inc. The contracts with Alameda Electrical Distributors and Maltby Electric Supply Co. expired in April 2024, and the contract with Buckles-Smith Electric Co. expired on June 30, 2024.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new contract between OCA and Rexel USA for electrical supplies for citywide use, for a three-year term starting August 1, 2024 through July 31, 2027 and a not-to-exceed amount of $26,200,000, with an option to extend the term for four additional years.

Performance Monitoring

The contract includes terms and conditions to hold the vendor accountable for product delivery timeframes; product availability, condition, and inspection; and reporting requirements, as listed below.

- **Delivery Timeframe and Location**. The contractor must fulfill deliveries within five business days after an order is received, unless otherwise agreed to in writing by the parties. The contractor must make deliveries to various City departments in the quantities and frequencies individually requested.
- **Back-Ordered Items**. The contractor must notify and obtain approval from the ordering department prior to delivering any back-ordered items. The Department may reject back-ordered items at no additional cost, including if the back-ordered items are delayed more than five business days.
- **Condition of Products**. All goods offered must be new and previously unused and the latest model offered by the manufacturer, unless otherwise specified.
- **Inspection of Products**. All goods supplied will be subject to inspection and acceptance or rejection by the purchasing department.
- **Substitute Items**. If a contract item is discontinued or temporarily unavailable, it is the contractor's responsibility to find an acceptable equal substitute in time for the required delivery and at the agreement price.
- **Usage Report**. Annually no later than February 15, the contractor is required to provide a usage report for each department that includes an itemized list of all goods delivered, including the contractor's percentage discount from the manufacturer's list price, unit cost, and quantity.

Actual Spending

Over the last five fiscal years, City departments have spent a total of $19,278,733 on electrical supplies via OCA as-needed term contracts, as shown in Exhibit 1.[3] The Public Utilities Commission (PUC) and the Airport were the primary users of electrical supplies, representing 82 percent (or, $15.7 million) of the $19.3 million of total expenditures. Annually, the City is spending an average of $3,855,747 on electrical supplies via OCA as-needed term contracts.

[3] The total expenditure is based on three contracts for citywide electrical supplies; approximately $460,000 of the total was spent for the procurement of related services, such as electrical equipment testing, cleaning, maintenance and repair.

Exhibit 1: Total Expenditures for Electrical Supplies via OCA Term Contracts by City Department

Department	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
PUC	$14,208	$273,473	$1,919,918	$3,159,578	$3,479,757	$8,846,935
AIR	2,197,959	974,965	563,013	1,549,777	1,600,760	6,886,473
DPW	5,306	46,148	139,738	585,205	130,025	906,423
DT	102,463	41,360	89,180	104,199	264,776	601,978
MTA	9,517	61,205	106,342	180,008	188,919	545,991
PRT		193,638	78,845	25,217	63,897	361,597
ADM	9,642	24,246	9,177	5,472	257,062	305,599
LIB	27,115	60,618	42,294	26,931	125,851	282,810
DPH	10,082	79,583	47,589	35,630	100,356	273,240
REC	65,681	4,976	79,329	42,675	55,822	248,483
JUV			491	3,372	10,404	14,267
HSA	3,553					3,553
HOM		353			1,031	1,384
Total	**$2,445,526**	**$1,760,564**	**$3,075,916**	**$5,718,066**	**$6,278,661**	**$19,278,733**

Source: OCA

FISCAL IMPACT

The proposed agreement has a not-to-exceed amount of $26,200,000, based on the contract amounts advertised in the invitation to bid. The City has expended an average of about $3.9 million annually for electrical supplies via OCA as-needed term contracts, suggesting that the contract's not-to-exceed amount is a reasonable estimate of the total expenditures over seven years (the initial three-year term plus optional four-year extension).

For electrical supplies purchased within supply categories Aggregates 1 and 2, the discount percentage from the manufacturer's list price remains the same for the term of the contract. Discounts for Aggregate 1 manufacturers are shown in Exhibit 2. For the 303 Aggregate 2 manufacturers, a total of 296 manufacturers are offering discounts of 57 percent from the manufacturer's list price; the other seven manufacturers that the City uses regularly are providing a range of discounts shown in Exhibit 2 below. For Aggregate 3, unit prices are listed in the agreement, rather than the discount percentage, because the City regularly purchases these goods. Per the agreement, in the event that a specific item is not identified under Aggregate 3, then Rexel USA may sell the item based on the discount percentage listed in Aggregates 1 and 2.

Exhibit 2: Aggregate 1 and 2 Discounts

Aggregate 1 Manufacturer	**Discount Percentage off Manufacturer's List Price**
Abb Installation Products, Inc.	73%
Acuity Brands Lighting	68%
Cooper B-Line	65%
Cooper Lighting	55%
Encore Wire Corp.	51%
Fluke Corp.	8%
Hubbell Wiring Device - Kellems	40%
Lutron Electronics Co.	43%
Oldcastle Infrastructure Inc.	19%
Rab Lighting	23%
Siemens Industry, Inc.	10%
Square D	10%
Aggregate 2 Manufacturer Providing Discount Other than 57 Percent	**Discount Percentage off Manufacturer's List Price**
3M DKY5714	36%
Abb Industrial Solutions	10%
Anixter	85%
Cooper Power Systems, LLC	80%
Helicore, LLC	80%
Holophane – Acuity Brands	70%
MRC Global	85%

Source: Rexel USA Contract, Appendix B Calculation of Charges

For electrical supplies purchased through Aggregate 3, the contractor's prices are to be firm for the first year, per the agreement.[4] Thereafter, the City and contractor may agree to increase the contractor's prices once per year, consistent with inflation for electrical equipment.

Source of Funding

Individual departments utilize the OCA contract by issuing purchase orders based on their needs at any given time, and the funding for these payments is appropriated in departmental operating budgets. Based on historical spending, approximately 82 percent of the contract spending would be funded by the PUC and the Airport.

[4] Manufacturers available through Aggregate 3 include the following: 3M; Abb Industrial; Abb Installation; Advance/Philips; Anixter; Atkore International, Inc.; Bridgeport Fittings; Caddy/Erico; Cereske Electric Cable; Cooper B-Line; Cooper Bussmann, LLC; Current Lighting Solutions, LLC; Dialight Corporation; Eaton Corporation; EGS OZ Gedney; Electri-Flex Company; Encore Wire Corp.; Falcon Fine Wire; Ideal; Ideal Industries; Kris-Tech Wire; Ledtronics; Ledvance; Minerallac/Cully; Miscellaneous; Omni Cable Corp.; Panduit; Phoenix, Prime Conduit; Southwire; Spectrum Brands, Inc.; T&B; Unistruct/Atkore; United Pipe & Steel; United Pipe and Supply; and Wirecu.

RECOMMENDATION

Approve the proposed resolution.

Item 3 File 24-0698	Department: Controller

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would revise the Gross Receipts Tax rates for the accommodations sector should voters approve the Local Small Business Tax Cut Ordinance ballot measure in November of 2024. The revisions would result in a 12% tax cut for the accommodations sector in 2025 on taxable gross receipts between $2.5 million and $25 million, rather than the 11% cut included in the ballot measure for this tax bracket.
- If the ballot measure does not pass, the proposed ordinance would not take effect.

Key Points

- In 2023, Mayor Breed, Board President Peskin, and Supervisor Mandelman requested that the Offices of the Controller and the Office of the Treasurer & Tax Collector recommend tax code changes to address economic risks brought by Covid-19.
- On February 5, 2024, a project team presented recommendations to address tax revenue risks, diversify the tax base, clarify tax obligations, and lift burdens on small businesses.
- The project team was asked by the legislative sponsors to address concerns in the business community about the proposal and develop a ballot measure for the November ballot.
- According to City Economist Ted Egan, the intent of the legislative sponsors was to provide a 12% tax cut for the accommodations sector in 2025 on taxable gross receipts. However, due to a calculation error, the proposed tax cut came instead to 11% for the tax bracket comprising gross receipts of $2.5 million to $25 million.
- On May 6, 2024, a business coalition submitted to the Department of Elections a proposed November 2024 ballot measure based on the project team's recommendations. The measure thus included accommodations tax rates creating a 11% tax cut for 2025 gross receipts of $2.5 million to $25 million, rather than the 12% intended by the project team.

Fiscal Impact

- The proposed ordinance would reduce gross receipt tax revenues by approximately $0.4 million per year, based on 2022 filings data, according to the City Economist.
- The business tax changes in the ballot measure would continue to have a "slightly" revenue-positive impact over time, according to the Controller's Office. The Controller's Office will publish its determination of the revenue and economic impacts later this summer.

Recommendation

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

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

BACKGROUND

In 2023, Mayor Breed, Board President Peskin, and Supervisor Mandelman requested that the Offices of the Controller and the Office of the Treasurer & Tax Collector recommend tax code changes to address economic risks brought by Covid-19 and associated societal changes, such as the increase in remote work. In response to their requests, a team from the Office of the Controller, the Office of the Treasurer and Tax Collector, and the Office of Economic and Workforce Development led months of deliberation, input-gathering from stakeholders and negotiations.

On February 5, 2024, the project team presented its final recommendations, which sought to address tax revenue risks, diversify the tax base, clarify tax obligations, and lift burdens on small businesses. The project team was asked by the legislative sponsors to address concerns in the business community about the proposal, and develop a ballot measure for the November ballot. Among these recommendations was a reduction in Gross Receipts Tax rates for the accommodations sector (i.e., hotels). The project team proposed draft language for a ballot measure that would carry out its recommendations.

According to City Economist Ted Egan, the intent of the sponsors was to provide a 12% tax cut for the accommodations sector in 2025 on taxable gross receipts. However, due to a calculation error, the proposed tax cut came instead to 11% for the tax bracket comprising gross receipts of $2.5 million to $25 million.

On May 6, 2024, a coalition of businesses and business groups submitted to the Department of Elections a proposed November 2024 ballot measure titled the Local Small Business Tax Cut Ordinance. The ordinance was based on the recommendations of the City's project team, which were publicly announced the next day, and it mirrored the accommodations sector business tax rates in the draft language prepared by the project team. The ordinance thus included accommodations tax rates amounting to a 11% tax cut in 2025 for the tax bracket comprising gross receipts of $2.5 million to $25 million, rather than the 12% intended by the City's project team. The measure has since qualified for the November ballot.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would revise the Gross Receipts Tax rates for the accommodations sector taxable gross receipts between $2.5 million and $25 million should voters approve the Local Small Business Tax Cut Ordinance ballot measure in November of 2024. The revisions would result in a 12% tax cut for the accommodations sector in 2025 on taxable gross receipts between

$2.5 million and $25, rather than the 11% cut included in the ballot measure for this tax bracket. If the ballot measure does not pass, the proposed ordinance would not take effect.

Exhibit 1 below shows proposed Gross Receipts Tax rate changes for taxable gross receipts between $2.5 million and $25 million.

Exhibit 1: Proposed Tax Rate Changes for Accommodations, Gross Receipts Between $2.5M - $25M

	Currently Scheduled	Ballot Measure	Proposed Ordinance
2024	0.228%	n/a	n/a
2025	0.341%	0.253%	0.201%
2026	0.455%	0.253%	0.201%
2027	0.455%	0.264%	0.209%
2028	0.455%	0.271%	0.215%

Source: San Francisco Business and Tax Regulations Code, Section 953.3; Local Small Business Tax Cut Ordinance; Proposed Ordinance.

The proposed tax rates were calculated to represent a 12% tax cut for the accommodation sector in 2025 compared with 2024, mirroring the proposed tax cuts for taxable gross receipts up to $2.5 million. The proposed tax rate stays the same in 2026 and then increases slightly in 2027 and 2028. For 2028 and future years, the tax rate for this tax bracket would be 0.27%. The tax rate increases in 2027 and 2028 were calculated to equal 4 and 3 percent increases, respectively, over the prior year (i.e., over 2026 and 2027, respectively). Those same percentage increases apply to every business activity in those two years in the Local Small Business Tax Cut Ordinance ballot measure.

The proposed ordinance would not affect the tax rate changes in the ballot measure for any other tax brackets or sectors. For the accommodations sector in 2025, the ballot measure's tax proposed reductions come to 12% on taxable gross receipts up to $2.5 million and 41% on taxable gross receipts of more than $25 million.

FISCAL IMPACT

In total, the business tax changes proposed by the City's project team – and reflected in the November 2024 ballot measure – are projected to decrease General Fund revenues in 2025, 2026, and 2027, but to be revenue-positive after proposed increases take effect in 2027 and 2028, according to City Economist Ted Egan. Although the proposed ordinance would reduce gross receipt tax revenues by approximately $0.4 million per year, based on 2022 filings data, the business tax changes in the ballot measure would continue to have a "slightly" revenue-positive impact over time, according to a summary of the proposal from the Controller's Office.[1] The

[1] "Business Tax Reform: Final Proposal" May 8, 2024. Controller's Office

Controller's Office will publish its determination of the revenue and economic impacts later this summer.

RECOMMENDATION

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

Item 6 File 24-0582	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 4 to the customer and administrative services contract between San Francisco Public Utilities Commission (SFPUC) and Calpine Energy Solutions LLC (Calpine), increasing the not-to-exceed amount of the contract by $2,500,000, for a total not to exceed $34,975,340, and extending the contract term by six months through April 2025.

Key Points

- In 2015, SFPUC awarded an administrative services contract for CleanPowerSF to Noble Americas Energy Solutions LLC, which was since acquired by Calpine, for a term of three years and an amount not to exceed $5,600,000. The contract has since been amended three times, extending the term through October 2024 and increasing the not-to-exceed amount to $32,645,425. SFPUC has issued a Request for Proposals to award a new administrative services contract, which is anticipated to be in place by October 2024. In case a transition period is needed, SFPUC and Calpine have agreed to extend the contract by six months.
- The proposed Amendment No. 4 would not change the scope of services of the contract, which includes management of the CleanPowerSF customer accounts and billing and exchange of customer usage, billing, and payment data with PG&E. The transition from Calpine to a potential new provider involves replacing Calpine's billing data interface and constant data feeds with PG&E to a new provider and setting up the new provider and testing its systems. SFPUC anticipates that this transition would take four to six months, and Calpine would continue to provide services until the transition is complete.

Fiscal Impact

- The proposed resolution would increase the not-to-exceed amount of the Calpine contract to $34,975,340. Based on actual expenditures to date, SFPUC estimates that the projected expenditures through April 2025 would be approximately $33.9 million. To allow for a buffer over the projected contract expenditures, the Budget and Legislative Analyst recommends SFPUC reduce the contract not-to-exceed amount to $34,745,425.

Recommendations

- Amend the proposed resolution to reduce the not-to-exceed amount to $34,745,425.
- Approve the 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

In May 2016, the San Francisco Public Utilities Commission (SFPUC) launched the CleanPowerSF Community Choice Aggregation (CCA) program to provide cleaner and more sustainable electricity at comparable rates to those offered by Pacific Gas & Electric Company (PG&E). CleanPowerSF uses clean and renewable energy purchased from various sources, including SFPUC's Hetch Hetchy Power.

After conducting a competitive process, SFPUC awarded an administrative services contract for CleanPowerSF to Noble Americas Energy Solutions LLC (Noble) for a term of three years from November 2015 through October 2018 and an amount not to exceed $5,600,000, with two three-year options to extend through October 2024. In January 2017, the SFPUC Commission approved the assignment of the contract to Calpine Energy Solutions LLC (Calpine), which had acquired Noble. In July 2018, the Board of Supervisors approved Amendment No. 1 to the contract, exercising the first three-year option to extend through October 2021, and increasing the not-to-exceed amount by $13,169,225, for a total not to exceed $18,769,225 (File 18-0560). In August 2019, SFPUC executed Amendment No. 2 to the contract, allowing SFPUC to use ClickDimensions' email marketing and campaign automation services on a trial basis at no additional cost. In July 2021, the Board of Supervisors approved Amendment No. 3 to the contract, exercising the second three-year option to extend through October 2024, and increasing the not-to-exceed amount by $13,876,200, for a total not to exceed $32,645,425 (File 21-0713).

SFPUC issued a Request for Proposals for CleanPowerSF customer administrative services on June 13, 2024, with proposals due by July 24, 2024. SFPUC anticipates having a new contract in place as early as October 2024. In case a transition period is needed, SFPUC and Calpine have agreed to extend the contract by six months through April 2025.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 4 to the customer and administrative services contract between SFPUC and Calpine, increasing the not-to-exceed amount of the contract by $2,500,000, for a total not to exceed $34,975,340, and extending the contract term by six months through April 2025. The proposed not-to-exceed amount of the underlying Amendment No. 4 is $35,145,425, but the resolution has a different amount due to administrative error.

The proposed Amendment No. 4 would not change the scope of services of the contract, which includes management of the CleanPowerSF customer accounts and billing and exchange of customer usage, billing, and payment data with PG&E. Calpine previously provided call center staffing and certain customer service responsibilities, but these services were transitioned to SFPUC's Customer Service Bureau (CSB) in July 2021, with a reduction in the unit costs of the contract. Calpine continues to support SFPUC with customer service by providing a customer relationship manager system, responding to complex billing questions, and providing overflow service when call volumes exceed SFPUC's call center staff capacity. Calpine would continue to charge $0.99 per meter served per month for approximately 406,030 active meters.

According to Cheryl Taylor, CleanPowerSF Operations Manager, Calpine is audited annually through a System and Organization Controls audit to verify that is has an effective system of controls related to security, availability, processing integrity, confidentiality, and/or privacy. The most recent audit for the period of January through December 2023 had no findings. In addition, CleanPowerSF hires an auditor for Green-e Energy Certification, which includes annual spot checks for billing accuracy. Calpine reports having a billing accuracy rate of 99.98 percent, which exceeds the industry standard rate of 99 percent.

According to Michael Hyams, SFPUC Deputy Assistant General Manager of CleanPowerSF and Power Resources, the transition from Calpine to a potential new provider involves replacing Calpine's billing data interface and constant data feeds with PG&E to a new provider. The transition period would involve setting up the new provider and testing the new provider's systems. Calpine would continue to provide its services until the transition is complete. Deputy Assistant General Manager Hyams anticipates that the transition would take approximately four to six months if a new provider is selected through the RFP.

FISCAL IMPACT

The proposed Amendment No. 4 would increase the not-to-exceed amount of the Calpine contract by $2,500,000, for a total not to exceed $35,145,425. SFPUC anticipates total contract expenditures of approximately $31,491,230 through October 2024. Over the six-month extension term, SFPUC estimates that Calpine will serve approximately 406,030 meters at a monthly rate of $0.99 per meter, for a total monthly cost of $401,970. Actual and projected contract expenditures are shown in Exhibit 1 below.

Exhibit 1: Actual and Project Contract Expenditures

Expenditures	Amount
Actual Expenditures (through May 2024)	$29,210,065
Projected Expenditures (through October 2024)	2,281,164
Projected Expenditures (6-Month Extension Term)	2,411,819
Total Actual and Projected Expenditures	**$33,903,048**

Source: SFPUC

The proposed $35,145,425 not-to-exceed amount of the amendment is approximately $1.2 million greater than actual and projected expenditures of $33,903,048 through April 2025, the end date of the proposed extension. To allow for a buffer over this projected amount, the Budget and Legislative Analyst recommends PUC reduce the not to exceed amount of resolution, which is $34,975,430, by $229,915, for a revised not to exceed $34,745,425. This is a $400,000 decrease (or one month of service) relative to the $35,145,425 in the proposed amendment and still provides a two-month buffer beyond the requested six-month extension.

The contract is funded by CleanPowerSF operating funds.

RECOMMENDATIONS

1. Amend the resolution to reduce the not-to-exceed amount from $34,975,340 to $34,745,425.
2. Approve the resolution as amended.

Item 7 **File 24-0626**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a renewable power purchase agreement between San Francisco Public Utilities Commission (SFPUC) and IP Easley II, LLC (IP Easley) for a term of 10 years from January 2027 through December 2036, and an amount not to exceed $75,000,000.

Key Points

- In September 2022, SFPUC issued a Request for Offers (RFO) for renewable energy suppliers to meet the City's obligations and state regulatory requirements within five product types, including renewable product from existing or new Eligible Renewable Energy Resources (ERRs) with delivery start or commercial operation dates between June 2025 through December 2028. SFPUC received four offers from two proposers. SFPUC negotiated a power purchase agreement with Interact Power, through its subsidiary IP Easley, after the highest scoring proposer was no longer available.
- Interact Power's Easley Project is a 400-megawatt solar project that is under development in Riverside County and is expected to go into service between September 2026 and January 2027. Under the proposed agreement, CleanPowerSF would receive solar power from a 50-megawatt portion of the Easley Project for the 10-year term. This contract helps SFPUC to meet its energy requirements and lock in a stable price for 10 years.

Fiscal Impact

- The proposed power purchase agreement would have a total amount not to exceed $75,000,000 over the 10-year term. CleanPowerSF would be charged at a fixed rate per megawatt-hour (MWh) of energy delivered, which includes electricity and associated products such as renewable energy certificates. The contract also includes a negative price floor, which reduces CleanPowerSF's risk during moments when there is more supply than demand for power and the California Independent System Operator (CAISO) charges suppliers to generate power onto the state's grid.

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 May 2016, the San Francisco Public Utilities Commission (SFPUC) launched the CleanPowerSF Community Choice Aggregation (CCA) program to provide cleaner and more sustainable electricity at comparable rates to those offered by Pacific Gas & Electric Company (PG&E). CleanPowerSF uses clean and renewable energy purchased from various sources, including SFPUC's Hetch Hetchy Power.

In September 2022, CleanPowerSF issued a Request for Offers (RFO) for renewable energy suppliers to meet the City's obligations and state regulatory requirements. The RFO sought bids for five product types, including Product 1b: renewable products from existing or new Eligible Renewable Energy Resources (ERRs) with delivery start or commercial operation dates between June 1, 2025 through December 31, 2028. SFPUC received four offers from two proposers for Product 1(b). An evaluation panel reviewed the offers and scored them, as shown in Exhibit 1 below.[1] Bids were evaluated based on proposer experience (20 points), project viability (10 points), bid value and portfolio fit (59.5 points), generating resource location (10 points), diversity, equity, and & inclusion plan (0.5 points).

Exhibit 1: Product 1(b) Proposers and Scores from RFO

Proposer	Score (Out of 100 points)
NextEra (Grace Solar, 15-Year Option)	56.69
NextEra (Grace Solar, 20-Year Option)	53.19
Intersect Power (Easley I/II Bundled)	42.40
Intersect Power (Easley I/II Index Plus)	35.40

Source: SFPUC

NextEra was deemed to have the two highest scoring offers, but contracted with another party and was no longer available to CleanPowerSF. CleanPowerSF then negotiated a power purchase agreement with Intersect Power. The RFO did not establish a minimum score[2] to be considered for a contract, but it did establish minimum qualifications that a firm must have five years of experience developing renewable energy and storage projects and financial viability based on its credit rating and audited financial statements. Intersect Power was deemed to meet the

[1] The evaluation panel included 15 members: four SFPUC Utility Specialists, an SFPUC Capital Finance Analyst, two SFPUC Senior Administrative Analysts, an SFPUC Analyst Trainee, an SFPUC Manager III, an SFPUC Utility Analyst, an SFPUC Manager II, a Principal from Flynn Resource Consultants, a Project Manager from Sage, a Senior Project Manager from Sage, and an Environmental Manager from Sage.

[2] According to SFPUC, no proposal in any category from the RFO received a score higher than 69 points.

minimum qualifications. In May 2024, the SFPUC Commission approved the power purchase agreement.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a renewable power purchase agreement between SFPUC and IP Easley II, LLC, for term of 10 years from January 2027 through December 2036, and an amount not to exceed $75,000,000.[3]

Interact Power's Easley Project is a 400-megawatt solar project that is under development in Riverside County and is expected to go into service between September 2026 and January 2027. As of this writing, the project sponsor has obtained site control and completed interconnection studies and is in the process of obtaining development permits and financing. The project has been defined as an Environmental Leadership Development Project by the Governor, which provides for expedited judicial review of lawsuits filed under the California Environmental Quality Act.[4] SFPUC is not aware of any opposition to the project.

Under the proposed agreement, CleanPowerSF would receive solar power from a 50-megawatt portion of the Easley Project for the 10-year term. This contract helps SFPUC to meet its energy requirements and lock in a stable price for 10 years. The agreement is consistent with the form power purchase agreement developed approved by the Board of Supervisors in Ordinance No. 176-22, and contains project development, performance, and termination provisions designed to protect the City's interests and CleanPowerSF ratepayers from project non-performance.

The RFO included a Social Impact Partnership (SIP) community benefits component, which was not required but was included in the evaluation scores. IP Easley did not submit a SIP proposal and the proposed contract does not include an SIP component.

FISCAL IMPACT

The proposed power purchase agreement would have a total amount not to exceed $75,000,000 over the 10-year term. CleanPowerSF would be charged at a fixed rate per megawatt-hour (MWh) of energy delivered, which includes electricity and associated products such as renewable energy certificates. The contract also includes a negative price floor, which reduces CleanPowerSF's risk during moments when there is more supply than demand for power and the California Independent System Operator (CAISO) charges suppliers to generate power onto the state's grid. If the negative price goes below the floor, the additional cost would be borne by IP Easley. Projected expenditures by year are shown in Exhibit 2 below.

[3] The Board of Supervisors amended the Administrative Code 21.43 to provide SFPUC delegated authority to enter into power contracts up to $200 million per year (File 22-0652). According to SFPUC, although there is sufficient delegated authority to enter into this contract without Board of Supervisors approval, there is sufficient time to obtain Board approval for this agreement. SFPUC is reserving its use of delegated power contract authority to contracts that require shorter approval timelines.

[4] According to the Governor's Office of Planning and Research, Environmental Leadership Development Projects must be at least $100 million or provide affordable housing and meet "heightened" environmental and labor standards.

Exhibit 2: Projected Contract Expenditures by Year

Year	Projected Expenditures
Year 1 (2027)	$7,659,917
Year 2 (2028)	7,621,606
Year 3 (2029)	7,583,294
Year 4 (2030)	7,545,034
Year 5 (2031)	7,506,723
Year 6 (2032)	7,468,412
Year 7 (2033)	7,430,100
Year 8 (2034)	7,391,840
Year 9 (2035)	7,353,529
Year 10 (2036)	7,315,217
Total	**$74,875,672**

Source: SFPUC

Projected expenditures are expected to decline slightly each year due to gradual deterioration of the solar panels over time. The not-to-exceed amount of $75,000,000 also includes approximately $124,328 of contract capacity to purchase energy produced by the solar plant above 110% of typical generation levels at a discounted price. Expenditures are funded by CleanPowerSF revenues.

RECOMMENDATION

Approve the proposed resolution.

Item 8 **File 24-0570**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed hearing would release $2,536,607 from Budget and Finance Committee reserve for the San Francisco Public Utilities Commission (SFPUC) City Distribution Division headquarters replacement project underway at 2000 Marin Street.

Key Points

- The Public Utilities Commission's FY 2022-23 Water Enterprise capital budget appropriation totaled $122,471,597, including $2,536,607 in Water bond funding for predevelopment costs relating to a project to replace the Water Enterprise's City Distribution Division's headquarters at 1990 Newcomb Avenue with a new facility at 2000 Marin Street. Because of delays in procuring contractors for the 2000 Marin project, the timeline, total cost, and disposition of the Newcomb site was not known when the Board of Supervisors considered the appropriation in May 2022 (Files 22-0503 and 22-0502). At our recommendation, the Board of Supervisors amended the appropriation ordinance to place that funding on Budget & Finance Committee Reserve. Since that time, all prime contractors for the 2000 Marin project have been awarded.
- According to SFPUC capital planning documents, construction at 2000 Marin is expected to begin in September 2024 and be complete in 2029. Total project costs are $393.6 million, before debt service.
- The SFPUC does not plan to declare the Newcomb site as surplus property but has not determined a future use for the site. According to a letter from the SFPUC accompanying this request that is included in the legislative file, the site could be used for storage or a water recycling facility.

Fiscal Impact

- The proposed hearing would release $2,536,607 in previously appropriated Water Enterprise capital funding.

Recommendation

- Approve the requested release of reserves.

MANDATE STATEMENT

City Administrative Code Section 3.3(j) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval. The practice of the Board of Supervisors is for the Budget and Finance Committee to approve release of funds placed on reserve by the Committee, without further Board of Supervisors approval.

BACKGROUND

The Public Utilities Commission's FY 2022-23 Water Enterprise capital budget appropriation totaled $122,471,597, including $2,536,607 in Water bond funding for predevelopment costs relating to a project to replace the Water Enterprise's City Distribution Division's headquarters at 1990 Newcomb Avenue with a new facility at 2000 Marin Street. Because of delays in procuring contractors for the 2000 Marin project, the timeline, total cost, and disposition of the Newcomb site was not known when the Board of Supervisors considered the appropriation in May 2022 (Files 22-0503 and 22-0502). At our recommendation, the Board of Supervisors amended the appropriation ordinance to place that funding on Budget & Finance Committee Reserve. Since that time, all prime contractors for the 2000 Marin project have been awarded.

DETAILS OF PROPOSED LEGISLATION

The proposed hearing would release $2,536,607 from Budget and Finance Committee reserve for the San Francisco Public Utilities Commission (SFPUC) City Distribution Division headquarters replacement project underway at 2000 Marin Street.

Project Status

According to SFPUC capital planning documents, construction at 2000 Marin is expected to begin in September 2024 and be complete in 2029. Total project costs are $393.6 million, before debt service.

The SFPUC does not plan to declare the Newcomb site as surplus property but has not determined a future use for the site. According to a letter from the SFPUC accompanying this request that is included in the legislative file, the site could be used for storage or a water recycling facility.

FISCAL IMPACT

The proposed hearing would release $2,536,607 in previously appropriated Water Enterprise capital funding.

RECOMMENDATION

Approve the requested release of reserves.

Item 9 File 24-0627	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the 2023 Lease and Use Agreement between the San Francisco International Airport (Airport) and Air Premia, Inc. for flight operations through June 30, 2033. The proposed resolution would also affirm the Planning Department's determination under the California Environmental Quality Act (CEQA) and authorize the Airport Director to make further immaterial amendments to the lease.

Key Points

- In 2022, the San Francisco International Airport (Airport) negotiated a new lease and use agreement (2023 Lease) with signatory airlines that operate at the Airport. The 2023 Lease replaced the 2011 Lease, which was set to expire on June 30, 2023. In June 2023, the Board of Supervisors approved the 2023 Lease with 40 airlines (Files 23-0204, 23-0342).
- Air Premia, Inc., which began flight operations to Incheon (Seoul), South Korea on May 17, 2024 under a month-to-month operating permit, has now signed on. In May 2024, the Airport Commission approved the 2023 Lease with Air Premia, Inc.

Fiscal Impact

- Over the term of the lease, the Airport anticipates total revenue of approximately $37.9 million from Air Premia, Inc.
- The Airport is forecasting a larger increase in revenues in FY 2026-27 and FY 2028-29 because of the expected completion of Airport Capital Projects and related debt service payment increases, which are funded by rates passed through the proposed lease.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Section 2A.173 of the City's Administrative Code authorizes the Airport to negotiate and execute leases of Airport lands and space in Airport buildings without undergoing a competitive bid process, as long as the original term of the lease does not exceed 50 years.

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 2022, the San Francisco International Airport (Airport) negotiated a new lease and use agreement (2023 Lease) with signatory airlines that operate at the Airport. The 2023 Lease replaced the 2011 Lease, which was set to expire on June 30, 2023. In June 2023, the Board of Supervisors approved the 2023 Lease with 40 airlines (Files 23-0204, 23-0342). In January 2024, the Board of Supervisors approved the 2023 Lease with eight additional airlines (Files 23-1038, 24-0011). Air Premia, Inc., which began flight operations to Incheon (Seoul), South Korea on May 17, 2024 under a month-to-month operating permit, has now signed on. In May 2024, the Airport Commission approved the 2023 Lease with Air Premia, Inc.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the 2023 Lease and Use Agreement between the San Francisco International Airport (Airport) and Air Premia, Inc. for flight operations through June 30, 2033. The proposed resolution would also affirm the Planning Department's determination under the California Environmental Quality Act (CEQA) and authorize the Airport Director to make further immaterial amendments to the lease.

As part of the proposed lease, Air Premia, Inc. will continue to rent approximately 341 square feet of exclusive use space in the International Terminal for administrative offices.

The key terms of the 2023 Lease are shown in Exhibit 1 below.

Exhibit 1: Key Terms of 2023 Lease

Term	Beginning from the first month following full approvals of the lease through June 30, 2033
Rate-Making Methodology	Existing residual rate setting methodology is maintained. Signatory airlines pay landing fees, terminal area rentals, and other usage fees that are adjusted annually by the Airport Commission so that total airline and non-airline revenues are equal to total Airport costs, including debt service.
Annual Service Payment	Existing Airport Annual Service Payment to the City's General Fund is maintained at the greater of 15% of Airport concession revenues or $5 million.
Operating Reserve and Capital Improvement Fund	Creates an operating reserve and capital improvement fund totaling $800 million over the 10-year term which is adjusted annually for inflation.
Shared Use Equipment	Increases rights of the Airport Commission to install shared use equipment in the Airport, including in exclusive use spaces of airlines, to improve operational efficiency.
Preferential Use Gate Allocation	Increases review period of airline seat capacity to allocate preferential use gates to promote consistent use of preferential use gates throughout the year.
Sustainable Aviation Fuel Working Group	Creates a Sustainable Aviation Fuel Working Group of Airport staff and signatory airlines, chaired by the Airport Director, that would determine how the parties can work together to increase the uptake of sustainable aviation fuel at the Airport.
Ground Service Equipment Electrification	Establishes a mutual goal to accomplish 100% electric-powered ground service equipment at the Airport.
Digital Information Working Group	Creates a Digital Information Working Group chaired by the Airport Director and involving Airport staff and signatory airlines that will identify data on airport infrastructure and airline operations that could be exchanged to improve Airport operations and the experience of Airport guests.
Commercialization of Digital Assets	Acknowledgment that the Airport has the exclusive and sole right to manage, control, and use all Airport Proprietary Content.

Source: Airport staff memo to Airport Commission.

FISCAL IMPACT

Over ten years of operations, the Airport anticipates total revenue of approximately $37.9 million from Air Premia, Inc. as shown in Exhibit 2 below.

Exhibit 2: Projected Revenues by Fiscal Year

Fiscal Year	Rental Revenue	Landing Fees	Total Revenue	Annual % Change
FY 2023-24	$149,897	$63,538	$213,435[1]	-
FY 2024-25	2,029,889	574,477	2,604,366	1120.2%
FY 2025-26	2,337,496	637,784	2,975,280	14.2%
FY 2026-27	2,796,196	732,570	3,528,765	18.6%
FY 2027-28	3,086,457	843,437	3,929,894	11.4%
FY 2028-29	3,598,981	973,118	4,572,099	16.3%
FY 2029-30	3,706,950	1,099,604	4,806,554	5.1%
FY 2030-31	3,818,159	1,132,592	4,950,751	3.0%
FY 2031-32	3,932,704	1,166,569	5,099,273	3.0%
FY 2032-33	4,050,685	1,201,566	5,252,251	3.0%
Total	**$29,507,414**	**$8,425,254**	**$37,932,668**	

Source: Airport. FY 2023-24 revenues are projected for the full fiscal year.

The Airport is forecasting a larger increase in revenues in FY 2026-27 and FY 2028-29 because of the expected completion of Airport Capital Projects and related debt service payment increases.

RECOMMENDATION

Approve the proposed resolution.

[1] According to the Airport, this is the projected revenue from when Air Premia began operations on May 17, 2024 while operating under the non-signatory Airline Operating and Space Permit. It is shown as projected due to activity-based billings that are still in progress.

Item 10 File 24-0672	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively approve an agreement between the Airport and CBP to participate in the Reimbursable Services Program for an indefinite term commencing from November 25, 2014.

Key Points

- As authorized under Section 559 of the Consolidated Appropriations Act, 2014, the U.S. Customs and Border Protection's (CBP) Reimbursable Services Program enables CBP to provide additional inspection services and expanded staffing at the request of participating entities, such as airports. The San Francisco International Airport (Airport) joined the program in July 2014. In August 2014, the Airport Commission approved a five-year agreement with CBP with an initial not-to-exceed funding of $1.48 million. The agreement did not have a defined term and could be terminated by either party upon 90 days' notice. Airport staff returned to the Commission annually for funding approval of each fiscal year. The Airport is seeking Board of Supervisors approval now because the agreement, although it does not have a definite term, will soon exceed the ten-year threshold for Board approval.
- Under the agreement, CBP provides services such as inspections processing, baggage control, agricultural processing, and administrative and enforcement functions necessary to support inspections activities. As airline passenger travel fluctuates, the Airport submits requests for CBP staff and services, on an as-needed basis. CBP overtime is then reimbursed by the Airport.

Fiscal Impact

- Based on monthly invoices between FY 2014-15 through FY 2019-20, CBP reimbursements have totaled approximately $5.7 million.
- The Airport is anticipating a need for services in FY 2024-25 due to a projected increase in international passenger travel. The department projects that funding for CBP services in FY 2024-25 will total approximately $750,000. The source of funds for the reimbursements is the Airport's operating funds.

Recommendations

- Amend the proposed resolution to correctly state that the agreement is terminable upon either party by 90 days' written notice.
- 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

As authorized under Section 559 of the Consolidated Appropriations Act, 2014, the U.S. Customs and Border Protection's (CBP) Reimbursable Services Program enables CBP to provide additional inspection services and expanded staffing at the request of participating entities, such as airports. The San Francisco International Airport (Airport) joined the program in July 2014. In August 2014, the Airport Commission approved a five-year authorization for the Airport Director to contract with CBP with an initial not-to-exceed funding of $1.48 million. The agreement did not have a defined term and could be terminated by either party upon 90 days' notice. Airport staff returned to the Commission annually for funding approval of each fiscal year. In June 2019, the Commission approved an additional four-year funding period with CBP for up to $4.5 million through December 31, 2023.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve an agreement between the Airport and CBP to participate in the Reimbursable Services Program for an indefinite term commencing from November 25, 2014. The agreement states that it can be terminated by either party upon 90 days' written notice; however, the proposed resolution incorrectly states 60 days' written notice. We recommend that the resolution be amended to state the correct number of days.

According to the Airport, CBP's required agreement template does not define or allow for an end term date. Consequently, the agreement with CBP does not specify an end term date. The Airport is seeking retroactive Board approval because the agreement will exceed 10 years after August 2024.

Scope of Services

Under the agreement, CBP provides services such as inspections processing, baggage control, agricultural processing, and administrative and enforcement functions necessary to support inspections activities. As airline passenger travel fluctuates, the Airport submits requests for CBP staff and services on a voluntary, as-needed basis. CBP is then reimbursed for overtime pay of staff. According to the Airport, the department audits monthly billing against overtime hours requested. Invoices from CBP include information on how the overtime hours were allocated to support international passenger processing. CBP does not share staffing levels or scheduling assignments due to security concerns, which limits auditing work.

FISCAL IMPACT

According to the Airport, based on monthly invoices between FY 2014-15 through FY 2019-20, CBP reimbursements have totaled approximately $5.7 million. During the COVID-19 pandemic, there were no requests for CBP services, and services have currently not restarted. However, the Airport is anticipating a need for services in FY 2024-25 due to a projected increase in international passenger travel. The department projects that funding for CBP services in FY 2024-25 will total approximately $750,000.[1] The source of funds for the reimbursements is the Airport's operating funds.

RECOMMENDATIONS

1. Amend the proposed resolution to correctly state that the agreement is terminable upon either party by 90 days' written notice.
2. Approve the proposed resolution.

[1] The Airport projected $750,000 by totaling the average expenditures for the months of June through September and January (which the Airport states are roughly the heavier travel periods) for the timeframe of FY 2014-15 through FY 2019-20, equaling $712,783. The Airport then added 5 percent to this amount for unexpected needs and rounded up to $750,000.

Item 11 File 24-0673	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the fifth amendment to the International Terminal Duty Free and Luxury Store concession lease between DFS Group, L.P. and the City to reduce percentage rent from 45.8 percent of gross revenues to 33 percent of gross revenues between May 2023 and December 2023.

Key Points

- DFS Group leases the International Terminal Duty Free and Luxury Stores from the Airport under a concession lease agreement with a 14-year term that began in April 2020. DFS Group consists of a joint venture partnership between DFS Group, L.P., with 75 percent ownership, and the following five small business partners, each with 5 percent ownership: Bay Cities Concessions, J.R. Lester & Associates, Marilla Chocolate Co., Skyline Concessions, and Skyview Concessions, Inc. The lease agreement has been amended four times to reduce rent and/or fees paid to the Airport due to the COVID-19 pandemic.
- Due to increases in international enplanements, MAG was reinstated in May 2023 and percentage rent increased from 33 percent of gross revenues to 45.8 percent of gross revenues. Although international enplanements have nearly recovered to pre-pandemic levels, duty free sales have not recovered due to a sustained reduction in travelers from China. Amendment 4 reduced percentage rent from 45.8 percent to 36 percent of gross sales and temporarily reduced the MAG starting in January 2024 through December 2026. Amendment 5 would provide an additional eight months of rent relief retroactively for the period May 2023 through December 2023 to reduce percentage rent to the percentage rent in effect for the first four months of 2023 (33 percent).

Fiscal Impact

- Based on actual gross revenues of $67.7 million over the eight-month period, rent relief under proposed Amendment 5 would total $8.7 million. This would result in decreased transfers to the General Fund of approximately $1.3 million.

Policy Consideration

- The proposed total estimated level of rent relief ($63.8 million), including previously adopted rent relief, is approximately 86 percent of losses incurred since lease commencement in 2018 ($74.39 million). The Airport does not have a policy for sharing financial losses with concessionaires.

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

DFS Group leases the International Terminal Duty Free and Luxury Stores from the Airport under a concession lease agreement with a 14-year term that began in April 2020 and ends in March 2034.[1] The lease is for 46,295 square feet of retail space, comprising 17 different stores. DFS Group consists of a joint venture partnership between DFS Group, L.P., with 75 percent ownership, and the following five small business partners, each with 5 percent ownership: Bay Cities Concessions, J.R. Lester & Associates, Marilla Chocolate Co., Skyline Concessions, and Skyview Concessions, Inc.

Concession Rent

Under the terms of the original lease, DFS Group pays rent to the Airport equal to the Minimum Annual Guaranteed (MAG) rent or a tiered percentage rent based on gross revenues, whichever is greater. The MAG rent was $42 million in the first year of the lease and is adjusted annually to the greater of the existing MAG rent in the previous year or 90 percent of rent paid in the previous year. Percentage rent is equal to 45.8 percent of gross revenues up to $100 million, plus 41.8 percent of gross revenues from $100M to $160M, plus 30 percent of gross revenues above $160 million. The lease agreement has been amended four times to reduce rent and/or fees paid to the Airport due to the COVID-19 pandemic, as shown in Exhibit 1 below.

[1] The lease commenced on October 1, 2018, but the phase between the commencement date and March 31, 2020 was designated as the Development Term, during which DFS was undertaking construction of tenant improvements within the leased sites and rent was 30 percent of gross revenues.

Exhibit 1: Duty Free Concession Lease History

Amendment	Approval	Description
Original Contract	Board of Supervisors (File 18-0079), Mar 2018	• **Term**: 14-year term commencing April 2020 (after Development Term) • **MAG**: $42 million, adjusted annually to the greater of the existing MAG or 90% of rent paid in previous year. • **Percentage rent**: equal to 45.8% of gross revenues up to $100M, plus 41.8% of gross revenues from $100M to $160M, plus 30% of gross revenues over $160M
1	Board of Supervisors (File 20-0542), July 2020	• **MAG**: suspended • **Percentage rent**: reduced to 33% of gross revenues between Apr 2020 and Dec 2020
2	Board of Supervisors (File 20-1348), Feb 2021	• **Percentage rent:** continued reduced rent of 33% of gross revenues until earlier of Jan 2024 or reinstatement of MAG
3	Airport Commission[2], Oct 2020	• **Certain rents and fees**: waived between Apr 2020 and Dec 2020
	MAG reinstated in May 2023 (due to increase in international enplanements)	
		• **MAG:** reinstated to $42M in May 2023 • **Percentage Rent:** reinstated to original tiered structure along with MAG in May 2023 (per terms of Amendment 2)
4	Board of Supervisors (File 23-1153), Apr 2024	• **MAG**: reduced to $30M in 2024 with annual adjustments in 2025 and 2026 • **Percentage rent**: reduced to 36% of gross revenues between 2024 and 2026 (up from reduced rent of 33% through April 2023) • Original MAG and tired percentage rent resume in 2027
5	Proposed (File 24-0673)	• **Percentage Rent**: proposed reduction to 33% of gross revenues between May 2023 and December 2023

Sources: Original Contract, Amendments 1-4, Proposed Amendment 5

MAG and Percentage Rent Reinstated in May 2023

MAG was suspended in 2020 on all concession leases, including the DFS Group lease, due to the pandemic-related decline in enplanements. During that time, all concessionaires continued to pay percentage rent on whatever sales occurred, including DFS Group, until when MAG rent was reinstated for DFS Group in May 2023. Amendment 2 established that the original tiered percentage rent would be reinstated at the same time as MAG rent because Airport staff anticipated that duty free sales would have recovered proportionately with enplanements. Percentage rent increased from 33 percent in April 2023 to 45.8 percent in May 2023.

[2] In January 2021, the Board of Supervisors provided the Airport delegated authority to amend leases to waive MAG and percentage rents under the Airport's COVID-19 Emergency Rent Relief Program (File 20-1278). This Rent Relief Program was funded by federal stimulus monies under the CARES Act. Under that authority, the Airport executed the third amendment to the lease

Additional Rent Relief Starting in January 2024

Although international enplanements have nearly recovered to pre-pandemic levels, duty free sales have not recovered due to a sustained reduction in travelers from China, which accounted for more than 50 percent of duty-free sales prior to the pandemic according to Airport staff. The reduction in travelers from China is partially due to continued impacts of the COVID-19 pandemic on travel but also due to other factors, including changes in the Chinese economy.

Because duty free sales did not recover proportionately with enplanements, the Airport and Board of Supervisors agreed to an additional three years of rent relief starting in January 2024 under Amendment 4, which reduced percentage rent from 45.8 percent to 36 percent of gross sales and temporarily reduced the MAG to $30 million in 2024, subject to annual adjustment through 2026. The Airport now seeks to provide an additional eight months of rent relief retroactively for the period May 2023 through December 2023 to reduce percentage rent from 45.8 percent to 33 percent, which is equal to the percentage rent in effect for the first four months of 2023.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the fifth amendment to the International Terminal Duty Free and Luxury Store concession lease between DFS Group, L.P. and the City to reduce percentage rent from 45.8 percent of gross revenues to 33 percent of gross revenues between May 2023 and December 2023. The rent reduction is contingent upon DFS Group's construction of one new location in Terminal 1 by December 31, 2024 and one new location in Terminal 2 by March 31, 2025.

Need for Additional Rent Relief in 2023

According to DFS financial statements provided by the Airport, DFS Group has incurred losses of $74.39 million as of December 2023 since lease commencement in October 2018. The Airport reports that it has an interest in mitigating DFS Group's financial distress, since 25 percent of DFS Group is owned by five small businesses that are certified as Airport Concessions Disadvantaged Business Enterprises (ACDBEs) under U.S. Department of Transportation regulations.[3]

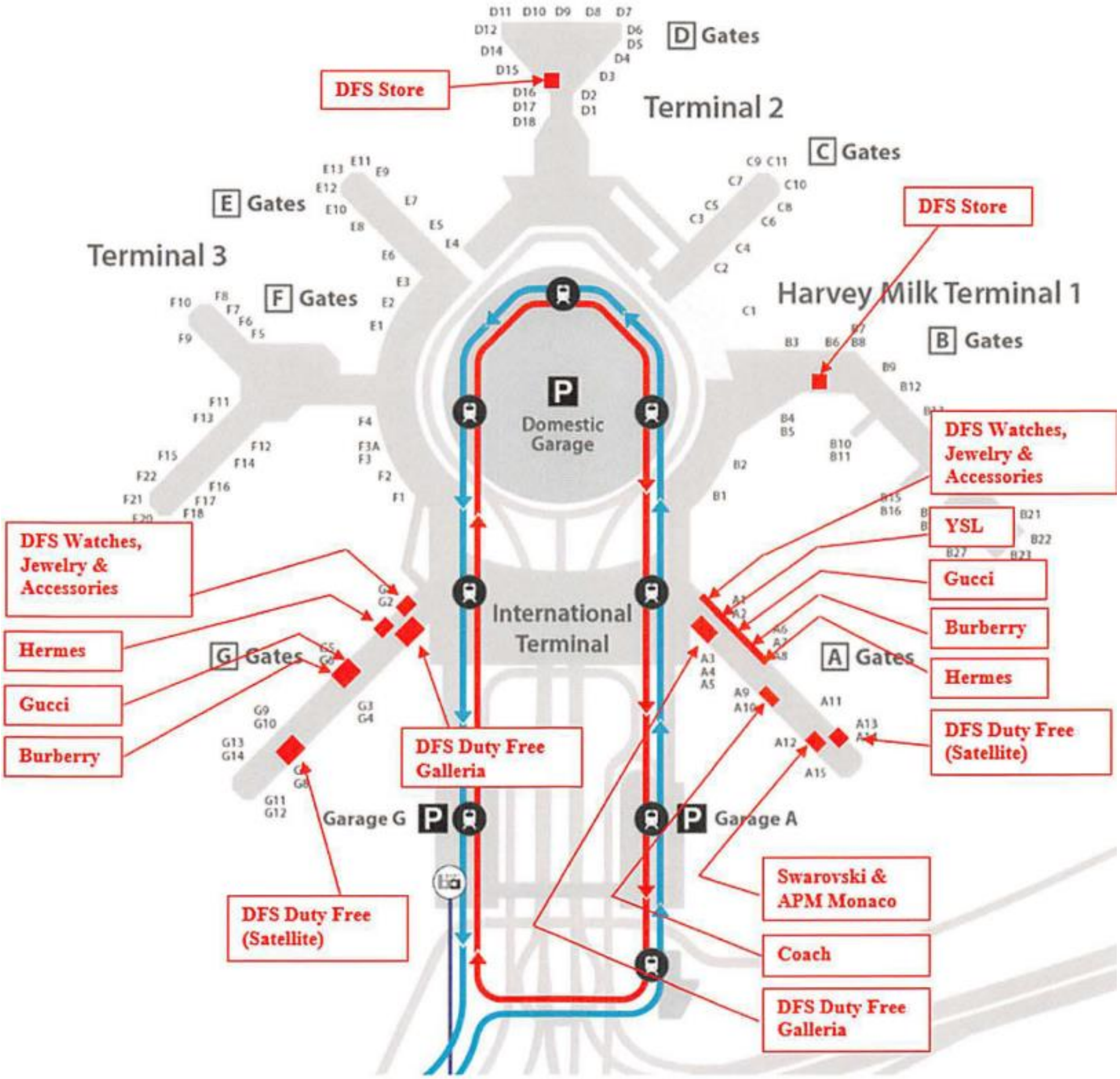
The Airport did not include rent relief for the eight-month period in 2023 in Amendment 4 because at the time the amendment was heard by the Airport Commission in October 2023, the Airport was unsure if the original percentage rent would be applied to the eight-month period. The Airport was unsure if MAG would be suspended again in the fall of 2023, and if the original percentage rent would be applied to the period in the event that MAG was suspended again, rather than remaining reinstated for the entire period.

[3] Disadvantaged business enterprises are small businesses that are 51 percent owned by socially and economically disadvantaged individuals, such as members of groups that have historically faced discrimination in hiring (such as women and Black Americans).

Leased Premises and Renovations

DFS Group currently leases 46,295 square feet of space for duty free and luxury stores, including 19,584 square feet in International Terminal A, 22,997 square feet in International Terminal G, 2,705 square feet in Harvey Milk Terminal 1, and 1,009 square feet in Terminal 2. International Terminal renovations totaling 42,581 square feet have been completed, but renovations for the remaining 3,714 square feet of space have not been completed and rent has not yet commenced for these premises. The original lease provided for 3,714 square feet of space in Terminal 1 and no space in Terminal 2. However, in January 2024, Airport staff required that the tenant relocate one of the stores that had not yet been renovated totaling 1,009 square feet to Terminal 2 to serve travelers departing for Canada. Exhibit 2 below shows the locations of DFS Group duty free and luxury stores.

Exhibit 2: DFS Group Duty Free and Luxury Stores



Source: Airport

Completion of Renovations in Harvey Milk Terminal 1 and Terminal 2

DFS is currently in construction permitting process for a Lego store in Harvey Milk Terminal 1. The Airport anticipates this location will open in early October 2024. DFS is in the design review process for a second store which will feature a standard duty free offering of multiple types of merchandise. This location is in Terminal 2 and will be open in early 2025. The proposed fifth amendment includes a construction timeframe clause: if the tenant does not complete the Terminal 1 location by December 31, 2024 and the Terminal 2 location by March 31, 2025, the entire rent accommodation under Amendment 4 and proposed Amendment 5 will be suspended and the tenant will owe the City the rent according to the original base rent structure, retroactive to January 1, 2023 and including any MAG rent for periods when it would have been applicable.[4]

FISCAL IMPACT

Reduction in Rent and Annual Service Payment to the General Fund

Proposed Amendment 5 would retroactively reduce percentage rent from 45.8 percent to 33 percent for the eight-month period from May 2023 to December 2023. Based on actual gross revenues of $67.7 million over the eight-month period, rent relief under proposed Amendment 5 would total $8.7 million. Rent due under the existing lease was $31.0 million over the period, and rent would be $22.3 million under Amendment 5.

The Airport makes an Annual Service Payment to the City's General Fund, equal to 15 percent of concession revenues. The proposed decrease in rent would result in decreased transfers to the General Fund of approximately $1.3 million. According to Airport staff, DFS concession rental revenues for the eight-month period was not included in the 2023 annual service payment to the General Fund calculation because it was not paid to the Airport.

Rental Assistance to DFS Joint Venture Members

Over the eight-month period, the proposed lease would provide $8.7 million in retroactive rental assistance to DFS, including $6.5 million to DFS Group, L.P. and approximately $433,108 to each of the five ACDBE business for a total of $2.2 million to ACDBE businesses. As mentioned above, the five ACDBE businesses include: Bay Cities Concessions, J.R. Lester & Associates, Marilla Chocolate Co., Skyline Concessions, and Skyview Concessions, Inc.

POLICY CONSIDERATION

Between 2020 and 2023, the Airport has provided approximately $22.7 million in rent relief to DFS Group due to the impact of COVID-19 on international travel and duty-free sales.[5] Amendment 4 is estimated to provide $32.4 million in rent relief through 2026 to relieve DFS Group of significant losses incurred since 2018, and proposed Amendment 5 would provide an additional $8.7 million in rent relief retroactively for 2023. The proposed total estimated level of rent relief ($63.8 million), including previously adopted rent relief, is approximately 86

[4] If delays in construction are caused by the City, then the Airport Commission Director may make an allowance in suspending the rent accommodation.

[5] The Airport's rent relief for DFS through 2023 includes lowering percentage rent, resulting in $22.7 million of losses to the Airport. All Airport concession leases contain provisions that waives the MAG during periods of low enplanements, which is not included in the $22.7 million figure.

percent of losses incurred since lease commencement in 2018 ($74.39 million).[6] The Airport does not have a policy for sharing financial losses with concessionaires.

The proposed rent relief mitigates the impact of not only the COVID-19 pandemic but also changes in passenger demographics, which is a risk that DFS assumed when it entered into a lease for retail luxury goods at the Airport. In addition, the current lease has a term through March 2034, which provides an opportunity for DFS to recover its losses from the initial period of the lease. On the other hand, we note that the tenant agreed to the rent structure, including percentage rent, under the original lease just before the start of the COVID-19 pandemic, which dramatically impacted international enplanements and duty free sales for an extended time period.

RECOMMENDATION

Approve the proposed resolution.

[6] Total DFS losses of $74.39 million reflects previously adopted rent relief between 2020 and April 2023 as well as proposed rent relief between May 2023 and December 2023.

Items 12 & 13 **Files 24-0578 & 24-0577**	**Department:** Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would authorize the Director of Property to execute the following leases at 1099 Sunnydale Avenue: (1) 676 square feet with Five Keys Schools and Programs for an initial term of five years, commencing on Board and Mayoral approval of the proposed lease, with two five-year options to extend, with initial annual rent of $10,870.08 ($16.08 per square foot), with three percent annual escalation (File 24-0577); and (2) 3,267 square feet with APA Family Support Services for an initial term of five years, retroactive from December 1, 2023 through November 30, 2028, with two five-year options to extend through November 2038 with initial annual rent of $52,533.36 ($16.08 per square foot), with three percent annual escalation (File 24-0578). The proposed resolutions would also (1) authorize the waiver of the requirement under Chapter 23.33 of the Administrative Code that leases be competitively bid and (2) find that the below market rate rent of the leases advance a proper public purpose, and (3) authorize the Director of Property to enter further immaterial amendments to the lease.

Key Points

- The facility at 1099 Sunnydale Avenue (known as The Village Community Facility) was conveyed to the City in 2011 under the jurisdiction of the Real Estate Division. Five Keys and APA Family Support Services were both selected through a competitive solicitation process in 2012 and have been tenants at the facility since 2013.
- The proposed lease terms are largely the same as the existing leases, except that the rent escalations are no longer based on CPI but instead will be three percent per year. The proposed annual rent for Five Keys is increasing by 6.8 percent from $10,174 per year to $10,870 and the annual rent for APA Family Services is decreasing 5.4 percent from an annualized rent of $55,510 to $52,533. The proposed rent amounts for both leases is below market rate and is based on the highest rent paid at the facility in August 2023 increased by 3 percent.
- RED determined that holding a competitive bidding process for both the Five Keys and APA Family Support Services leases was impractical because the tenants have occupied the site since 2013 and provide services to the Visitacion Valley community.

Fiscal Impact

- The proposed leases would have initial annual rents of $16.08 per square foot, or $10,870 for the Five Keys lease and $52,533 for the APA Family Support lease, for a total of $63,403 between the two leases. Over the initial five-year periods of the leases, Five Keys would pay the City $57,710 in total rent, and APA Family Support would pay $278,906 in total rent.
- Utilities and services, which are paid by the City, will total approximately $22,248 in City costs for the first year of both leases.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease, modification, amendment, or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

1099 Sunnydale

In 1997, the City, the United States Department of Housing and Urban Development (HUD) and several non-profits entered into agreements to build and operate a community facility in the Visitacion Valley neighborhood of San Francisco. The facility at 1099 Sunnydale Avenue (known as The Village Community Facility) was conveyed to the City in 2011 under the jurisdiction of the Real Estate Division. In 2012, the Department of Public Health (DPH) and the Real Estate Division (RED) issued a Request for Proposals (RFP) soliciting nonprofits that provided supportive services in the Visitacion Valley neighborhood to lease space at the facility. According to the Real Estate Division, the following non-profits occupy 1099 Sunnydale, providing services funded by the City.

Exhibit 1: 1099 Sunnydale Tenants

Current Lease Start	Current Lease End	Tenant	Use	Premises (square feet)	Current Annual Rent
9/1/2018	8/30/2022	APA Family Support Services	Family services, counseling/case management, food distribution	3,267	$55,510
7/1/2018	6/30/2022	Felton Institute	Community & Family Services & Storage	1,506	$23,757
7/1/2018	6/30/2022	Faces SF	Career/Job Search	2,259	$35,193
8/1/2018	7/31/2022	Five Keys Schools & Programs	School, Adult Education	676	$10,174
8/1/2018	7/31/2022	Sojourner Truth Foster Family Agency	Community & Family Services	444	$6,880
Totals				**8,152**	**$178,060**

Source: Real Estate Division

All of the current tenants at 1099 Sunnydale are on leases that expired in summer of 2022. The Real Estate Division, DPH, HSA, and MOHCD (the departments funding the tenants at 1099 Sunnydale) have been in discussions about the more efficient way to pay rent – either directly from the lease agreements or by work orders from funding departments to the Real Estate Division. The discussions delayed development of new leases.

Although the leases contain language that allows the City to charge 150 percent of the lease's latest base rent, the City is not doing so because the tenants are providing public services.

The 2018 leases for 1099 Sunnydale tenants were year-to-year leases and were not brought to the Board of Supervisors for approval because under Administrative Code Section 23.31, the Director of Property may sign year to year leases.

The proposed resolutions would approve new leases for Five Keys and APA Family Services. According to RED, the department anticipates having the leases for the other 1099 Sunnydale tenants presented to the Board of Supervisors sometime in September 2024.

Five Keys and APA Family Support Services

Five Keys Schools and Programs (Five Keys) and APA Family Support Services were both selected and have been tenants at the facility since 2013. Five Keys provides adults with educational opportunities and programs to gain a high school diploma or high school equivalency. APA Family Support Services is a Family Resource Center that provides children, youth and families with services such as case management, counseling, workforce development, home visitation and domestic violence prevention.

Under a lease commencing on August 1, 2018, Five Keys leases approximately 676 square feet on the second floor. The lease expired on July 31, 2022, and is in holdover status at an annual rental rate of $10,174.32 ($15.05 per square foot). Under a lease commencing on September 1, 2018, APA Family Support Services leased approximately 483 leasable square feet on the second floor. The lease expired on August 30, 2022 and is in holdover status. According to RED, in December 2023, APA expanded operations and increased their occupied space from 483 to 3,750 square feet (four suites, cubicle area, and a storage locker on the second floor) at an annual rental rate of $55,509.60 ($14.80 per square foot). Upon approval of the new lease, APA will surrender the cubicle area and only occupy 3,267 square feet (four suites and a storage locker on the second floor) at the annual rental rate of $52,533.36 ($16.08 per square foot).

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would authorize the Director of Property to execute the following leases at 1099 Sunnydale Avenue:

- **File 24-0577** approves a lease between the City, as landlord, and Five Keys Schools and Programs, as tenant, of approximately 676 square feet for an initial term of five years, commencing on Board and Mayoral approval of the proposed lease, with two five-year options to extend, with initial annual rent of $10,870.08 ($16.08 per square foot), with three percent annual escalation.
- **File 24-0578** retroactively[1] approves a lease between the City, as landlord, and APA Family Support Services, as tenant, of approximately 3,267 square feet for an initial term of five years, from December 1, 2023 through November 30, 2028, with two five-year options to extend through November 2038 with initial annual rent of $52,533.36 ($16.08 per square foot), with three percent annual escalation.

[1] According to RED, the lease is retroactive because the provider increased their occupied space and began paying additional rent in December 2023.

The proposed resolutions would also (1) authorize the waiver of the requirement under Chapter 23.33 of the Administrative Code that leases be competitively bid and (2) find that the below market rate rent of the leases advance a proper public purpose. Finally, the proposed resolutions authorize the Director of Property to enter further immaterial amendments to the lease.

The key terms of the proposed leases are shown in Exhibit 1 below.

Exhibit 1: Key Terms of Proposed Leases

	Five Keys (File 24-0577)	**APA Family Support Services (File 24-0578)**
Premises	676 square feet on the second floor (Suite 204 and storage room)	3,267 square feet on the second floor (Suites 209, 210, 217, 218)
Term	Five years, following Board & Mayor approval	Five years, from December 2023 through November 2028
Options to Extend	Two 5-year options to extend	Two 5-year options to extend
Annual Base Rent	$16.08 per square foot ($10,870.08)	$16.08 per square foot ($52,533.36)
Rent Escalation	3% annually	3% annually
Tenant Improvements	None	None
Utilities and Services	City pays for basic utilities and services (e.g., electricity, elevator, heating/ventilation, water, janitorial service)	City pays for basic utilities and services (e.g., electricity, elevator, heating/ventilation, water, janitorial service)

Source: Proposed leases

The proposed lease terms are largely the same as the existing leases, except that the rent escalations are no longer based on CPI but instead will be three percent per year. The proposed annual rent for Five Keys (File 24-0577) is increasing by 6.8 percent from $10,174 per year to $10,870 and the annual rent for APA Family Services (File 24-0578) is decreasing 5.4 percent from an annualized rent of $55,510 to $52,533. Both proposed leases have the same rent per square foot, $16.08. According to RED, the proposed rent is based on the highest rent paid at the facility in August 2023 increased by 3 percent.

Below Market Rate Leases

An appraisal was not required under Administrative Code Section 23.27 because the proposed rent for both leases is less than $45 per square foot. According to RED, the proposed rent amounts for both leases are below market rate. As previously mentioned, the department is requesting approval from the Board of Supervisors through the proposed resolutions that the below market rate rent of the leases advance a proper public purpose because the non-profit tenants provide public services in Visitacion Valley. Administrative Code, Chapter 23, Section 23.30 requires the Board of Supervisors to make a finding by resolution that a below market rate lease serves a public purpose.

Waiver of Competitive Bidding Process

Chapter 23.33 of the Administrative Code requires that leases be competitively bid unless competitive bidding procedures are impractical or impossible. RED determined that holding a competitive bidding process for both the Five Keys and APA Family Support Services leases was impractical because the tenants have occupied the site since 2013 and provide services to the Visitacion Valley community.

Services

RED originally believed the APA and Five Keys programs were funded by DPH. However, after inquiring with the department, our office found that DPH did not manage these contracts. After inquiring with HSA and MOHCD, we found that HSA funds a food support program with APA Family Support Services at the 1099 Sunnydale location. According to HSA, monitoring reports are not available because the contracts began in 2023. While HSA has multiple contracts with Five Keys, none of the programs are offered at 1099 Sunnydale. We also found that while MOHCD funds multiple contracts with both organizations, neither currently lists 1099 Sunnydale as a service location for their grants. Consequently, as of this writing, we do not know which department is funding the Five Keys program at 1099 Sunnydale or if the program is City-funded. The Director of Property visited the site in Spring 2024 and confirmed the tenancy of APA and Five Keys and condition of the building.

FISCAL IMPACT

The proposed leases would have initial annual rents of $16.08 per square foot, or $10,870 for the Five Keys lease and $52,533 for the APA Family Support lease, for a total of $63,403 between the two leases. Over the initial five-year periods of the leases, Five Keys would pay the City $57,710 in total rent, and APA Family Support would pay $278,906 in total rent.

According to RED, utilities and services, which are paid by the City, total approximately $318 per month for the Five Keys lease and approximately $1,536 per month for the APA Family Support Services lease, resulting in approximately $22,248 in City costs for first year of the leases.

RECOMMENDATION

Approve the proposed resolutions.

Item 14 **File 24-0471**	**Department:** Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Director of Property to execute a lease amendment between the Human Services Agency, as tenant, and RACHRIS, LLC, as landlord, at 2 Gough Street, for 7,938 square feet of additional space for the remainder of the lease term expiring on June 30, 2025. The amendment commences upon approval of by the Board of Supervisors and the Mayor and includes an option to extend by three years, through June 2028.

Key Points

- 2 Gough Street is used as a Benefits and Resources Hub by the Human Service Agency (HSA) Department of Disability and Aging Services. The proposed lease amendment would expand the department's footprint onto the third floor and allow HSA to relocate staff from 1650 Mission Street to 2 Gough Street. Staff from 170 Otis will then move into the newly vacated space at 1650 Mission Street, which is part of the first phase of HSA's plan to vacate staff out of 170 Otis, which is seismically unsafe.

Fiscal Impact

- Under the proposed lease amendment, HSA would pay $260,090 for the new space (assuming an August 1, 2024 commencement date and 1 month rent abatement), $702,444 for the existing space, for a total rent of $962,534 due in FY 2024-25. HSA would also pay utility, janitorial costs, and building operating costs. Total lease costs amount to $1.5 million, all funded by the General Fund.
- HSA will also incur relocation costs totaling $326,016, also funded by the General Fund.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution.

BACKGROUND

In February 2015, the Board of Supervisors approved a new five-year lease with one five-year option between RACHRIS, LLC, as landlord, and the Human Services Agency (HSA), as tenant, for 13,938 square feet on the first and second floors at 2 Gough Street (File 15-0006). In May 2020, the Board of Supervisors approved a five-year lease extension with RACHRIS for the 2 Gough Street facility from July 1, 2020 through June 30, 2025, with initial annual base rent of $624,115.76 and three percent annual increases (File 20-0316).

The leased facility is used as a Benefits and Resources Hub by HSA's Department of Disability and Aging Services (DAS), primarily serving older adults, veterans and adults with disabilities to access and apply for services such as In-Home Supportive Services (IHSS), Adult Protective Services (APS), CalFresh, Medi-Cal, and veterans' services. According to Real Estate Division staff, 83 Department of Disability and Aging Services staff work at the facility.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Director of Property to execute a lease amendment between the Human Services Agency, as tenant, and RACHRIS, LLC, as landlord, at 2 Gough Street, for 7,938 square feet of additional space for the remainder of the lease term expiring on June 30, 2025. The Amendment commences upon approval of by the Board of Supervisors and the Mayor.

The annual base rent for the additional 7,938 square feet would be $312,108. With an estimated commencement date of August 1, 2024 and the first month's rent waived, actual rent due for the additional space until termination on June 30, 2025, will be $260,090.[1] The proposed lease amendment would also provide an option to extend the lease terms of the total premises for three years to June 30, 2028. The proposed resolution also authorizes the Director of Property to enter further immaterial amendments to the lease.

The key terms of the proposed lease amendment are shown in Exhibit 1 below.

[1] The proposed resolution states that the base annual rent is $312,012 which was based upon a different commence date.

Exhibit 1: Key Terms of Proposed Lease Amendment

Premises	Addition of 7,938 square feet, including 7,638 square feet on floor 3 and 300 square feet of storage in the basement, for a total premises of 21,876 square feet on floors 1, 2, 3, and a portion of the basement.
Term	Lease commences upon Board and Mayor approval. Approx. 11 months from August 2024 through June 2025
Options to Extend	One 3-year option to extend through June 30, 2028. Rent resets to 95% of fair market value.
Base Rent (Additional Premises)	Month 1: Rent Abated September 1, 2024 through June 30, 2025: $26,009 per month ($260,090 rent due; $32.77 per square foot)
Base Rent (Existing Premises)	July 1, 2024 – June 30, 2025: $58,537 x 12 = $702,444 ($50.39 per square foot)
Base Rent (Total Premises)	$702,444 + $260,090 = $962,534 ($44 per square foot)
Rent Escalation	3% Annually
Tenant Improvements	For the additional premises on floor 3, landlord to pay for installation of electrical facilities, removal of carpet and replacement with vinyl flooring, painting of all walls, repainting and repair of balconies, pergola/overhead coverage installation for third floor balcony, cabinetry and counter repair, and upgrading the cubic-feet-per-minute output airflow of the HVAC system.
Utilities and Janitorial Services	Paid by City
Operating Costs[2]	City pays 99.1% of annual amount exceeding initial base year amount of $139,380; City's share is increasing from 49% to 99.1% under the proposed amendment due to the additional premises.

Source: Proposed Lease Amendment

Expansion of 2 Gough Street Facility and Relocation of Human Services Agency Offices

HSA staff will be relocating from facilities with a Seismic Hazard Rating of "4" (indicating the potential for partial or total collapse during an earthquake), which includes its 170 Otis Street offices.[3] As previously mentioned, the Department of Disability and Aging Services currently occupies the first two floors of the 2 Gough Street facility. The proposed lease amendment would expand the department's footprint onto the third floor and allow HSA to relocate staff from the Department of Disability and Aging Services Executive offices and HSA's Office of Community

[2] Operating costs include taxes, insurance, management expenses, repairs, maintenance, and utility and janitorial costs for common areas.

[3] The City uses seismic hazard ratings to assess risk and prioritize capital improvements to City facilities. The scale ranges from one (best performance) to four (worst performance).

Partnerships office from 1650 Mission Street to 2 Gough Street.[4] Staff from 170 Otis will then move into the newly vacated space at 1650 Mission Street, which is part of the first phase of HSA's facilities plan to vacate staff out of seismically hazardous facilities. According to Real Estate Division staff, DAS executive and Office of Community Partnerships staff interact regularly with existing DAS staff located at 2 Gough Street, and consolidating these offices onto the same site is an efficient use of space.

According to the Real Estate Division, a total of 31 staff from the Department of Disability and Aging Services will move from 1650 Mission Street to the third floor of the 2 Gough Street facility. This includes six Department of Disability and Aging Services executive and administrative staff and 25 Office of Community Partnerships staff. Based on the square footage of the new premises, there is an average of 256 square feet per person, including offices and conference rooms.

Tenant Improvements

Under the proposed lease amendment, the landlord would pay for tenant improvements to the third floor, including installation of electrical facilities, removal and replacement of carpet, painting of all walls, repainting and repair of balconies, pergola/overhead coverage installation, cabinetry and counter repair, and upgrading the HVAC system.

FISCAL IMPACT

Under the proposed lease amendment, HSA would pay $260,090 for the new space (assuming an August 1, 2024 commencement date and 1 month rent abatement), $702,444 for the existing space, for a total rent of $962,534 due in FY 2024-25. HSA would also pay utility, janitorial costs, and building operating costs. As shown below, total lease costs amount to $1.5 million.

Exhibit 2: Total Lease Costs

Premises	Monthly Rent	Total Rent Due	Utilities & Janitorial	Operating Costs	Total Costs
Additional Premises	$26,009	$260,090	$116,934	$48,898	$425,922
Existing Premises	58,537	702,444	224,000	132,000	1,058,444
Total Premises	**$84,546**	**$962,534**	**$340,934**	**$180,898**	**$1,484,366**

Source: Proposed Amended Lease and Real Estate Division Staff

Costs for the rent, utilities and janitorial costs, and operating costs will be funded by the City's General Fund.

An appraisal was conducted by a third-party appraiser in November 2023. Based upon the appraisal, the Director of Property determined that the proposed per square foot rent ($39.32 per square foot, before the one month rent abatement) for the additional space (7,938 square feet) is at or below fair market rent.

[4] According to RED, the Office of Community Partnerships (OCP) is a DAS division which collaborates with a broad spectrum of community partners to deliver services that promote health, safety and independence for older people, veterans and adults with disabilities. It supports approximately 240 contracts with community -based organizations serving more than 60,000 San Franciscans each year.

Relocation Costs

One-time relocation costs totaling $326,016 will also be funded by the City's General Fund. According to HSA staff, there will be no moving costs associated with moving staff from 1650 Mission Street into the new leased premises because the HSA Move Team will complete the move. HSA estimates tenant improvement costs of $72,000 to be paid by the City (in addition to tenant improvements paid for by the landlord), and furniture, fixtures, and equipment costs of $254,016 for workstations, offices, conference rooms, and breakroom/patio furniture; and network/data wiring.

RECOMMENDATION

Approve the proposed resolution.

Item 15 **File 24-0704**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves several actions to enable development of affordable housing at 1515 South Van Ness: (1) authorize the Mayor's Office of Housing and Community Development (MOHCD) to enter into a ground lease for real property owned by the City with Casa Adelante SVN Housing, L.P. for a lease term of 75 years and one option to extend to 99 years and an annual base rent of $15,000; (2) adopt findings that the Project is consistent with the General Plan; (3) determine that the below market rate payable under the ground lease will serve a public purpose in accordance with Administrative Code Section 23.30; and (4) authorizing the Director of Property and the Director of MOHCD to execute the ground lease and modify the agreement as needed.

Key Points

- MOHCD acquired the property for $19 million in 2019 (File 19-0733) and subsequently issued a Request for Qualifications (RFQ) to develop multifamily 100% affordable housing on the site. A selection panel awarded the option to execute a ground lease to Chinatown Community Development Center (CCDC) and Mission Economic Development Agency (MEDA), the highest scoring respondent, with Casa Adelante SVN Housing, L.P. as the borrowing entity. The property is currently vacant.
- The early approval of the ground lease will allow the developers to move forward with demolishing the vacant warehouse located on the parcel, which has been subject to neighborhood disturbances and illegal dumping.
- Committed City funds to the predevelopment phase have not yet surpassed $10,000,000, requiring approval from the Board of Supervisors. The project will return to the Board in Fall 2024 for the approval of the MOHCD permanent phase loan, which is estimated to total $40,614,230.

Fiscal Impact

- Rent paid by Casa Adelante SVN Housing, L.P. includes base rent of $15,000 per year which would generate $1,125,000 in total base rent collected over the 75-year term of the ground lease. Should Casa Adelante choose to extend the lease for an additional 24 years, the City would receive an additional $360,000.

Recommendation

Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease, modification, amendment, or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

City Administrative Code Section 23.30 states that leases of City-owned property can be for less than market rent if the lease is for a proper public purpose.

BACKGROUND

The parcels at 1515 South Van Ness were permitted in 2016 to be developed into market rate housing until local community organizations mobilized for the site to be used for affordable housing. The original development plans did not move forward, and the City purchased the site in 2019 for $19 million using a Housing Jumpstart Grant and ERAF funds (File 19-0733).

MOHCD issued a Request for Qualifications (RFQ) in November 2020 to develop the site into affordable housing. Two joint ventures responded to the RFQ and Chinatown Community Development Center (CCDC) and Mission Economic Development Agency (MEDA), the highest-scoring respondents, were selected to move forward with the project with Casa Adelante SVN Housing, L.P. as the borrowing entity.

During the COVID-19 pandemic, the site was used as a Safe Sleeping Village for the unhoused population. The Safe Sleeping program was discontinued in December 2023 and the site has been vacant since. The site is currently occupied by a vacant, 31,680 square foot commercial property constructed in 1948. On June 7, 2024, the Citywide Affordable Housing Loan Committee approved an increase of MOHCD's predevelopment loan from $4,000,000 to $7,180,991 to fund demolition work at the site and pay for security while the site is prepared for construction and the project sponsor works to obtain development financing for the 168-unit affordable multifamily development.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve and authorize MOHCD to enter into a ground lease for real property owned by the City located at 1515 South Van Ness Avenue, 3251-3255 26th Street, and 1214 Shotwell Street with Casa Adelante SVN Housing, L.P. for a lease term of 75 years and one 24-year option to extend. The proposed resolution further finds that the project constructing a 168-unit affordable multifamily rental housing development is consistent with the General Plan. Finally, the proposed resolution determines that by providing affordable housing for low-income households, the below-market-rate rent for the proposed ground lease will serve a public purpose in accordance with City Administrative Code Section 23.30.

Ground Lease Terms

The key provisions of the proposed ground lease are included in Exhibit 1 below.

Exhibit 1: Key Ground Lease Terms

Lease term	75 years
Options to extend lease	One 24-year option to extend, for a total lease term of 99 years
Base rent	15,000 annually
Residual rent	Up to $845,000 per year, to be paid by project net income, if any
Adjustments to rent	10 percent adjustment to residual rent of fair market value on the 15th anniversary of the first rent payment and every 15 years thereafter
Parcel size	35,714 square feet
Taxes, insurance, maintenance, utilities	Paid by tenant
Number of Units	168

Source: Proposed ground lease agreement

Note: Residual rent is based on 10 percent of the site's appraised value and is due to MOHCD if the project generates "residual income" or revenues net of operating costs, debt service, and required reserve deposits.

According to MOHCD Project Manager, Omar Masry, the approving the proposed ground lease will provide the project sponsor access to the site to remove an existing vacant building, which is a target for graffiti and vandalism and to reduce overall development time and associated costs. Demolition of the vacant warehouse is expected to take place in September 2024.

Affordable Housing Project

The project at 1515 South Van Ness will develop a nine-story affordable housing community featuring 168 units. The intended unit mix is shown in Exhibit 2 below. The project design currently includes a mix of one to three bedroom units.

Exhibit 2: Unit Mix at 1515 South Van Ness

Unit Type	Unit Count
Manager's unit	1
Family permanent supportive housing	42
PLUS units reserved for HIV positive households at 50% AMI	5
Family units between 30 and 72% AMI	120
Total	**168**

Source: MOHCD Loan Evaluation for 1515 South Van Ness

Per the Loan Evaluation document, the project at 1515 South Van Ness is intended to be integrated into a larger, intergenerational community of affordable housing complexes and youth and family service centers in the immediate vicinity.

Future Board Actions

According to MOHCD, the project will return to the Board of Supervisors in the Fall of 2024 to seek approval for a MOHCD permanent currently estimated at $46,195,221 with an increase of up to $1,600,000 as a temporary bridge loan for the federal Affordable Housing Program loan.

This amount includes the $7,180,991 in MOHCD predevelopment loans committed and approved by the Affordable Housing Committee that did not meet the $10,000,000 threshold for Board review.

Planning Department Determination

In May 2024, the Planning Department issued a note to their June 2019 General Plan Referral for the acquisition of 1515 South Van Ness indicating that a 168-unit 100% affordable housing project is consistent with the General Plan and Planning Code Section 101.1.[1] According to the 2019 General Plan Referral, the acquisition of the site is not a project under CEQA Guidelines 15060(c) and 15378 as there is no direct or indirect physical change in the environment. The project is also exempt from further CEQA Review, per the streamlining allowed by California Assembly Bill 2162.

FISCAL IMPACT

Casa Adelante SVN Housing, L.P. would pay base rent of $15,000 annually over the 75-year term of the lease. This equates to a total of $1,125,000 in total base rent received by the City over the lease period. If Casa Adelante SVN and the City were to agree to extend the lease for an additional 24 years, the City would receive an additional $360,000 for a total of $1,485,000 over 99 years. MOHCD does not expect this project to produce residual rent.

Project Funding Sources

Total development costs for 1515 South Van Ness are estimated to be $166,203,582 and are shown in Exhibit 3 below. Development is assumed to be funded by 4% federal Low Income Housing Tax Credits, loans from the federal government, the State of California, and the City, developer equity, and accrued interest. City funding includes $7,180,991 in the predevelopment phase and up to $40,614,230 in the permanent phase.[2]

[1] The site was previously found to have been consistent with the City's General Plan for a 157-unit affordable housing project.

[2] The current estimate for the permanent phase MOHCD loan totals $46,195,221 but will be increased by up to $1,600,000 as a temporary bridge loan for the federal Affordable Housing Program loan.

Exhibit 3: Total Estimated Project Costs

Permanent Uses	
Acquisition	$19,045,000
Hard Costs	132,404,466
Soft Costs	29,313,309
Reserves	940,807
Developer Fee	3,500,000
Total	**$185,203,582**

Source: MOHCD Predevelopment Demolition Loan Committee Memo
Notes: Permanent phase financing includes the $7 million in predevelopment MOHCD financing. Acquisition costs include the funds used to purchase the site and the $45,000 in associated legal fees.

Based on total estimated development costs and project design, the cost per unit is $1,172,175. When accounting for acquisition costs and the three MOHCD loans in the predevelopment and permanent phases the estimated City subsidy totals $380,982 per unit. The unit costs are relatively high due to the market rate acquisition costs and the number of family-sized units.

RECOMMENDATION

Approve the proposed resolution.

Item 16 **File 27-0742**	**Department:** Health Service System (HSS)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed ordinance would approve the San Francisco Health Service System's (HSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year (CY) 2025.

Key Points

- The HSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board provides the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by HSS employers, including the City, and members.
- Health plans include Kaiser Permanente, Blue Shield of California, and Health Net CanopyCare. HSS offers three dental plans, including one PPO (Delta Dental PPO) and two HMOs (DeltaCare USA and UnitedHealthcare Dental). Vision coverage is provided by Vision Service Plan.
- As the result of an RFP process in 2024, starting in 2025, Blue Shield of California will administer two plans previously administered by the incumbent provider, UnitedHealthcare: the non-Medicare "split family" plans and Medicare Advantage Prescription Drug (MAPD) plans for Medicare retirees. There are no other changes in plan administrators.
- There is one plan design change for Kaiser Medicare retirees that changes the out-of-pocket maximum basis from $1,000 per individual or $2,000 per family to $1,000 per individual, which affects five members enrolled in the Kaiser Medicare Plan. Other than the aforementioned change, there are no plan design changes for the health, vision, and dental plans that have been approved for 2025.

Fiscal Impact

- The total cost of the plans in CY 2025 would be $1,041,087,775, which is 6.51 percent more than the estimated $977,461,829 costs in CY 2024. Of the total, the City's costs would be $916,985,269, with the balance of $124,102,506 paid by employees and retirees.
- In CY 2025, the average monthly medical contribution by each member will be $175.11 per member per month for all members (active employees and retirees combined), $198.16 per member per month for active employees, and $144.59 per member per month for retirees.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Charter Section A8.423 states that the Health Service Board is required to conduct a survey of the 10 most populous California counties, excluding San Francisco, to determine the average contribution made by each county toward health plan premiums for employees, excluding dental plan premiums. The Health Service Board is then required to certify to the Board of Supervisors the average contribution as determined by this survey. City Charter Section A8.428 also requires the City to contribute to the Health Service System Trust Fund to pay the costs of health plan premiums.

BACKGROUND

The Health Service Board oversees the San Francisco Health Service System (HSS). The HSS administers non-pension benefits, including health, vision, dental, as well as life insurance and long-term disability insurance. The Health Service Board provides the annual health, vision, dental and other insurance plans, and sets the respective plan premium rates and contributions to be paid by HSS employers and members. There are four HSS employers:

1. City and County of San Francisco (City)
2. San Francisco Unified School District (SFUSD)
3. San Francisco Community College District (SFCCD)
4. San Francisco Superior Court (Superior Court)

HSS members are active and retired employees of the above noted four employers, their dependents, and members of eligible boards and commissions. Dependents include children, spouses, domestic partners, surviving spouses of deceased members, and other legal dependents.

City and Employee Contribution Models

Most contribution formulas for City employees negotiated as part of their labor agreements fall into the following two percentage-based models which reflect the City's percentage of the contribution.

- 93/93/83 Contribution Model: The City contributes 93 percent of the total health insurance premium for single-covered employees. The City contributes 93 percent of the total health insurance premium for employees with one dependent, capped at 93 percent of the second-highest cost plan. The City contributes 83 percent of the total health insurance premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan. According to Iftikhar Hussain, Chief Financial Officer at the San Francisco Health Service System, there are 45,193 members (excluding dependents) who are covered by this contribution model in 2025.

- 100/96/83 Contribution Model: The City contributes 100 percent of total health insurance premium for single-covered employees. The City contributes up to 96 percent of the total health insurance premium for employees with one dependent, capped at 96 percent of the second-highest cost plan. The City contributes 83 percent of the total health insurance premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan. According to Chief Financial Officer Hussein, there are 11,667 members (excluding dependents) who are covered by this contribution model in 2025.

Retiree Health Plan Premium Contributions

The 10-county survey average is used as a basis for calculating the employer contribution to the monthly health plan premium for all retirees hired on or before January 9, 2009.[1] Based on the 2025 10-County survey, the 10-county average employer contribution for calendar year 2025 is $882.05 per member per month, which is $76.20 or approximately 9.46 percent more than the average monthly contribution in 2024 of $805.85.

Retirees who were hired on or after January 10, 2009 receive a percentage of the employer contribution depending on how long they worked for the City, with the percentage increasing as the number of years the employee worked for the employer increases.

Health Service System Trust Fund

Under Charter Section A8.428, employer and HSS member contributions to health plan premiums are deposited in the Health Service System Trust Fund, which in turn funds costs for medical expenses and health plans. As of June 30, 2023 the Health Service System Trust Fund balance was approximately 104.8 million and is projected to be approximately $100 million as of June 30, 2024.

The retiree rates also impact the City's post-employment benefits (OPEB). As of June 30, 2023, the OPEB liability was $4.5 billion with a net liability of $3.8 billion.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve the San Francisco Health Service System's (HSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year (CY) 2025. The total cost of the plans would be $1,041,087,775 or 6.51 percent more than the $977,461,829 total cost in 2024. Of the total, the City's costs would be $916,985,269, with the balance of $124,102,506 paid by employees and retirees. Table 1 below provides a summary of health insurance costs for 2025.

The Health Service Board approved the following health, vision, dental, life and long-term disability insurance plans and premiums for the period from January 1, 2025 through December 31, 2025 on the following dates in 2024: February 8, March 14, April 11, May 9, June 7, June 13, and June 18.

[1] In the event the premium for the retiree is higher than the 10-county "average contribution", the City will pay the "average contribution" amount. In the event the premium is less than the "average contribution," the City will pay one hundred percent of the premium.

Health Plans and Premiums

Kaiser Permanente HMO[2]

Kaiser Permanente (Kaiser) covers active, early retirees[3] and Medicare retirees. The total Kaiser HMO premium amounts to be paid by the City as employer are $417,886,081, which is a 5.86 percent increase from CY 2024 to CY 2025.[4] These amounts are shown in Table 1 below.

The overall increase in premium costs for Kaiser HMO plans from 2024 to 2025 is due to a 5.4% premium rate increase for active and early retirees in California and an 8.65% premium rate increase for Medicare retirees in California.

There are no Kaiser plan design changes approved for active employees and early retirees approved by the Health Service Board for 2025. There is one Kaiser-mandated change for the Medicare retirees plan that changes the out-of-pocket maximum basis from $1,000 per individual or $2,000 per family to $1,000 per individual. This change impacts five members enrolled in the Kaiser Medicare Plan, according to the City's actuarial consultant, Aon.

Blue Shield of California HMOs

The total Blue Shield of California (BSC) Access+ and Trio plans are flex-funded[5] HMOs for active employees and early retirees. The total BSC flex-funded HMO plan premium amounts to be paid by the City as employer are $310,937,484, which is a 9.49 percent increase from CY 2024 to CY 2025. The high increase in Blue Shield HMO plan rates is due to high medical claims in 2022 and high pharmacy claims in 2022 and 2023. No plan design changes were approved for the BSC HMO plans by the Health Service Board for 2025.

Blue Shield of California PPO (with Accolade)[6]

The Blue Shield of California (BSC) PPO plan is self-funded for active employees and early retirees. The BSC self-funded HMO plan premium amounts to be paid by the City as employer are $44,352,501, which is a 4.27 percent increase from CY 2024 to CY 2025. No plan design changes were approved for the BSC PPO plan by the Health Service Board for 2025.

Blue Shield of California PPO for Non-Medicare "Split Family" Plans

Starting in 2025, Blue Shield of California (BSC) will be the plan administrator for non-Medicare "split family" plans, which provides coverage for non-Medicare covered individuals within families where one or more individual is Medicare-eligible and enrolled in the BSC Medicare

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[2] An HMO (Health Maintenance Organization) offers care through a closed panel of providers, in which members select a primary care physician, who manages their care. The HMOs pay the medical groups on a per capita basis.

[3] Retired employees of less than 65 years of age and therefore not eligible for Medicare.

[4] This includes the following plans: Kaiser HMO (actives and early retirees) and Kaiser KPSA HMO (Medicare retirees).

[5] Under flex-funding, the HMO pays the medical groups on a per capita basis and plan sponsor (HSS) pays the variable claims other than the fixed medical group amounts.

[6] Under a PPO (Preferred Provider Organization), the member's cost-share are lower when using physicians, hospitals, and other providers in the preferred network versus and non-preferred providers. This self-funded arrangement means the plan sponsor (HSS) pays the purchaser (through a third-party administrator) on a fee for service basis based on negotiated contracts.

Advantage Prescription Drug (MAPD) plan. This is referred to as a "split family" plan because one or more individuals in the family is not yet Medicare-eligible and enrolls in a non-Medicare BSC PPO or HMO plan and one or more individual is Medicare-eligible and is enrolled in the BSC MAPD plan. The BSC PPO for non-Medicare "split family" plan premium amounts to be paid by the City as employer are $2,656,955, which is a 3.9 percent increase from CY 2024 to CY 2025. No plan design changes were approved for the BSC non-Medicare PPO "split family" plans by the Health Service Board in 2025.

The change from the incumbent provider, UnitedHealthcare, to BSC for the Non-Medicare "split family" plans and Medicare Advantage Prescription Drug (MAPD) plans for Medicare retirees was the result of an RFP process conducted in Spring 2024. The change resulted in an estimated $6.8 million in total net savings (vs the renewal rates from the incumbent) across all four employers in 2025, $4.8 million of which is savings for the City, according to the City's actuarial consultant, Aon.

Blue Shield of California Medicare Advantage Prescription Drug (MAPD) PPO

Starting in 2025, Blue Shield of California (BSC) will be the plan administrator for MAPD plan members. The BSC MAPD PPO plan covers all non-Kaiser Medicare eligible retirees. No plan design changes were approved for the BSC MAPD PPO plan by the Health Service Board for 2025.

The total BSC MAPD PPO plan premiums amount to be paid by the City as employer are $87,495,765, which is a 4.02 percent increase from CY 2024 to CY 2025.

The change from the incumbent provider, UnitedHealthcare, was the result of an RFP process conducted in Spring 2024 mentioned above. The change still results in an overall increase in premiums, from 2024 under UnitedHealthcare, to 2025 under BSC. The increase is driven in part by a requirement in the Inflation Reduction Act approved by Congress that limits out of pocket expenses to $2,000 per year.

Health Net CanopyCare HMO

The Health Net CanopyCare HMO plan is flex-funded for active employees and early retirees. CanopyCare provides access to the Canopy Health Alliance of over 5,500 providers in six medical groups and major regional medical centers and hospitals covering the greater Bay Area. The Health Net CanopyCare flex-funded HMO plan premium amounts to be paid by the City as employer are $8,096,024, which is a 0.94 percent decrease from CY 2024 to CY 2025. No plan design changes were approved for the Health Net CanopyCare plan by the Health Service Board for 2025.

Vision Plan

Members enrolled in any of the health plans receive vision benefits through Vision Service Plan (VSP), a third-party insurer. The cost of the Basic Plan vision benefit is included in the cost of the medical plan for all monthly health plan premiums. Any active employees or retirees who choose to enroll in the Premier Plan pay the full premium difference between Premier Plan rates and Basic Plan rates in the form of member contributions.

In 2025, all vision Basic Plan rates remain unchanged from the 2024 plan year. The employer portion of vision costs remains unchanged from 2024 to 2025. In 2025, vision Premier Plan total premium rates have increased 2 percent from 2024 levels, which will result in an increased cost of member contributions. No plan design changes were approved for the vision plans by the Health Service Board for 2025.

Dental Plans

HSS offers three dental plans, which are one PPO (Delta Dental PPO) and two HMOs (DeltaCare USA and UnitedHealthcare Dental). The City pays most of the cost of dental benefits for active employees enrolled in the Delta Dental PPO, and the full cost of the dental HMOs for active employees. Retirees pay the full premium cost of their dental plans with no employer contributions.

For plan year 2025, the City will contribute (1) the total premium toward each of the dental HMO plans for City active employees, and (2) the monthly premium minus employee contributions ranging from $5.00 for employee only coverage to $15.00 per month for full family coverage, for the self-funded Dental PPO plan. Member contributions for the three dental plans remain unchanged from the 2024 plan year.

The total dental plan premium amounts across the three active employee dental plans paid by the City as employer are $38,622,449, which is a 6.48 percent increase from CY 2024 to CY 2025. No plan design changes were approved for the dental PPO/HMO plans by the Health Service Board for 2025.

Life and Long-Term Disability Insurance

The Hartford Life and Accident Insurance Company (The Hartford) is the insuring entity for the HSS life insurance, accidental death and dismemberment (AD&D) insurance, and long-term disability (LTD) insurance. In CY 2025, all life insurance, AD&D, and LTD plan premiums are remaining at 2024 premium levels for an aggregate City contribution of $6,398,010, which means there is no change in cost to the City from CY 2024.

Federal Affordable Care Act Requirements

In 2010, the Patient Protection and Affordable Care Act (also known as the Affordable Care Act) created a Health Insurance Tax (HIT) and two direct fees were passed through to employers – the Transitional Reinsurance Fee (TRF) and the Patient Centered Outcomes Research Institute (PCORI) fee. The HIT and TRF are no longer in effect. The PCORI fee[7] remains in effect through 2029 as part of the SECURE Act passed by the federal government in December 2019. HSS pays this fee to the federal government for the self-funded BSC PPO and UHC PPO plans (through 2024), while Kaiser, BSC, and Health Net pay this fee on HSS's behalf for fully insured or flex-

[7] The PCORI fee was established as part of the Affordable Care Act to fund research to evaluate the effectiveness of medical treatments, procedures and strategies that treat, manage, diagnose, or prevent illness or injury. The ACA requires certain carriers and health plan sponsors (i.e., employers) to pay the PCORI fee annually.

funded plans. The 2025 PCORI fee is expected to be slightly higher than the $3.22 per covered person per year fee in current year 2024, according to the City's actuarial consultant, Aon.

FISCAL IMPACT

2025 Total City Costs

As shown in Table 1 below, the total estimated cost for active and retired City employees for health, vision, and dental plans, as well as long-term disability and life insurance, will be $1,041,087,775 in CY 2025, which is $63,625,946 more, or a 6.51 percent increase, from $977,461,829 in CY 2024.

The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance, for the City as employer in CY 2025 is $916,985,269 which is a $57,655,187, or 6.71 percent, increase from $859,330,082 in CY 2024. The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance that will be paid by employees and retirees is $124,102,506 in CY 2025, which is a $5,970,758, or 5.05 percent, increase from $118,131,747 in CY 2024.

According to HSS, in CY 2025, the average medical monthly contribution by each member will be $175.11 per member per month for all members (actives employees and retirees combined), $198.16 per member per month for active employees, and $144.59 per member per month for retirees.

Table 1: Total Plan Costs for the City, Employees and Retirees in 2025 Compared to 2024 Current Membership[8]

	2024 Forecast	2025 Forecast	Increase/ (Decrease)	Percent Change
City Costs Only				
Kaiser HMO (Actives and Early Retirees)	$355,769,923	$375,501,590	$19,731,667	5.55%
Blue Shield HMO (Actives and Early Retirees)	$283,983,251	$310,937,484	$26,954,233	9.49%
Blue Shield-Accolade PPO (Actives and Early Retirees)	$42,537,971	$44,352,501	$1,814,530	4.27%
Health Net CanopyCare HMO (Actives and Early Retirees)	$8,173,113	$8,096,024	($77,089)	-0.94%
BSC PPO / EPO (Non-Medicare Split Family Lives)	$2,557,108	$2,656,955	$99,848	3.90%
Kaiser KPSA HMO (Medicare Retirees)	$38,979,977	$42,384,491	$3,404,514	8.73%
BSC MA PPO (Medicare Retirees)	$84,117,655	$87,495,765	$3,378,110	4.02%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	*$816,118,997*	*$871,424,811*	*$55,305,813*	*6.78%*
Dental (Actives Only)[9]	$36,273,075	$38,622,449	$2,349,374	6.48%
Long Term Disability and Life Insurance (Actives Only)[10]	$6,938,010	$6,938,010	$0	0.00%
Total City Costs	**$859,330,082**	**$916,985,269**	**$57,655,187**	**6.71%**
Employee and Retiree Costs Only				
Kaiser HMO (Actives and Early Retirees)	$42,476,065	$44,354,525	$1,878,460	4.42%
Blue Shield HMO (Actives and Early Retirees)	$37,781,401	$41,376,666	$3,595,265	9.52%
Blue Shield-Accolade PPO (Actives and Early Retirees)	$10,266,719	$9,493,038	($773,680)	-7.54%
Health Net CanopyCare HMO (Actives and Early Retirees)	$847,747	$839,568	($8,179)	-0.96%
BSC PPO / EPO (Non-Medicare Split Family Lives)	$5,073,432	$5,440,387	$366,955	7.23%
Kaiser KPSA HMO (Medicare Retirees)	$5,757,933	$6,232,482	$474,549	8.24%
BSC MA PPO (Medicare Retirees)	$11,304,885	$11,742,274	$437,388	3.87%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	*$113,508,182*	*$119,478,940*	*$5,970,758*	*5.26%*
Dental (Actives Only)	$3,659,460	$3,659,460	$0	0.00%
Long Term Disability and Life Insurance (Actives Only)	$964,105	$964,105	$0	0.00%
Total Employee and Retiree Costs	**$118,131,747**	**$124,102,506**	**$5,970,758**	**5.05%**
Total Costs				
Kaiser HMO (Actives and Early Retirees)	$398,245,988	$419,856,115	$21,610,127	5.43%
Blue Shield HMO (Actives and Early Retirees)	$321,764,652	$352,314,150	$30,549,498	9.49%
Blue Shield-Accolade PPO (Actives and Early Retirees)	$52,804,689	$53,845,539	$1,040,850	1.97%
Health Net CanopyCare HMO (Actives and Early Retirees)	$9,020,860	$8,935,592	($85,268)	-0.95%
BSC PPO / EPO (Non-Medicare Split Family Lives)	$7,630,539	$8,097,342	$466,803	6.12%
Kaiser KPSA HMO (Medicare Retirees)	$44,737,910	$48,616,973	$3,879,063	8.67%
BSC MA PPO (Medicare Retirees)	$95,422,541	$99,238,039	$3,815,498	4.00%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	*$929,627,179*	*$990,903,751*	*$61,276,572*	*6.59%*
Dental (Actives Only)	$39,932,535	$42,281,909	$2,349,374	5.88%
Long Term Disability and Life Insurance (Actives Only)	$7,902,115	$7,902,115	$0	0.00%
Total Costs	**$977,461,829**	**$1,041,087,775**	**$63,625,946**	**6.51%**

Source: San Francisco Health Service System

[8] According to HHS, both 2024 and 2025 forecasted costs are based on a March 2024 headcount.
[9] Dental costs are fully paid by retirees.
[10] Long term disability and life insurance plans are not offered to retirees.

RECOMMENDATION

Approve the proposed ordinance.