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: June 17, 2020 Budget and Finance Committee Meeting

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Item 6 File 20-0418	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a fifth modification to the project management support services contract between the Airport and PGH Wong & Partners JV, a joint venture consisting of PGH Wong Engineering, Inc., and Avila and Associates Consulting Engineers, Inc., to (1) increase the contract amount by $7,500,000 from $9,750,000 for a total amount not to exceed $17,250,000, and (2) making findings under the California Environmental Quality Act.

Key Points

- In December 2017, the Airport awarded a new contract to PGH Wong & Partners JV, a joint venture then consisting of PGH Wong Engineering, Inc., CFWright Consulting, LLC, and Avila and Associates Consulting Engineers, Inc., for an initial not to exceed amount of $3,250,000 for one year of service. Because the contract was less than $10 million and less than 10 years, the contract did not require Board of Supervisors' approval.
- Under the proposed contract modification, PGH Wong & Partners JV will continue to provide project management support services for the Courtyard 3 Connector Project, including project and construction management and quality assurance oversight, building code compliance, safety policy, and procedure oversight, project controls, scheduling, contract administration, cost estimating services, and field inspection.

Fiscal Impact

- The proposed resolution would increase the not-to-exceed amount of the contract by $7,500,000 from $9,750,000 for a total amount not to exceed $17,250,000. The source of funds for the proposed contract to PGH Wong & Partners JV will come from Airport Revenue Bonds that are funding the Ascent Program – Phase 1 under the Airport's Capital Improvement Plan.

Policy Consideration

- In order to address the projected revenue shortfall due to the COVID-19 health crisis and reduced air travel, estimated by the Controller and Mayor's Budget Office to be from $190 to $220 million in FY 2019-20, the Airport has identified 35 percent (totaling approximately $1.17 billion) of the remaining Capital Improvement Program (CIP) to suspend for at least six months. The Courtyard 3 Connector Project will not be suspended due to its essential nature and will continue through project completion. The Airport has over $900 million in available Airport Revenue Bond proceeds as of May 31, 2020, authority to issue an additional $2 billion in Airport Revenue Bonds over the next three years to fund Phase 1 of the Ascent Program, and a $500 million commercial paper program that can be used to fund the project if needed.

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

The Airport selected PGH Wong & Partners JV after issuing a competitive Request for Proposals (RFP) in August 2017 to provide project management support services for the Courtyard 3 Connector Project[1] at the Airport. PGH Wong & Partners JV was one of four vendors who submitted a proposal and had the highest-ranking score of 518 points out of a total of 550. The estimated duration of the contract term specified in the RFP is 40 months.

In December 2017, the Airport awarded a new contract to PGH Wong & Partners JV, a joint venture then consisting of PGH Wong Engineering, Inc., CFWright Consulting, LLC, and Avila and Associates Consulting Engineers, Inc., for an initial not to exceed amount of $3,250,000 for one year of service. Because the contract was less than $10 million and less than 10 years, the contract did not require Board of Supervisors' approval.

The Airport modified the contract four times, as shown in Table 1 below. Modifications did not require Board of Supervisors' approval because the total contract amount did not exceed $10 million.

Table 1: PGH Wong & Partners JV Contract Modifications

Modification No.	Date	Description	Not-to-Exceed Amount
1	9/1/18	Amended overhead rates to be consistent with subcontractor back up. No change to contract amount.	$3,250,000
2	2/19/19	Extended contract for second year of services through March 12, 2020.	$8,250,000
3	10/18/19	Amended base labor rates (CPI index allowable increase). No change to contract amount.	$8,250,000
4	2/18/20	Extended contract for services through June 30, 2022, and modified contract to acknowledge that CFWright Consulting, LLC was no longer a member of the joint venture PGH Wong & Partners.	$9,750,000

[1] The Courtyard 3 Connector Project scope includes design and construction of a new secure connector and development of approximately 100,000 square feet of additional space between Terminal 2 and Terminal 3 for passenger amenities, lounges, offices, or other Airport and tenant needs. The project provides systems connections and provides for baggage handling system updates. The project also performs relocation of Airport facilities such as the Communications Center, and Security Operations Center and associated special systems, security, communications, and utilities infrastructure.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a fifth modification to the project management support services contract between the Airport and PGH Wong & Partners JV, a joint venture consisting of PGH Wong Engineering, Inc., and Avila and Associates Consulting Engineers, Inc., to (1) increase the contract amount by $7,500,000 from $9,750,000 for a total amount not to exceed $17,250,000, and (2) make findings under the California Environmental Quality Act. Under the proposed resolution, there will be no change to the contract term of December 19, 2017, through June 30, 2022.

Total Contract Term

The total contract term from December 19, 2017, through June 30, 2022, is approximately 54 months or 14 months longer than the term specified in the original RFP. According to Mr. Victor Madrigal Jr., Principal Contracts Administrator with the Procurement and Contracts Section at the Airport, the contract term extends beyond the term advertised in the RFP because the Courtyard 3 Connector Project and associated design-build contract scope and timeline increased, requiring continued project management and support services The projected 54 month contract duration is consistent with the construction schedule to the Courtyard 3 Connector Project.

Increase in Contract Budget

According to Mr. Kevin Kone, Airport Finance Director, the original budget for project management support services for the Courtyard 3 Connector Project was $11,500,000. The proposed budget under the fifth contract amendment of $17,250,000 is an increase in the original project management support services budget for the Courtyard 3 Connector Project.

According to Mr. Kone, the budget for project management support services increased from the original budget of $11,500,000 to $17,250,000 for the additional scope of work to the design-build contract, including but not limited to the following:

- Additional structural and infrastructure requirements
- New elevator cab
- Net-zero energy initiatives such as mechanical system and dynamic glazing
- Special systems room infrastructure relocation and upgrades of selected systems
- Interim relocation of Airport’s Security Operation center (SOC) and Communications Center that required relocation and upgrade of 911 System and other security systems

Services Provided

As part of the Courtyard 3 Connector Project, the Airport is constructing a new pre-security and post-security connector between Terminal 2 and Terminal 3, as well as an adjacent building for office space, tenant lease space, passenger amenities, and lounges. Under the proposed contract modification, PGH Wong & Partners JV will continue to provide project management support services for the Courtyard 3 Connector Project, including project and construction management and quality assurance oversight, building code compliance, safety policy, and procedure oversight, project controls, scheduling, contract administration, cost estimating services, and field inspection.

According to Mr. Madrigal, the requested increased amount is related to the additional scope of work for the Courtyard 3 Connector Project, which includes updating the building program, adding interior space build-out, increasing infrastructure for essential facility designation, relocating the Airport's Communications and Security Operations Center, and relocating of critical infrastructure for final secure connector alignment.

Performance Monitoring

The proposed contract is subject to compliance with standard reporting and monitoring requirements. Annual performance requirements for the contract include reporting on the following criteria categories:

1) Project controls;
2) Change order preparation;
3) Quality control;
4) Contract administration;
5) Teamwork and communication;
6) Management of the project cost and schedule;
7) Project management support services team management, and
8) General issues (e.g., safety and security, technical expertise, management, responsive to requests, dependability, and trust)

According to the most recent annual performance evaluation dated March 31, 2020, the contractor met or exceeded all performance objectives for each of the criteria categories.

FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount of the contract by $7,500,000 from $9,750,000 for a total amount not to exceed $17,250,000. The source of funds for the proposed contract to PGH Wong & Partners JV will come from Airport Revenue Bonds that are funding the Ascent Program – Phase 1 under the Airport's Capital Improvement Plan. The uses of funds for the proposed PGH Wong & Partners JV contract are shown in Table 2 below.

Table 2. Uses of Funds for Proposed PGH Wong & Partners JV Contract

Uses (Expenditures)	FY 2018-19 (Actual)	FY 2019-20 (Actual)	FY 2020-21 (Budget)	FY 2021-22 (Budget)	Total
Labor (Joint Venture)[2]	$1,561,000	$3,272,000	$3,434,000	$3,699,000	$11,966,000
Labor (Subcontractors)[3]	545,000	1,217,000	1,924,000	1,303,000	4,989,000
Mark-up [4]	11,000	24,000	12,000	-	47,000
Subtotal, labor costs	*$2,117,000*	*$4,513,000*	*$5,370,000*	*$5,002,000*	*$17,002,000*
Other direct costs[5]	*61,000*	*81,000*	*55,000*	51,000	248,000
Total Uses	**$2,178,000**	**$4,594,000**	**$5,425,000**	**$5,053,000**	**$17,250,000**

Source: Airport

According to Mr. Madrigal, staffing for the proposed contract fluctuates depending on the phase of the Courtyard 3 Connector Project. The first year of services included programming and early design and required project, design, and project controls managers, as well as office engineers and administrative staff. Construction for the project began towards the end of the first year of services; consequently, additional staff members joined to manage construction while design continued. Mr. Madrigal states that staffing levels are expected to be relatively stable for FY 2020-21 and FY 2021-22 to manage the design, construction, building startup, and relocation of building occupants into their new offices. According to Mr. Madrigal, the increase in labor costs is primarily because of cost of living changes based on the Consumer Price Index (CPI)[6], as well as fluctuating staffing requirements.

Table 3 below shows the funding breakdown of the requested increased amount of $7,500,000 for the proposed contract.

[2] Key team members include Project Manager, Design Manager, Project Controls Manager, Construction Manager, Mechanical/Electrical/Plumbing Manager, Special Systems Manager, Tenant Manager, Resident Engineer, Office/Project Engineers, Document Control, and Administrative staff.

[3] Subcontractors include Studio 151, Chaves, Montez Group and Saylor.

[4] The Airport removed the mark-up on sub-consultant labor for FY 2021-22.

[5] This includes reimbursable items such as office supplies and partnering facilitation.

[6] For FY 2019-2020, a 3 percent CPI rate increase was used based on the CPI Index San Francisco, April 2019. For FY 2020-21, a 4 percent increase was used.

Table 3. Additional Funding Breakdown for Proposed PGH Wong & Partners JV Contract

Contractor	Category	Amount	Contract Share
PGH Wong	Oversight of Trade/ Construction Contractors	$1,878,000	
PGH Wong	Construction management	1,223,000	
PGH Wong	Architectural Support	840,000	
PGH Wong	Contract Administration	237,000	
PGH Wong	Project Controls	185,000	
Subtotal PGH Wong		4,363,000	58%
Avila & Associates	Project Controls	823,000	
Avila & Associates	Oversight of Trade/ Construction Contractors	30,000	
Subtotal Avila & Assoc		853,000	11%
Studio 151	Construction management	925,000	
Saylor	Project Controls	780,000	
Montez Group	Inspection	490,000	
Chaves	Contract Administration	13,000	
Subtotal Subcontractors		2,208,000	29%
Subtotal Services		*$7,424,000*	*99%*
Partnering *		51,000	
Other Direct Costs		25,000	
Total		**$7,500,000**	100%

Source: Airport

* According to Mr. Madrigal, partnering is a city required service included within the contract. The purpose and goals include the following: early and regular communication with involved parties, establishment of relationships/trust/commitment, discussion of goals, development of risk management strategies, development of project efficiencies, implementation of timely communication and decision making, issue resolution, and partnering evaluation.

POLICY CONSIDERATION

Impact of COVID-19 Health Crisis

The Courtyard 3 Connector Project budget is $293,026,000, of which $67,529,123 has been spent to date. The budget of $293,026,000 is an increase from the FY 2017-18 Capital Improvement Plan (CIP) of $253,700,00. According to Mr. Kone, the increase in the Courtyard 3 Connector Project budget is due to the additional scope of work and extended-time period to the design-build contract.

According to Mr. Kone, this project will not be deferred as part of the Airport's Ascent Program – Phase 1 under the Airport's Capital Improvement Plan. [7] In order to address the projected revenue shortfall due to the COVID-19 health crisis and reduced air travel, estimated by the Controller and Mayor's Budget Office to be from $190 to $220 million in FY 2019-20, the Airport has identified 35 percent (totaling approximately $1.17 billion) of the remaining Capital Improvement Program (CIP) to suspend for at least six months. Mr. Kone states that the CIP reduction will help ensure there is sufficient funding for essential projects and projects in mid-construction. The Courtyard 3 Connector Project will not be suspended due to its essential nature and will continue through project completion. According to Mr. Kone, the Airport has over $900 million in available Airport Revenue Bond proceeds as of May 31, 2020, and authority to issue an additional $2 billion in Airport Revenue Bonds over the next three years to fund Phase 1 of the Ascent Program. Mr. Kone also states that the Airport has a $500 million commercial paper program that can be used to fund the project if needed.

In addition, according to Mr. Madrigal, per the City Administrator's April 1, 2020 safety guidelines, the contractor is adhering to social distancing requirements and COVID-19 Construction Field Safety guidelines, submitted their Site-Specific Health and Safety Plan, designated a Site Safety Representative to monitor and implement all recommended safety practices, and established the level of Personal Protective Equipment (PPE) required for each specific task. According to Mr. Madrigal, as of May 2020, the project scope has not been impacted by the COVID-19 health crisis

RECOMMENDATION

Approve the proposed resolution.

[7] The Ascent Program includes the new Airport Grand Hyatt hotel, completed in October 2019, renovation of the Harvey Milk Terminal (Terminal 1/T1 Program), renovation of the International Terminal, new dining and shopping facilities, and a connector between Terminal 2 and Terminal 3.

Item 7 **File 20-0542**	**Department:** **San Francisco International Airport (Airport)**

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the first amendment to the International Terminal Duty Free and Luxury Store Lease between the Airport as landlord and DFS Group, L.P. (DFS Group) as tenant, to suspend the Minimum Annual Guarantee (MAG) rent of $42,000,000 and instead provide for the payment of percentage rent equal to 33 percent of gross revenues for the remainder of Lease Year 1 from April 1, 2020 through December 31, 2020.

Key Points

- In March 2018, the Board of Supervisors approved a lease agreement between the Airport as landlord and DFS Group as tenant for 12 retail facilities totaling 46,295 square feet, a term of 14 years and a possible automatic extension of up to five years, and initial Minimum Annual Guaranteed (MAG) rent of $42,000,000 (File 18-0079).
- Under the original lease, the lease term was to begin for 11 of the 12 retail sites when construction of tenant improvements to each site was completed. The 12th site was located in Terminal 1 and was not scheduled to open until 2022. Seven of the 11 sites have opened and/or partially opened (the Main stores are being done in phases), with rent payments to the Airport of $46,544,314.
- Under the proposed amendment, for Lease Year 1 (April 1 – December 31, 2020), the MAG is temporarily suspended and DFS Group will pay percentage rent equal to 33 percent of gross revenues. For Lease Year 2, DFS Group would pay the greater of the MAG, $42,000,000, or percentage rent based on gross revenues.

Fiscal Impact

- The Airport identified 33 percent of gross revenues as the highest percentage rent that would be possible for the amended lease, given the sales projections to date while reasonably minimizing pressure on the profit and loss for both DFS Group and its five joint The Airport conservatively projects receiving approximately $11.3 million in percentage rent for Lease Year 1 under the proposed lease amendment.

Policy Consideration

- The Airport projects concession revenues of $244.5 million in FY 2019-20, which is $98.7 million less than budgeted revenues of $343.1 million. The Airport makes an Annual Service Payment to the City's General Fund, equal to 15 percent of concession revenues. The projected Annual Service Payment to the City's General Fund in FY 2019-20 is $36.7 million, which is $14.8 million less than the budgeted payment of $51.5 million.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any 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

The San Francisco International Airport (Airport) selected DFS Group, L.P. (DFS Group) after issuing a competitive request for proposals (RFP) in February 2017 for the International Terminal Duty Free and Luxury Stores Lease. DFS Group was one of four vendors who submitted a proposal and had the highest-ranking score of 96.67 points out of a total of 100.

In March 2018, the Board of Supervisors approved a lease agreement between the Airport as landlord and DFS Group as tenant for 12 retail facilities totaling 46,295 square feet, a term of 14 years and a possible automatic extension of up to five years, and initial Minimum Annual Guaranteed (MAG) rent of $42,000,000 (File 18-0079).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to the International Terminal Duty Free and Luxury Store Lease between the Airport as landlord and DFS Group, L.P.[1] (DFS Group) as tenant, to suspend the Minimum Annual Guarantee (MAG) rent of $42,000,000 and provide for the payment of a percentage rent structure of 33 percent of gross revenues for the remainder of Lease Year 1 ending on December 31, 2020, to commence following Board approval. The lease commenced October 1, 2018. The period between the commencement date and March 31, 2020 was considered the Development Term. Phased construction of the various premises took place during the Development Term and rent was 30 percent of gross revenues. The base lease term is 14 years, from April 1, 2020 through March 2034**.** Lease Year 1 is the period April 1, 2020 through December 31, 2020.

Under the original lease, the lease term was to begin for 11 of the 12 retail sites when construction of tenant improvements to each site was completed. The 12th site was located in Terminal 1 and was not scheduled to open until 2022. Seven of the 11 sites have opened and/or partially opened (the Main stores are being done in phases), with rent payments to the Airport of $46,544,314, as shown in Table 1 below.

[1] Tenant operates the business as a joint venture partnership between DFS Group, L.P., as majority partner, along with five small businesses: Bay Cities Concessions, J.R. Lester & Associates, Marilla Chocolate Co., Skyline Concessions, Inc., and Skyview Concessions, Inc.

Table 1. Facilities Included in DFS Group Lease

Retail Site	Square Feet	Rent Start Date	Rent Paid to Date
Duty Free Store A	10,005	10/1/18	$15,683,737
Duty Free Satellite Store A	1,996	10/1/18	$498,948
Luxury Space A1	2,968	10/1/18	$1,416,644
Luxury Space A2	2,494	10/1/18	$632,881
Luxury Space A3	1,769	10/1/18	$424,824
Kiosk	352	10/1/18	$40,558
International Terminal "A" Total	*19,584*		
Duty Free Store G	17,141	10/1/18	$21,860,869
Duty Free Satellite Store G	1,436	10/1/18	$628,263
Luxury Space G1	730	10/1/18	$1,526,267
Luxury Space G2	1,674	10/1/18	$3,170,810
Luxury Space G3	2,016	10/1/18	$660,513
International Terminal "G" Total	*22,997*		
Terminal 1 (Expected in 2022)	3,714		
Total	**46,295**		**$46,544,314**

Optional Lease Extension

The original lease did not provide options to extend beyond the initial 14-year term. The proposed lease amendment provides an option to extend the lease term beyond the initial 14-year term but this is only related to the Airport constructing a single security checkpoint in the International Terminal (replacing the current two checkpoints). However, according to Ms. Clarissa Mamaril, Acting Senior Principal Property Manager at the Airport, such an event would necessitate a substantial rebuild by DFS Group and it would need an extra term to properly amortize new investment. If this were to occur in the next 7 to 10 years, DFS Group would have to significantly relocate and reconstruct premises. The extension is up to five years depending upon when the single security checkpoint is built and activated.

Suspension of MAG

Under the proposed amendment, for Lease Year 1, (April 1 – December 31, 2020), the MAG is temporarily suspended and DFS Group will pay percentage rent equal to 33 percent of gross revenues. For Lease Year 2, DFS Group would pay the greater of the MAG, $42,000,000, or percentage rent based on gross revenues. The MAG would be adjusted each year to the greater of the existing MAG or 90 percent of actual rent paid in the previous year. The key provisions of the current and amended lease are shown in Table 2 below.

Table 2: Key Provisions of DFS Group Lease Amendment

	Current Lease	Amended Lease
Term	Fourteen years, from approximately July 2019 through June 2033	Fourteen years, from April 1, 2020 through March 2034[2]
Square Footage	Approximately 46,295 square feet across 12 facilities	No changes
Initial MAG Rent	$42,000,000	Minimum Annual Guaranteed rent suspended for Lease Year 1
MAG Adjustment	Annually to the greater of the existing MAG or 90% of rent paid in previous year	No changes
Percentage Rent	45.8% of gross revenues up to $100,000,000 41.8% of gross revenues from $100,000,000 to $150,000,000 30% of gross revenues over $150,000,000	Percentage rent structure for Lease Year 1 to be 33% of gross revenues.
Interim Rent During Construction	30% of gross revenues	No changes
Promotional Fee	$1 per square foot per year	No changes
Deposit Amount	½ of the initial MAG (subject to adjustment)	No changes
Minimum Investment Amount	$1,000 per square foot of the premises ($46,295,000), or a lesser amount deemed sufficient by Design Review Committee	No changes

According to Ms. Mamaril, the lease amendment is needed in response to the significant financial losses anticipated by DFS Group and its five small business joint venture partners during Lease Year 1 due to 1) global economic issues impacting the value of Chinese currency,[3] 2) the growth

[2] Under the original lease, the term would begin when initial improvements are complete or one year after the tenant is given permission to occupy the facility, although the tenant may operate a temporary facility during the development term and pay 30 percent of gross revenues in rent.

[3] According to the Airport, customers from China were responsible for more than one-half of total duty-free sales in recent years. A sharp decline in spending by these customers is thought to be caused by the value of Chinese

of arrivals duty free shopping opportunities in China, and 3) significant reduction in international flights related to the COVID-19 health crisis. The downturn in passengers occurred after the Airport Commission approved this DFS Group lease amendment in March 2020. At the time of approval at the Airport Commission, the Airport projected losses to the tenant during Lease Year 1 to be more than $15 million. Ms. Mamaril states that, since then, DFS' sales performance during Lease Year 1 have continued to decline since the lease amendment was presented for approval at the Commission.

FISCAL IMPACT

According to Ms. Mamaril, the Airport identified 33 percent of gross revenues as the highest percentage rent that would be possible for the amended lease, given the sales projections to date while reasonably minimizing pressure on the profit and loss for both DFS Group and its five joint venture partners. Ms. Mamaril states that the Airport conservatively projects receiving approximately $11.3 million[4] in percentage rent for Lease Year 1 under the proposed lease amendment.

POLICY CONSIDERATION

The Airport's policy is to include provisions in concession leases to suspend the Minimum Annual Guarantee rent if passenger enplanements declined based on a standard formula. According to Ms. Mamaril, most Airport concession leases will suspend the MAG for a few months in FY 2019-20 and for varying lengths of time in FY 2020-21 due to a reduction in passenger enplanements.[5] The Airport projects concession revenues of $244.5 million in FY 2019-20, which is $98.7 million less than budgeted revenues of $343.1 million. The Airport makes an Annual Service Payment to the City's General Fund, equal to 15 percent of concession revenues. The projected Annual Service Payment to the City's General Fund in FY 2019-20 is $36.7 million, which is $14.8 million less than the budgeted payment of $51.5 million.

RECOMMENDATION

Approve the proposed resolution.

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currency and China's efforts to expand duty free shopping opportunities for its citizens upon arrival home from travel abroad.

[4] This includes January through March 2020 actuals ($4,353,403 in percentage rent) and August through December 2020 projections. Percentage rent in CY 2019 was $33,672,313.

[5] According to Ms. Mamaril, the suspension of MAGs is dependent upon current monthly passenger activity in a particular boarding area or areas compared to passenger activity for the same months and boarding area(s) during the year prior to when the lease commenced. Since the leases commenced at different times and the relevant boarding areas vary, the criteria which signal the end of MAG suspension will be met at different times for each individual lease.

Items 8, 9 & 10 Files 20-0545, 20-0546 & 20-0547	Department: Department of Public Health

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve agreements between the Department of Public Health and San Francisco Community Health Authority for Third Party Administrative services and private provider payments for the Healthy San Francisco program (Files 20-0545 and 20-0546) and for Third Party Administrative services for the City's Medical Reimbursement Account programs (File 20-0547).

Key Points

- The Health Care Security Ordinance mandates covered employers make required health care expenditures on behalf of their employees. Covered employers can meet their spending requirements by either: (1) Providing health insurance up to the level required by the Health Care Security Ordinance, (2) Contributing to the SF City Option Program, includes Healthy SF and Medical Reimbursement Account programs, or (3) Contributing to an allowable Health Reimbursement account for employees. Healthy SF provides affordable health care services to uninsured San Francisco residents and is funded by employer contributions, participation fees, service fees, and the General Fund. Medical Reimbursement Accounts are health care accounts funded through employer contributions; individual accounts are set up for covered employees where the funds in the account can be used toward eligible health care expenses.
- San Francisco Community Health Authority oversees the program operations and administration and private provider payments associated with Healthy SF and as well as program enrollment, tracking, marketing, communications for the Medical Reimbursement Account programs.

Fiscal Impact

- The agreements provide $35,308,339 for Third Party Administrator Services for Healthy San Francisco (File 20-0545); $24,908,092 for Administration of Private Provider Payments for Healthy San Francisco program (File 20-0546); and, $49,054,357 for Third Party Administrator Services for the Medical Reimbursement Account programs (Item 20-0547). The contracts are primarily funded through the General Fund.

Policy Consideration

- The contracts are primarily funded through the General Fund, which is facing a projected shortfall of $753.9 million in FY 2020-21. Because these contracts support health insurance for all in San Francisco, DPH does not anticipate making reductions in these services. Because the proposed agreements are consistent with Board of Supervisors policy in approving the Health Care Security Ordinance, the Budget and Legislative Analyst recommends approval.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

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

BACKGROUND

Files 20-0545, 20-0546, and 20-0547 are presented together as they all pertain to the continued implementation of the Health Care Security Ordinance and reflect all three contracts the Department of Public Health (DPH) has with San Francisco Community Health Authority (" Community Health Authority"), doing business as San Francisco Health Plan.

Healthy SF and Medical Reimbursement Accounts

The Health Care Security Ordinance mandates covered employers make required health care expenditures on behalf of their employees. Employers covered by the Health Care Security Ordinance can meet their spending requirements to support their employees' access to health care in one of three ways: (1) Provide health insurance up to the level required by the Health Care Security Ordinance, (2) Contribute to the SF City Option Program, including Healthy SF and Medical Reimbursement Account programs, or (3) Contribute to an allowable Health Reimbursement account for employees.

Healthy SF provides affordable health care services to uninsured San Francisco residents and is funded by employer contributions, participation fees, service fees, and the General Fund.[1] Medical Reimbursement Accounts are health care accounts funded through employer contributions; individual accounts are set up for covered employees where the funds in the account can be used toward eligible health care expenses.[2, 3]

San Francisco Community Health Authority

The Health Care Security Ordinance authorizes DPH to contract with a third-party vendor to administer Healthy San Francisco and Medical Reimbursement Account program operations, including enrollment, tracking service utilization, billing, and communication with the participants. The Board of Supervisors established the San Francisco Community Health Authority as a separate legal entity in 2005 through a Joint Powers Agreement between the City and the

[1] To be eligible for Healthy San Francisco, employees must be a San Francisco resident, uninsured for at least 90 days, age 18 or over, and not eligible for public insurance programs, such as Medi-Cal.

[2] To be eligible for a Medical Reimbursement Account, employers must make contributions for their employees and the employee must live outside San Francisco or have health insurance or be under age 18.

[3] To be eligible for a Covered Medical Reimbursement Account, employers must make contributions to the City Option, and the employee must be a San Francisco resident, be age 18 or older, have income no more than 500% of the federal poverty level, required by law to purchase insurance, not be eligible for Medi-Cal or Medicare, and purchase health insurance through Covered California.

San Francisco Health Authority[4] to administer non-Medi-Cal health programs. After the establishment of the Health Care Security Ordinance in 2006, the Department of Public Health began contracting with the San Francisco Community Health Authority to administer Healthy SF and Medical Reimbursement Account program operations.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve three new agreements between DPH and the San Francisco Community Health Authority for:

- $35,308,339 for Third Party Administrator Services for Healthy San Francisco (File 20-0545)
- $24,908,092 for Administration of Private Provider Payments for Healthy San Francisco program (File 20-0546)
- $49,054,357 for Third Party Administrator Services for the SF City Option Program (Item 20-0547)

Each of these agreements is for a five-year term from July 1, 2020 through June 30, 2025.

Services Provided

Healthy SF – Third Party Administrative Services

File 20-0545 authorizes an agreement between DPH and San Francisco Community Health Authority for the provision of Third Party Administrator services for the Healthy San Francisco Program for health services to eligible uninsured City residents. As part of this agreement the Community Health Authority will (1) Assist in eligibility and enrollment into Healthy San Francisco, (2) Manage and reconcile financial payments to providers, participant fees, and transfers to DPH, (3) Oversee the Healthy San Francisco medical home network and provider contracting, (4) Receive and manage utilization data from providers, analyzing and producing utilization reports, (5) Communicate Healthy San Francisco program information to participants and responding to Healthy San Francisco participant complaints and inquiries, (6) Manage training and communications to those assisting with Healthy San Francisco, (7) Maintain a customer service/call center with language capacity in English, Cantonese, Spanish and access to Tagalog language assistance as needed, and (8) Provide other administrative functions as required. Staffing for this contract includes 32.85 full-time equivalent (FTE) positions.

Healthy SF – Fiscal Administration of Private Provider Payments

File 20-0546 authorizes an agreement between DPH and Community Health Authority to provide payments to the participating medical homes delivering services to Healthy San Francisco enrollees for primary, preventive, specialty and inpatient services. There are four medical home provider networks delivering services to Healthy San Francisco enrollees: These health network

[4] The San Francisco Health Authority was established as a separate legal entity by the Board of Supervisors in 1994, following enabling legislation by the State Legislature, to serve as a managed care health plan for Medi-Cal beneficiaries.

providers include: SF Health Network, SF Community Clinic Consortium, Kaiser Permanente, and Sister Mary Philippa Health Center.[5] Included in this contract is $350,000 annually to provide gender affirming surgeries for Gender Health SF's uninsured patients. DPH estimates that Community Health Authority will provide reimbursements to health care providers for 33,724 unique clients at non-SF Health Network providers and provide administrative services for provision of gender affirming medical and surgical services for 10 clients over the course of the contract. This plan is a managed care plan in which providers are paid a per capita payment for enrolled participants; providers are reimbursed based on monthly Healthy San Francisco enrollment.

Medical Reimbursement Accounts – Third Party Administrative Services

File 20-0547 authorizes an agreement between DPH and San Francisco Community Health Authority to provide Third Party Administrator services for the SF City Option program, which funds services through Medical Reimbursement Accounts and SF Covered Medical Reimbursement Accounts. This agreement consolidates the Third Party Administrator services for the SF Medical Reimbursement Account and SF Covered Medical Reimbursement Account programs into one contract. The Community Health Authority will oversee SF City Option Program operations, including: (1) Vendor management and contracting; (2) Enrollment and eligibility; (3) Processing employer rosters and payments; (4) Tracking and managing all contributions and accounts; (5) Employer and employee outreach and training activities; (6) Maintaining account monitoring program; (7) Developing and implementing DPH priority activities; and, (8) Coordination with the Office of Labor Standards Enforcement. The Community Health Authority will also provide product management and analytics, finance management and oversight, and customer services. Staffing for this contract includes 44.50 FTEs. The San Francisco Community Health Authority will subcontract for Medical Reimbursement customer service, web portal management, claims processing, electronic funds transfer, online form development, and ensuring participant contact information remains up to date.

Performance Monitoring

Each agreement outlines a set of deliverables, and requirements for regular reporting. According to Ms. Michelle Ruggels, DPH Director of Business Services, and Alice Kurniadi, Program Manager, DPH monitors the performance of the Community Health Authority through regular monthly and ad hoc check-in meetings where they discuss progress of priority projects and ongoing activities. The Community Health Authority also provides monthly, quarterly, and annual reports and cover program deliverables and service and program performance.

[5] SF Health Network is made up of DPH clinics and hospital services; SF Community Clinic Consortium is made up of public and nonprofit outpatient services; and Sister Mary Philippa Health Center and Saint Mary's Hospital are part of Dignity Health.

FISCAL IMPACT

Healthy SF Third Party Administrator and Private Provider Payment Agreements

Table 1 below summarizes proposed agreement spending for Third Party Administrator services for Healthy San Francisco (File 20-0545).

Table 1. Proposed Expenditures for Healthy SF Third Party Administrator Services Agreement

Uses of Funds	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	Total
Salaries + Benefits	$4,194,324	$4,341,125	$4,493,064	$4,650,321	$4,813,083	$22,491,917
Operations Costs	$952,139	$1,880,674	$1,926,629	$2,020,132	$2,253,813	$9,033,386
Subtotal	**$5,146,463**	**$6,221,799**	**$6,419,693**	**$6,670,453**	**$7,066,896**	**$31,525,303**
Contingency (12%)	$617,575	$746,616	$770,363	$800,454	$848,027	$3,783,036
Total	**$5,764,038**	**$6,968,415**	**$7,190,056**	**$7,470,907**	**$7,914,923**	**$35,308,339**

Source: Appendix B to Proposed Contract

Table 2 below summarizes the uses of the proposed contract spending for Private Provider Payments for Healthy San Francisco (File 20-0546).

Table 2. Proposed Expenditures Healthy SF Private Provider Payments Agreement

Uses of Funds	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	Total
Provider Payment	$3,419,813	$3,931,360	$4,245,935	$4,378,708	$4,513,551	$20,489,367
Gender Affirming Services & Admin Fee	$350,000	$350,000	$350,000	$350,000	$350,000	$1,750,000
Subtotal	**$3,769,813**	**$4,281,360**	**$4,595,935**	**$4,728,708**	**$4,863,551**	**$22,239,368**
Contingency (12%)	$452,378	$513,763	$551,512	$567,445	$583,626	$2,668,724
Total	**$4,222,191**	**$4,795,123**	**$5,147,447**	**$5,296,153**	**$5,447,177**	**$24,908,092**

Source: Appendix B to Proposed Contract

There is no staffing associated with this contract, which passes through funding to reimburse Healthy San Francisco medical providers.

Healthy SF Agreement Funding

Funding for these two Healthy SF agreements is provided through the City General Fund. Healthy SF collects participation and service fees along with employer contributions, which offset some of the General Fund contribution. In FY 2018-19 Healthy SF collected $2,767,673 in participant and point of service fee revenue and $3,077,786 in employer contributions.

Medical Reimbursement Accounts – Third Party Administrative Services

Table 3 below summarizes the uses of the proposed contract spending for Third Party Administrator services for Medical Reimbursement Accounts (File 20-0547).

Table 3. Proposed Expenditures for Medical Reimbursement Accounts, Third Party Administrator Services Agreement

Uses of Funds	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	Total
Salaries + Benefits	$5,526,694	$5,720,128	$5,920,333	$6,127,545	$6,342,009	$29,636,709
Operations Costs	$2,402,647	$2,530,527	$2,834,350	$2,996,450	$3,397,850	$14,161,824
Subtotal	**$7,929,341**	**$8,250,655**	**$8,754,683**	**$9,123,995**	**$9,739,859**	**$43,798,533**
Contingency (12%)	$951,521	$990,079	$1,050,562	$1,094,879	$1,168,783	$5,255,824
Total	**$8,880,862**	**$9,240,734**	**$9,805,245**	**$10,218,874**	**$10,908,642**	**$49,054,357**

Source: Appendix B to Proposed Contract

Medical Reimbursement Accounts Agreement Funding

Funding for SF City Option agreement is through the City General Fund. There are no fees or charges associated with the Medical Reimbursement Accounts that provide revenue to cover contract expenditures.

POLICY CONSIDERATION

The Budget Outlook Update (May Joint Report), prepared by the Budget and Legislative Analyst's Office, Mayor's Budget Office, and Controller, projected FY 2019-20 shortfall in the General Fund budget of $246.2 million due to the impacts of the COVID-19 public health emergency and a slower economic recovery. That shortfall is projected to increase to $753.9 million in FY 2020-21 and continue into subsequent fiscal years. The Mayor's Budget Office presented the Mayor's Budget Instructions to the Board of Supervisors on May 18, 2020, which provided for a 10 percent reduction in City departments' General Fund budgets; services to vulnerable and underserved populations are given priority for funding.

Ms. Ruggels reports reduction to these services would impact the individuals that receive health care coverage through these programs and that DPH does not anticipate proposing any reductions in funding for the services and payments provided through these agreements. Because the proposed agreements are consistent with Board of Supervisors policy in approving the Health Care Security Ordinance, the Budget and Legislative Analyst recommends approval.

RECOMMENDATION

Approve the proposed resolutions.