

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

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst



SUBJECT: July 13, 2017 Budget and Finance Sub-Committee Meeting

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| Item 3 File 17-0509 | Department: Municipal Transportation Agency (MTA) |
| EXECUTIVE SUMMARY | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve the third amendment to the contract between SFMTA and NextBus for software and equipment maintenance services for the Automatic Vehicle Location System, (a) extending the contract for one year for a total five-year term from August 1, 2013 through July 31, 2018, with one (1) one-year option to extend the contract through July 31, 2019, and (b) increasing the total contract amount by \$3,780,474, from \$9,188,202 to \$12,968,676. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In 2002 SFMTA and NextBus entered into a contract for NextBus to provide the City with an Automatic Vehicle Location System, which provides real-time vehicle location information to SFMTA management and customers of the location and expected arrival time of transit vehicles operated by the Municipal Railway. SFMTA entered into a new four-year contract with NextBus for software and equipment maintenance services for the not-to-exceed amount of \$7,890,220 from August 1, 2013 through July 31, 2017. The contract has been amended twice, increasing the contract not-to-exceed amount to \$9,188,202. • The third amendment to the contract, extending the contract term to July 31, 2019, is intended to give the SFMTA sufficient time to design, plan, and select a replacement vehicle location and customer information system through a competitive process. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The contract amount for the additional two-year contract term, including the one-year option, from August 1, 2017 through July 31, 2019 is \$3,780,474 or \$1,890,237 annually. Contract expenditures are for software, maintenance, and wireless fees related to the automatic vehicle location technology on vehicles and signs at bus stops. • Actual and projected contract expenditures from August 1, 2013 through July 31, 2019 are \$12,444,090. Therefore the total not to exceed amount should be reduced by \$524,586 from \$12,968,676 to \$12,444,090. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to reduce the total not to exceed contract amount by \$524,586 from \$12,968,676 to \$12,444,090. • Approve the proposed resolution as amended. | |

MANDATE STATEMENT

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

BACKGROUND

The San Francisco Municipal Transportation Agency's (SFMTA) Automatic Vehicle Location System provides real-time vehicle location information to SFMTA management and customers of the location and expected arrival time of transit vehicles operated by the Municipal Railway. In 2002 SFMTA and NextBus entered into a contract for NextBus to provide the City with an Automatic Vehicle Location System.¹

Following the expiration of the original contract between SFMTA and NextBus, SFMTA entered into a new four-year contract with NextBus for software and equipment maintenance services for the not-to-exceed amount of \$7,890,220 from August 1, 2013 through July 31, 2017. These services include maintaining the wireless network, providing and configuring SIMs² to Automatic Vehicle Location System trackers and signs, and on-going monitoring of the system. SFMTA awarded this contract on a sole source basis to NextBus because NextBus provided the Automatic Vehicle Location System.

SFMTA signed the first amendment to the maintenance contract with NextBus in January 2014 to expand the Automatic Vehicle Location System and perform additional upgrades for an additional \$800,000 increasing the total not-to-exceed amount to \$8,690,220.

SFMTA signed the second amendment to the maintenance contract with NextBus in August 2016 to fund 2G-to-3G³ equipment upgrades to public signs for an additional \$497,982, increasing the total not-to-exceed amount to \$9,188,202.

The existing contract between SFMTA and NextBus and the two contract amendments were not subject to Board of Supervisors approval because the contract did not exceed 10 years or \$10 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third amendment to the contract between SFMTA and NextBus for software and equipment maintenance services for the Automatic Vehicle Location System, (a) extending the contract for one year for a total five-year term from August 1, 2013 through July 31, 2018, with one (1) one-year option to extend the contract through July

¹ SFMTA was not able to provide information on whether the original contract with NextBus in 2002 was awarded through a competitive Request for Proposals process.

² A subscriber identity module (SIM) is a small circuit board in most modern phones that contains unique information that identifies the phone to a specific mobile network.

³ 2G and 3G stand for the second and third generation of wireless telecommunications technology.

31, 2019, and (b) increasing the total contract amount by \$3,780,474, from \$9,188,202 to \$12,968,676.

According to Mr. Julian Metcalf, SFMTA IT Business Operations Manager, the third amendment to the contract will give the SFMTA sufficient time to design, plan, and select a replacement vehicle location and customer information system through a competitive process. SFMTA released a request for information in April 2017, and initial submissions were due on May 26, 2017. SFMTA plans to release a Request for Proposals (RFP) and select a new contractor to provide Automatic Vehicle Location System services in the fall of 2017. SFMTA staff plan to seek approval from the SFMTA Board of Directors and the Board of Supervisors for the new system in the winter of 2018, with the implementation beginning in the summer of 2018 and completing in the fall of 2019, as seen in Table 1 below.

Table 1: Key Dates for SFMTA’s Implementation of New Automatic Vehicle Location System

| Milestone | Tentative Date |
|--|-------------------------|
| Request for Information (RFI) | Spring 2017 |
| Request for Proposals (RFP) release | Summer 2017 |
| RFP responses due | Summer 2017 |
| RFP oral evaluations and selection | Fall 2017 |
| Negotiations | Fall 2017 - Winter 2018 |
| Approvals: SFMTA Board, Board of Supervisors | Winter 2018 |
| Phase 1 Base System Implementation | Summer 2018 |
| Phase II System Implementation | Summer – Fall 2019 |

According to Mr. Metcalf, although SFMTA expects to have the new contract in place by the winter of 2018, SFMTA is requesting the one-year option to extend the existing contract with NextBus to July 31, 2019 to allow sufficient time to transition from the existing to a new Automatic Vehicle Location System.

FISCAL IMPACT

The contract amount for the additional two-year contract term, including the one-year option, from August 1, 2017 through July 31, 2019 is \$3,780,474, or \$1,890,237 annually as shown in Table 2 below.

Table 2: Third Amendment Budget

| Purpose | Year One | Year Two | Total |
|--|--------------------|--------------------|--------------------|
| Signs | | | |
| Software | \$394,243 | \$394,243 | \$788,486 |
| Wireless Fees | 225,192 | 225,192 | 450,384 |
| Maintenance | 164,834 | 164,834 | 329,668 |
| Contingency ^a | 100,000 | 100,000 | 200,000 |
| Subtotal (Signs) | \$884,269 | \$884,269 | \$1,768,538 |
| Vehicles | | | |
| Software | 539,136 | 539,136 | 1,078,272 |
| Wireless Fees, Maintenance, Contingency ^b | 466,832 | 466,832 | 933,664 |
| Subtotal (Vehicles) | \$1,005,968 | \$1,005,968 | \$2,011,936 |
| Total | \$1,890,237 | \$1,890,237 | \$3,780,474 |

^a This contingency cost is for additional, new, modified or upgrades signs.

^b This contingency cost includes additional services that the SFMTA may determine are necessary, including wireless services and maintenance for trackers, tracker leases, AVLS software, or other or additional hardware upgrades and additions.

If the proposed resolution is approved, the total contract not-to-exceed amount would be \$12,968,756 from the period of August 1, 2013 through July 31, 2019. However, as shown in Table 3 below, actual and projected contract expenditures from August 1, 2013 through July 31, 2019 are \$12,444,090. Therefore the total not to exceed amount should be reduced by \$524,586 from \$12,968,676 to \$12,444,090, as shown in Table 3 below.

Table 3: Recommended Contract Not-to-Exceed Amount

| | |
|--|--------------------|
| Current Contract Not-to-Exceed Amount | \$9,188,202 |
| Contract Expenditures (Actual and Projected) | <u>(8,663,616)</u> |
| Remaining Contract Authority | \$524,586 |
| Proposed Contract Not-to-Exceed Amount | \$12,968,676 |
| Less Remaining Contract Authority | <u>(524,586)</u> |
| Recommended Contract Not-to-Exceed Amount | \$12,444,090 |

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the total not to exceed contract amount by \$524,586 from \$12,968,676 to \$12,444,090.
2. Approve the proposed resolution as amended.

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|---|--|
| Item 4 File 17-0510 | Department: Department of Human Resources (DHR) Municipal Transportation Agency |
| EXECUTIVE SUMMARY | |
| Legislative Objectives | |
| <ul style="list-style-type: none"> • The proposed resolution would authorize the San Francisco Municipal Transportation Agency (SFMTA) and the Department of Human Resources (DHR) to execute a contract with Intercare Holdings Insurance Services, Inc. (Intercare) for workers' compensation third party administrator services for an amount not to exceed \$26,179,119. The term of the proposed contract is three years from August 1, 2017 through July 31, 2020, with an option to extend the term for up to an additional two years through July 31, 2022 at the sole discretion of SFMTA and DHR, or a total of five years. | |
| Key Points | |
| <ul style="list-style-type: none"> • The City has administered its self-insured workers' compensation program through the Department of Human Resources (DHR) since 1932. In 2000, Proposition E amended the City Charter to authorize the San Francisco Municipal Transportation Agency (SFMTA) to administer its own workers' compensation claims. • In November 2012, the Board of Supervisors approved a joint contract between SFMTA and DHR with Intercare for workers' compensation third party administrator services to manage workers' compensation claims brought by SFMTA and other City employees (File 12-1043). The contract had an initial three-year term from November 1, 2012 through October 31, 2015, with two optional one year extensions through October 31, 2017. SFMTA and DHR have amended the contract three times to modify the term from November 1, 2012 term to July 31, 2017. • SFMTA and DHR selected Intercare after issuing a request for proposals (RFP) on June 8, 2016 to select a new contractor to provide third-party administrator services for workers' compensation claims. | |
| Fiscal Impact | |
| <ul style="list-style-type: none"> • Payment for contract services is not-to-exceed \$26,179,119 over five years including the initial three-year contract term and the two-year extension option. The total contract costs include payment for 34.50 full time contract staff, nurse triage service, website maintenance and other administrative expenses. • The fees for the proposed contract include a three percent annual cost of living adjustment applied to the second and each subsequent contract year, contingent on Intercare providing equivalent wage increases to employees assigned to City claims, as may be necessary to meet market employment rates. | |
| Recommendation | |
| <ul style="list-style-type: none"> • 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 City has administered its self-insured workers' compensation program through the Department of Human Resources (DHR) since 1932¹. In 2000, Proposition E² amended the City Charter to authorize the San Francisco Municipal Transportation Agency (SFMTA) to administer its own workers' compensation claims. Collectively, the two departments are responsible for the administration of workers' compensation benefits for all 36,334 City employees and Community College employees³.

In November 2012, the Board of Supervisors approved a joint contract between SFMTA and DHR⁴ with Intercare Holdings Insurance Services, Inc. (Intercare) for workers' compensation third party administrator services to manage workers' compensation claims brought by SFMTA and other City employees (File 12-1043). The contract had an initial three-year term from November 1, 2012 through October 31, 2015, with two optional one year extensions through October 31, 2017. SFMTA and DHR have amended the contract three times to modify the term from November 1, 2012 term to July 31, 2017.

Competitive Process

SFMTA and DHR issued a competitive request for proposals (RFP) on June 8, 2016 to select a new contractor to provide third-party administrator services for workers' compensation claims. Proposals were due on June 27, 2016. A total of six proposals were received from Acclamation Insurance Management Services, Athens Insurance Services, Broadspire Services, Intercare, JT2 Integrated Resources, and Tristar Insurance Group. The RFP selection panel consisted of individuals knowledgeable on the subject matter and included staff from SFMTA and DHR. The final scoring of the six proposals is in Table 1 below.

¹ This is pursuant to Section 10.102 of the City Administrative Code.

² Proposition E amended the City Charter, creating the SFMTA by combining the transit operations of the Municipal Railway and the street operations of the Department of Parking and Traffic into a single agency.

³ According to SFMTA and DHR, this includes approximately 30,516 employees under the DHR program and 5,818 employees under the SFMTA program.

⁴ DHR currently processes approximately two-thirds of their workers' compensation claims in-house and the remaining one-third of their claims through third party administrator services.

Table 1: Final RFP Scoring for Workers' Compensation Third Party Administrator Services Contract

| Firms | Total Score of Selection Committee Members |
|---|---|
| Intercare Holdings Insurance Services, Inc. | 350 |
| Athens Insurance Services, Inc. | 320 |
| Broadspire Services | 320 |
| Acclamation Insurance Management Services | 300 |
| Tristar Insurance Group | 255 |
| JT2 Integrated Resources | 250 |

Source: SFMTA

DETAILS OF PROPOSED LEGISLATION

Based on a competitive RFP process, the proposed resolution would authorize the San Francisco Municipal Transportation Agency (SFMTA) and the Department of Human Resources (DHR) to execute a contract with Intercare Holdings Insurance Services, Inc. (Intercare) for workers' compensation third party administrator services for an amount not to exceed \$26,179,119. The term of the proposed contract is three years from August 1, 2017 through July 31, 2020, with an option to extend the term for up to an additional two years through July 31, 2022 at the sole discretion of SFMTA and DHR, or a total of five years.

Under the proposed contract, Intercare will provide workers' compensation claims administration services for both SFMTA and the DHR workers' compensation programs. The scope of services for SFMTA and DHR claims will include overall claims management, medical and disability claims management, claims investigation and discovery, subrogation and third party claim settlement, litigation support and management, and settlement of employee claims. Additionally, Intercare will provide nurse triage and pharmacy benefit management services to claimants under the proposed contract.

FISCAL IMPACT

Table 2 below shows Intercare's annual fixed fees in a total not-to-exceed amount of \$26,179,119 over five years including the initial three-year contract term and the two-year extension option. The total contract costs include payment for 34.50 full time contract staff, nurse triage service, website maintenance and other administrative expenses.

Table 2: Intercare's Annual Fixed Fees per Service Year for SFMTA and DHR

| Year | DHR | SFMTA | Total |
|---|---------------------|---------------------|---------------------|
| Year 1 | \$1,894,798 | \$2,640,110 | \$4,534,908 |
| Year 2 | 1,950,354 | 2,718,026 | 4,668,380 |
| Year 3 | 2,008,865 | 2,799,566 | 4,808,431 |
| <i>Subtotal for Three-Year Contract</i> | | | <i>\$14,011,719</i> |
| Year 4 (Option) | 2,069,130 | 2,883,553 | 4,952,683 |
| Year 5 (Option) | 2,131,204 | 2,970,060 | 5,101,264 |
| <i>Subtotal for Five-Year Contract</i> | | | <i>\$10,053,947</i> |
| As-Needed Services ⁵ | 1,547,853 | 565,600 | 2,113,453 |
| Total Five-Year Not-to-Exceed Amount | \$11,602,204 | \$14,576,915 | \$26,179,119 |

The fees for the proposed contract include a three percent annual cost of living adjustment applied to the second and each subsequent contract year, contingent on Intercare providing equivalent wage increases to employees assigned to City claims, as may be necessary to meet market employment rates.

RECOMMENDATION

Approve the proposed resolution.

⁵ On an as-needed basis, the City may direct Intercare to perform additional claims management tasks. As-needed services that the City may request from Intercare include, but are not limited to the following: (i) staff training to City and SFMTA employees concerning workers' compensation claims management medical treatment review, basic investigation techniques, fraud awareness, workplace safety, claims trends and other topics as the City may require to assist the City and City personnel in managing workers' compensation claims and costs. (ii) temporary claims examiners when requested by the City (iii) safety and loss control services by a Certified Safety and Loss Control Professional as requested by the City by task order. Task orders may include research and other consulting services concerning any aspect of workplace safety, root cause analyses, Occupational Safety and Health Administration (OSHA) regulations compliance, and biohazard handling.

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| <p>Item 5 File 17-0570</p> | <p>Department: San Francisco Public Utilities Commission (SFPUC) Treasure Island Development Authority (TIDA)</p> |
| <p>EXECUTIVE SUMMARY</p> | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • Resolution approving and authorizing the execution of a Memorandum of Understanding (MOU) between the Treasure Island Development Authority (TIDA) and the San Francisco Public Utilities Commission (SFPUC) for proposed new wastewater treatment and recycled water treatment facilities to serve Treasure Island and Yerba Buena Island. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The existing wastewater facilities for Treasure Island and Yerba Buena Island were constructed in 1961, and upgraded in 1969 and 1989. In October 2013, the Board of Supervisors approved \$10,000,000 of capital improvement funding to address critical repairs to the existing utility infrastructure. The wastewater facilities on Treasure Island are now beyond their useful life and require major capital improvements. The planned capital improvement project is part of the SFPUC’s 10-year Capital Plan. • Since 1997, TIDA has operated all of the Navy facilities on Treasure and Yerba Buena Islands and is the service provider for all Treasure Island and Yerba Buena Island utility customers. Since 2013, the Board of Supervisors has approved annual Memoranda of Understanding (MOUs) between TIDA and SFPUC for the SFPUC to operate and maintain utility services on Treasure and Yerba Buena Islands, including wastewater services. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • SFPUC is responsible for completing and funding the construction and operation of the new wastewater treatment facilities and has programmed a total of \$67,398,000 in the SFPUC’s ten-year capital plan. Since FY 2011-12, \$3,605,000 has been appropriated. SFPUC will appropriate the entire \$67,398,000 over the next several fiscal years, including \$20,463,000 in FY 2017-18, \$22,240,000 in FY 2018-19, and \$21,090,000 in FY 2019-20, subject to appropriation approval by the Board of Supervisors. • SFPUC anticipates using commercial paper to finance the project initially and then issuing SFPUC revenue bonds in 2020 when construction begins. Debt service will be repaid annually from additional Wastewater revenues received from SFPUC wastewater customers. The rate increase will be approximately \$0.96 per average monthly bill. • SFPUC estimates the new Wastewater facility will cost approximately \$3.6 million per year to operate, which will also be funded by SFPUC customers. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • 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 (a) has a term of more than ten years, (b) requires expenditures of \$10 million or more, or (c) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

Treasure Island and Yerba Buena Island Base Closure

The United States Navy previously owned and operated a military base on Treasure Island and Yerba Buena Island. As part of the 1993 Base Realignment and Closure Commission recommendations and subsequent federal actions, the Treasure Island and Yerba Buena Island Base (Base) was slated for closure and disposition. The City and County of San Francisco (City) was designated as the responsible entity for the conversion of the Base. In 1997, the Base ceased operations.

Treasure Island Development Authority

On May 2, 1997, the Board of Supervisors authorized the establishment of a nonprofit public benefit corporation, known as the Treasure Island Development Authority (TIDA), to act as the entity to plan, redevelop, reconstruct, rehabilitate, reuse and convert Treasure Island and Yerba Buena Island for the public interest, convenience, welfare and common benefit for the City (File 244-97-3; Resolution No. 380-97). To date, the Navy has transferred approximately 60% of the agreed upon property to TIDA with the remaining Navy properties to be transferred over the next five years, as the Navy environmentally remediates these properties.

Planned Redevelopment of Treasure and Yerba Buena Islands

In 2011, TIDA entered into a Disposition and Development Agreement (DDA) with Treasure Island Community Development, LLC (TICD) as the developer for the planned redevelopment of Treasure Island and Yerba Buena Island. When fully developed, the project will include 8,000 new residential units, including below-market rate units, accommodating 20,000 to 25,000 people, up to 500 hotel rooms, up to 550,000 square feet of restaurants, retail, office and commercial space, a marina and 300 acres of parks and open space. As part of the DDA, the developer is responsible for the design and construction of the necessary infrastructure, including water and recycled water distribution systems and the wastewater and storm water collection systems. Upon completion, the San Francisco Public Utilities Commission (SFPUC) will be responsible to operate and maintain the water and recycled water distribution systems and the wastewater and storm water collection and control systems.

Existing Wastewater Facilities

The existing wastewater facilities for Treasure Island and Yerba Buena Island were originally constructed in 1961 on Treasure Island to provide primary treatment only. These facilities were upgraded in 1969 to provide secondary treatment. The last upgrade in 1989 increased the treatment capacity to 2.0 million gallons per day for average dry weather flow (ADWF).

According to Mr. Thomas Birmingham, Project Manager for the Treasure Island Wastewater Treatment Plant and Recycled Water Facility at the SFPUC, these wastewater facilities are now beyond their useful life and require major capital improvements. In addition, the future Treasure Island development will require recycled water for both irrigation and indoor toilet flushing. The existing wastewater facilities do not produce recycled water. Mr. Birmingham advises that the planned capital improvement project is in the SFPUC's 10-year Capital Plan.

Since 1997, TIDA has operated all of the Navy facilities on Treasure and Yerba Buena Islands, and in accordance with the agreements between the Navy and TIDA, TIDA is the service provider for all Treasure Island and Yerba Buena Island customers. However, the SFPUC actually maintains and operates the electricity, gas, water, waste water and storm water utilities for TIDA. Since 2013, the Board of Supervisors has approved annual Memoranda of Understanding (MOUs) between TIDA and SFPUC for the SFPUC to operate and provide such utility services on Treasure and Yerba Buena Islands.

In October 2013, the Board of Supervisors approved \$10,000,000 of capital improvement funding to address critical repairs to the existing utility infrastructure, through the issuance of up to \$13,500,000 of Certificates of Participation (COPs) (File Nos. 13-0885 and 13-0883). The \$10,000,000 capital funds included \$6.9 million for wastewater and stormwater, \$2.35 million for water and \$750,000 for electrical improvements. Debt service on the COPs will be repaid over ten years by TIDA from utility user charges revenues and General Fund appropriations.

Interagency Cooperation Agreement

On June 7, 2011, the Board of Supervisors approved an Interagency Cooperation Agreement between the City and TIDA to finance, design, construct, own and operate a new Wastewater Treatment Facility on Treasure Island, subject to future specific terms and Memorandum of Understanding (MOU) (File 11-0291; Resolution No. 241-11). On March 8, 2017, the TIDA Board of Directors authorized the TIDA Director of Island Operations to execute the proposed MOU (TIDA Resolution No. 17-06-03/08). On April 25, 2017 the SFPUC authorized the SFPUC General Manager to execute the proposed MOU, subject to the Board of Supervisors approval (SFPUC Resolution No. 17-0089).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve and authorize the execution of a Memorandum of Understanding (MOU) between the Treasure Island Development Authority (TIDA) and the San Francisco Public Utilities Commission (SFPUC) for proposed new wastewater treatment and recycled water treatment facilities to serve Treasure Island and Yerba Buena Island.

On June 14, 2011, the Board of Supervisors approved the Treasure Island-Yerba Buena Island Project (Project) as defined in the Treasure Island/Yerba Buena Island Development Agreement, which included construction of the subject wastewater treatment and recycled water treatment facilities (File 11-0226; Resolution No. 95-11). As part of this approval, the Board reviewed and adopted the required California Environmental Quality Act (CEQA) findings, mitigation and monitoring program and statement of overriding considerations related to the Project. The proposed resolution finds that the Board of Supervisors previously

reviewed these final environmental documents, incorporates these findings and documents, and determines them to be adequate to approve the terms of the subject MOU and authorize SFPUC and TIDA to execute this MOU.

The subject MOU specifies the following:

- Identifies the responsibilities of the SFPUC, TIDA and others during the phased development of the wastewater treatment facilities;
- Construction contracts will not be awarded until any required additional CEQA documents are certified or adopted and permits obtained by the SFPUC¹;
- TIDA will ensure timely demolition of existing structures on the site and prepare site to SFPUC specifications²;
- SFPUC will provide the necessary real property improvements to the project site prior to construction³;
- TIDA will transfer fee simple title and easement interests to the SFPUC for the project site construction and operation, including location of discharge facilities⁴;
- SFPUC will develop new wastewater treatment facilities necessary for the treatment and discharge of sanitary sewage, including production of recycled water on Treasure Island;
- SFPUC's right to continued use of existing comparable property to support existing contracted utility services and future public utility operations; and
- TIDA will transfer an additional 4-6 acre remediated parcel contiguous to the project site to SFPUC at no cost to the SFPUC within one year of completion Major Phase 4 of the Treasure Island and Yerba Buena Island development project. The SFPUC would likely use this additional parcel as a corporation yard, or for other related water treatment or utility functions.

The subject MOU would commence in 2017 and extend until all the obligations have been completed, which is estimated to be within one year of Major Phase 4 completion of the Treasure Island and Yerba Buena Island development project. Currently, Major Phase 4 is scheduled for completion in 2034, but is subject to change based on market conditions and developer options.

¹ The Final Environmental Impact Report (FEIR) states that since no specific processes or equipment were identified for the SFPUC's wastewater treatment plant project when the FEIR was prepared, an additional CEQA review may be conducted when such processes and equipment are specified.

² The site is approximately 9.89 acres, of which 4-6 acres are available to the SFPUC for the new wastewater treatment facilities. In accordance with the DDA between TIDA and TICD, the developer, TIDA will pass this obligation to the developer at no cost to TIDA. Existing Navy buildings are on the site which will require abatement, demolition and geotechnical site preparation.

³ Both the Navy and TICD, the developer, are responsible for completing this work, at no cost to the SFPUC or TIDA.

⁴ TICD is paying the Navy for the land and preparing all legal descriptions and deeds for easements.

SFPUC anticipates issuing a RFP for a design consultant for the wastewater facilities in August 2017 with the designs completed in early 2020. A RFP for construction is then anticipated to be issued in early 2020, with construction completed in late 2021. SFPUC anticipates the wastewater treatment facilities will be fully operational in 2022.

FISCAL IMPACT

As discussed in the footnotes above, many of the preliminary responsibilities identified in the subject MOU are to be completed and financed by other parties, including the Navy and/or TICD, the developer for Treasure and Yerba Buena Islands, at no cost to the SFPUC or TIDA.

The SFPUC is responsible for completing and funding the construction and operation of the new wastewater treatment facilities including recycled water treatment facilities from Wastewater revenues paid by SFPUC wastewater ratepayers. SFPUC has programmed a total of \$67,398,000 in the SFPUC capital plan for the development and construction of the new Treasure Island Wastewater Treatment Plan and Recycled Water Facility. Since FY 2011-12, \$3,605,000 has been appropriated in SFPUC budgets for this project. The SFPUC's FY 2017-18 budget, previously approved by the Board of Supervisors included \$20,463,000 for this project. An additional \$22,240,000 is anticipated to be included in the SFPUC's FY 2018-19 budget and \$21,090,000 is anticipated to be included in the SFPUC's FY 2019-20 budget for this project. As shown in the Table below, SFPUC anticipates appropriating the entire \$67,398,000 over the next several fiscal years, subject to appropriation approval by the Board of Supervisors.

Table: SFPUC Actual and Projected Appropriations

| Fiscal Years | Amounts |
|---------------------|---------------------|
| Since FY 2011-12 | \$3,605,000 |
| FY 2017-18 | 20,463,000 |
| FY 2018-19 | 22,240,000 |
| FY 2019-20 | 21,090,000 |
| Total | \$67,398,000 |

SFPUC anticipates using commercial paper, previously authorized by the Board of Supervisors, to finance the project through the design phase and then issuing SFPUC revenue bonds in 2020 when construction begins. Debt service on the bonds would be repaid annually from additional Wastewater revenues received from SFPUC wastewater customers. This project is included in the SFPUC's ten-year plan and projected wastewater rate increases. The incremental rate increase from this project is approximately \$0.96 per average monthly wastewater bill.

As noted above, SFPUC anticipates the wastewater treatment facilities will be fully operational in 2022. SFPUC estimates the new Treasure Island Wastewater Treatment facility will cost approximately \$3.6 million per year to operate, to also be funded by wastewater customers.

RECOMMENDATION

Approve the proposed resolution.

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|---|---|
| Item 7 File 17-0695 | Department: Public Utilities Commission (PUC) |
| EXECUTIVE SUMMARY | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize a new ground lease between SFPUC and Crystal Springs Golf Partners, L.P., to lease SFPUC's 199 acre property at 6650 Golf Course Drive adjacent to the City of Burlingame for use as a golf course. The proposed ground lease is for (a) a term of 20 years (approximately July 2017 to July 2037), and (b) initial base rent equal to the greater of \$1,000,000 annually or a percentage of gross revenues. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The San Francisco Public Utilities Commission (SFPUC) owns approximately 199 acres of land adjacent to Burlingame surrounded by the SFPUC's Crystal Springs Reservoir. • After a competitive Request for Proposals process in 1996, the SFPUC awarded a 20-year ground lease to Crystal Springs Golf Partners L.P. (Crystal Springs) through March 31, 2017 to operate an 18-hole regulation-length municipal golf course and driving. The lease was amended to provide a rent reduction in 2003 to reflect the softening of the golf market. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Under the proposed lease, over the 20-year lease term, SFPUC projects that Crystal Springs will pay on average \$1,333,000 per year in rent, for total estimated rent of \$26,660,000 over 20 years. The projected average annual rent revenue of \$1,333,000 will be offset by SFPUC's contribution to the capital improvement fund estimated to be \$156,732 per year, for net average annual rent revenue payment of \$1,176,268. • The projected average annual rent of \$1,333,000 under the proposed lease is \$136,790 less per year than the average annual rent of \$1,469,790 paid under the existing lease. • The proposed ground lease requires Crystal Springs to make a lump-sum capital investment of \$1.25 million in the first year, and an additional \$1.0 million in year 11, for a total of \$2.25 million. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The golf market has softened considerably over the past 10-15 years. The number of rounds played at Crystal Springs Golf Course decreased by 8.9 percent to approximately 67,117 paid rounds in 2016, and the average golf revenue per round has declined from \$51.09 to \$49.76 over this period. • The SFPUC staff also did not consider other uses for 6650 Golf Course Drive. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • 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 Public Utilities Commission (SFPUC) owns approximately 199 acres of land located at 6650 Golf Course Drive adjacent to the City of Burlingame in an unincorporated area in San Mateo County. This property is the Peninsula Watershed, which surrounds the SFPUC's Crystal Springs Reservoir.

After a competitive Request for Proposals (RFP) process in 1996,¹ the SFPUC awarded a 20-year ground lease to Crystal Springs Golf Partners L.P. (Crystal Springs) through March 31, 2017 to operate an 18-hole regulation-length municipal golf course and driving range on the 199 acres of land. The lease was approved by the Board of Supervisors (Resolution 18-97).

In 2003, due to the softening of the golf market, the SFPUC amended the original lease to provide a rent reduction to Crystal Springs. In 2011, Crystal Springs asked SFPUC for a further reduction in rent due to the 2007-2009 Recession. In response to the request, as well as another request for relief from an SFPUC golf course tenant in Sunol,² the SFPUC obtained a new independent assessment of the economics of the original lease, as amended in 2003. Economics and Planning Systems, Inc., selected by SFPUC through an RFP process, conducted and subsequently completed the assessment in 2014. Due to the delay in the assessment, the SFPUC did not further amend the lease with Crystal Spring.

Based on the assessment by Economics and Planning Systems, as well as several high-profile attempts by public agencies to lease golf courses that resulted in one or no proposals, the SFPUC decided to negotiate a new 20-year lease for the Crystal Springs Golf Course with the current operator rather than conduct a competitive RFP process. During the process of negotiations, Crystal Springs and SFPUC entered into a month-to-month lease from April 1, 2017 until December 31, 2017, or until the Board of Supervisors approves a new lease.

¹ According to Mr. Anthony Bardo, Assistant Real Estate Director, the property was used as a golf course prior to 1996.

² The Sunol Valley Golf Course closed at the end of January 2017. SFPUC is currently using the golf course for temporary construction staging and offices during the redevelopment of the SFPUC's nearby Corporate Yard facility. SFPUC is exploring a number of uses that are unrelated to golf.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize a new ground lease between SFPUC and Crystal Springs Golf Partners, L.P., for Crystal Springs to lease SFPUC's 199 acre property at 6650 Golf Course Drive in San Mateo County adjacent to the City of Burlingame for use as a golf course. The proposed ground lease is for (a) a term of 20 years to commence following Board of Supervisors approval from approximately July 2017 to July 2037, and (b) initial base rent equal to the greater of \$1,000,000 annually or a percentage of gross revenues. The resolution would authorize the SFPUC General Manager to execute documents, make certain modifications, and take certain actions in furtherance of this resolution.

Table 1 below summarizes the key lease provisions.

Table 1: Summary of Key Ground Lease Provisions

| | Proposed New Lease |
|--|---|
| Lease Term | 20-Year Term from approximately July 2017 to July 2037 |
| Options to extend | None |
| Base Rent paid by the Tenant | \$1,000,000 per year in years 1-3, then Base Rent is equal to 80% of the average preceding three years' actual Percentage Rent. |
| Percentage Rent | Food & Beverage Sales 7% Merchandise Sales: 5%, then 6% of sales over \$400,000. All Other (Revenue) Sources: 25% up to \$4,000,000, 30% of revenues above \$4,000,000. |
| Annual adjustments to Base Rent | \$1,000,000 per year in years 1-3, then equal to 80% of the average preceding three years' actual Percentage Rent. |
| Average Annual Total Rent Paid over the 20 year lease | \$1,333,000 (Projected) |
| Tenant improvement Allowance (Capital Improvements) | Tenant's lump-sum capital contribution of \$1.25 million in year one, and an additional \$1.0 million in year 11. Tenant's Contribution to Capital Improvement Fund is equal to 2% annually of gross revenues during the Lease Term. SFPUC's contribution is equal to 2% of gross revenues during the Lease Term. |
| Utilities and Services | Tenant pays 100% |

The proposed ground lease requires Crystal Springs to make a lump-sum capital investment of \$1.25 million in the first year, and an additional \$1.0 million in year 11, for a total of \$2.25 million.

In addition, the proposed ground lease requires Crystal Springs to contribute two percent annually of the gross revenues during the lease term to the capital improvement fund, and

commits the SFPUC to commit an amount equal to two percent annually of the golf course's gross revenues to the capital improvement fund.

FISCAL IMPACT

Rent under the Original Lease

Under the existing lease, Crystal Springs paid to SFPUC the greater of base rent or rent equal to a percentage of gross revenues. Annual base rent paid by Crystal Springs to SFPUC was \$1,250,000 beginning in 1997, which increased to \$1,500,000 beginning in 2000. In the six-year period between 1997 and 2003, Crystal Springs paid average annual rent to SFPUC of \$1,393,251.

In 2003, SFPUC agreed to reduce the annual base rent paid by Crystal Springs from \$1,500,000 to \$1,200,000, which increased annually by formula beginning in 2006. Under the existing lease, in the 14-year period between 2003 and 2017, Crystal Springs paid average annual rent to SFPUC of \$1,469,790.

Crystal Springs has continued to operate the golf course at 6650 Golf Course Drive on a month-to-month lease since April 2017 and has paid base rent equivalent to \$1,000,000 per year since April 1, 2017.

Rent under the Proposed Lease

The proposed lease provides for annual base rent of \$1,000,000 for the first three years, and then adjusts to an amount equal to 80 percent of the average preceding three years' actual percentage rent. Under the proposed lease, over the 20-year lease term, SFPUC projects that Crystal Springs will pay SFPUC on average \$1,333,000 per year in rent, for total estimated rent to the SFPUC of \$26,660,000 over 20 years. The projected average annual rent revenue to SFPUC of \$1,333,000 will be offset by SFPUC's contribution to the capital improvement fund estimated to be \$156,732 per year, for net average annual rent revenue payment to the SFPUC of \$1,176,268. According to Mr. Bardo, any unused portion of the Capital Improvement Fund becomes the property of the SFPUC at the end of the lease.

The projected average annual rent of \$1,333,000 under the proposed lease is \$136,790 less per year than the average annual rent of \$1,469,790 paid under the existing lease. According to Mr. Bardo, SFPUC staff, together with Century Urban,³ an economic feasibility consultant, developed a 20-year pro forma that projected the annual rent under the proposed lease. Mr. Bardo states that the projected average annual rent to be paid by Crystal Springs under the proposed lease is higher than rents paid to other municipal golf courses, based on an evaluation of golf course rents structures prepared by Pro Forma Advisors, LLC, for Crystal Springs.

³ Century Urban is a sub-consultant under Real Estate Services' professional services contract with Economic and Planning Services, Inc. Century Urban specializes in economic feasibility analysis and asset management.

POLICY CONSIDERATION

According to the evaluation performed by Pro Forma Advisors LLC for Crystal Springs, the golf market has softened considerably over the past 10-15 years. The number of golfers in the U.S. declined from 30.4 million in 2003, when the contract between SFPUC and Crystal Springs was first amended, to 24.1 million in 2015, a reduction of over 20 percent. The largest departing golfer segment is the 18-34 age group, which, according to the analysis, “does not portend a near term recovery of the golf industry.” In the Bay Area specifically, rounds on most public golf courses have declined approximately 25 percent over the past 15 years.

The number of rounds played at Crystal Springs Golf Course decreased by 6,537 per year or 8.9 percent from 73,654 paid rounds in 2007 to approximately 67,117 paid rounds in 2016. In addition, the average golf revenue per round, which is realized from greens fees, membership dues, and carts, has declined from \$51.09 to \$49.76 over this period.

According to Mr. Bardo, the SFPUC staff also did not consider other uses for 6650 Golf Course Drive. Based on the evaluation performed by Century Urban for SFPUC, SFPUC considers the Crystal Springs Golf Course to remain economically viable during the 20-year lease term. In the event that the number of paid golf rounds declines to below the number of paid rounds that would allow Crystal Springs to pay the minimum rent to SFPUC, the SFPUC has the right to terminate the lease.

RECOMMENDATION

Approve the proposed resolution.

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| Item 8 File 17-0649 | Department: Public Utilities Commission (PUC) |
| EXECUTIVE SUMMARY | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve San Francisco Public Utilities Commission's (SFPUC) emergency declaration to replace two back-up generators that serve Treasure and Yerba Buena Islands in the event of a significant loss of electric grid power, with a total estimated cost of \$1,660,050. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The SFPUC is the electric utility provider to Treasure and Yerba Buena Islands. In addition to the 1,800 residents, the SFPUC provides electricity to the SFPUC's wastewater treatment plant and the U. S. Coast Guard Station. • The SFPUC maintains two back-up generators, which were put into service in 1989, to supply the islands in the event of electric grid power loss or maintenance that affects the electricity transmitted to the islands. • On February 10, 2017, one of the two back-up generators failed a test by the SFPUC Power Enterprise crew members during the weekly inspection. • On May 11, 2017, the General Manager of the SFPUC declared an emergency, approved by the President of the SFPUC, and called for the immediate procurement of two generators to serve Treasure and Yerba Buena Island. • SFPUC solicited quotes from three businesses, and Cummins Pacific, LLC was determined to be the lowest bidder. • The contract for purchase from Cummins Pacific, LLC was effective May 23, 2017 and the backup generators are expected to be delivered in August 2017. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The budget for the emergency replacement of two back-up generators on Yerba and Treasure Island, including the \$1,660,050 contract between SFPUC and Cummins Pacific to purchase, permit, and commission the generators, is \$1,671,050. • Funds to pay for the two back-up generators will come from the Treasure Island Improvement Fund, which is used for capital improvements to the Treasure Island Redevelopment Project. The current available balance of the fund is \$10.2 million, and if the resolution is approved, the remainder of the fund will be approximately \$8.53 million. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. | |

MANDATE STATEMENT

Administrative Code Section 21.15(c) states that approval of the Board of Supervisors must be obtained for any emergency contracts for goods and services in excess of \$100,000.

BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) is the electric utility provider to Treasure and Yerba Buena Islands, a formal naval station, which is currently home to approximately 1,800 San Francisco residents. In addition to residents, the SFPUC provides electricity to the SFPUC's wastewater treatment plant and the U. S. Coast Guard Station. The SFPUC maintains two back-up generators, which were put into service in 1989, to supply the islands in the event of electric grid power loss or maintenance that affects the electricity transmitted to the islands. According to Mr. Richard Stephens, Utility Field Services Manager, the electric transmission line to the islands has gone down two times in the past five years due to a failure on the electric circuit. The electric transmission line has also been taken out of service for maintenance five times in the past five years, resulting in use of the backup generators.

On February 10, 2017, one of the two back-up generators failed a test by the SFPUC Power Enterprise crew members during the weekly inspection. Staff at the SFPUC contacted Cummins Pacific, LLC to repair the back-up generator. Cummins Pacific determined during initial repairs on May 4, 2017, that the damage was more extensive than first anticipated and that a major repair was needed to put the generator back into service.

On May 11, 2017, the General Manager of the SFPUC declared an emergency, approved by the President of the SFPUC, and called for the immediate procurement of two generators to serve Treasure and Yerba Buena Island. SFPUC solicited quotes from three businesses: Cummins Pacific, LLC, Peterson Cat, and Cresco. Only Peterson Cat and Cummins Pacific, LLC responded, and Cummins Pacific, LLC was determined to be the lowest bidder. The contract for purchase was effective May 23, 2017. This resolution was submitted to the Board on June 6, 2017.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve SFPUC's emergency declaration to replace two back-up generators that serve Treasure and Yerba Buena Islands in the event of a significant loss of electric grid power, with a total estimated cost of \$1,660,050.

In accordance with City Administrative Code Section 21.15(c), because the project was declared an emergency, the SFPUC awarded the emergency contract to Cummins Pacific, LLC for the purchase of two generators without undergoing a formal competitive bidding process. The SFPUC determined that there was insufficient time to go through a competitive bid process due to the regional health and safety risk caused by the inability to provide electric service in the event of a significant grid-power outage. As previously mentioned, the electric transmission lines have been taken out of service five times in the past five years, resulting in the use of backup generators, one of which failed a test. The current traditional bidding process takes a minimum of 18 weeks to obtain a purchase order. According to Mr. Stephens, the amount of

time from the purchase order to the delivery date is between 9 and 12 weeks, which would have left the islands without backup generators for a total of 27 to 30 weeks, or more than half a year.

Although only one back-up generator failed, the SFPUC declared an emergency to replace both back-up generators. According to Mr. Stephens, the electricity system on the islands has approximately three megawatts of load, and each generator is rated for two megawatts each, for a total of 4 megawatts of load. The replacement of only one back-up generator would leave the islands vulnerable to power outages if the remaining back-up generator fails. During the inspection by Cummins Pacific, LLC, both generators, which were put into service in 1989, were determined to be in the same condition.

The back-up generators are expected to be delivered in August 2017. According to Mr. Stephens, the SFPUC has a power curtailment plan in the event of power grid loss until the generators are delivered.

FISCAL IMPACT

The budget for the emergency replacement of two back-up generators on Yerba and Treasure Island, including the \$1,660,050 contract between SFPUC and Cummins Pacific to purchase, permit, and commission the generators, is \$1,671,050, as seen in Table 1 below.

Table 1: Estimated Expenditures for Replacement Back-up Generators

| Purpose | Estimated Cost |
|-----------------------------|-----------------------|
| Cummins Pacific | \$1,530,000 |
| Taxes | <u>130,050</u> |
| Subtotal | 1,660,050 |
| Fluid Containment Apparatus | 8,000 |
| SFPUC Labor | 3,000 |
| Total | 1,671,050 |

Funds to pay for the two back-up generators will come from the Treasure Island Improvement Fund, which is used for capital improvements to the Treasure Island Redevelopment Project. The current available balance of the fund is \$10.2 million, and if the resolution is approved, the remainder of the fund will be approximately \$8.53 million.

RECOMMENDATION

Approve the proposed resolution.

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| <p>Item 9 File 17-0574</p> | <p>Department: Public Utilities Commission (PUC)</p> |
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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the amended and restated ground lease between the San Francisco Public Utilities Commission (SFPUC) and the Pomeroy Recreation and Rehabilitation Center (Recreation Center), a nonprofit organization, without undergoing a competitive selection process.

Key Points

- SFPUC has an existing 50-year ground lease with the Recreation Center from February 1971 to February 2021. Between 1972 and 1984, the Recreation Center constructed facilities on the leased site, totaling approximately 64,418 square feet of space, which include an administrative building with a large auditorium, a gymnasium, a warm water pool, and a day and respite care center.
- The Recreation Center is requesting the amended and restated ground lease in order to begin a capital planning process for improvements to the facilities on the leased site. The proposed amended and restated ground lease is for an initial term of 25 years from approximately July 2017 to July 2042, with one 25-year option to extend the lease to approximately July 2067 at the sole discretion of the Recreation Center.

Fiscal Impact

- Under the proposed amended and restated ground lease, the Recreation Center would not pay rent to the SFPUC. Fair market rent was determined by an appraisal to be \$600,000 per year.

Policy Consideration

- The Recreation Center would lease publicly-owned property from SFPUC for up to 96 years and six months without a competitive process. Although the Recreation Center is requesting the amended and restated ground lease in order to begin a capital planning process for improvements to the facilities on the leased site, the actual plan for capital improvements to the site has not been developed. Nor does the proposed amended and restated ground lease require a minimum investment by the Recreation Center.
- The City does not have a consistent policy leasing City-owned property to nonprofit organizations at no rent. The City does not have policies to identify which nonprofit organizations should be able to lease City-owned property, and whether such nonprofit organizations should pay no or market rate rent.

Recommendations

- Amend the proposed resolution to request:
 - (1) The SFPUC Director of Real Estate to work with the Director of the City's Real Estate Division to develop criteria on (a) leasing City-owned property to non-profit organizations through a sole source or competitive process, and (b) when such leases should be at no rent, below market rate rent, or market rate rent;
 - (2) The SFPUC Director of Real Estate to evaluate and report to the Board of Supervisors on (a) amortization of the Recreation Center's existing capital improvements to the leased site and when such improvements will be fully amortized, and (b) the Recreation Center's proposed plan for future capital improvements to the leased site, whether those improvements will significantly increase the services provided to San Francisco residents with disabilities, and the length of time for such improvements to be fully amortized; and
 - (3) Reports from the SFPUC Director of Real Estate on (a) criteria for leasing to non-profit organizations, including sole source/competitive processes, and market rate/below market rate/no rent requirements; and (b) amortization of existing and future capital improvements, and whether future capital improvements will significantly increase services to San Francisco residents with disabilities.
- Approval of the proposed resolution as amended is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

Charter Section 9.118(c) requires that amendments of City leases of real property having a term of 10 or more years be subject to approval by resolution of the Board of Supervisors.

BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) owns the 4.5 acre property located at 207 Skyline Boulevard. This property is a part of the Lake Merced Tract, which the SFPUC uses for watershed purposes, and is on the shores of Lake Merced, which the SFPUC maintains as an emergency water supply source.

In 1971, the SFPUC entered into a 25-year ground lease with the non-profit Recreation Center for the Handicapped, Inc. (Recreation Center) from February 1971 to February 1996.¹ The ground lease granted the Recreation Center the right to construct facilities at their own expense to provide recreational and rehabilitation services to disabled persons, and related services and programs to the public. The ground lease set rent at \$1 per year, and included one option to extend the lease term for an additional 25-year period from February 1996 to February 2021, which the Recreation Center exercised.

Between 1972 and 1984, the Recreation Center constructed facilities on the leased site, totaling approximately 64,418 square feet of space, which include an administrative building with a large auditorium, a gymnasium, a warm water pool, and a day and respite care center. The original lease provided that any facilities constructed by the Recreation Center would become the property of the City on termination of the lease.

At the request of the Recreation Center, the SFPUC approved an amended and restated ground lease with the Recreation Center in September 2016 which would extend the total lease term by up to 46 years and six months. The current ground lease term ends in February 2021. The proposed amended and restated ground lease would (a) set a new 25-year lease term from the date of Board of Supervisors approval in approximately July 2017 through July 2042; and (b) provide for one additional 25-year option to extend the lease through July 2067 at the sole discretion of the Recreation Center. Therefore, under the proposed amended and restated ground lease, the lease termination date would be extended by up to approximately 46 years and six months from the current termination date in February 2021 to the new termination date in July 2067, if the Recreation Center exercises the 25-year option to extend the ground lease.

According to the SFPUC staff report to the September 13, 2016 Public Utilities Commission meeting, the Recreation Center is requesting the amended and restated ground lease in order to begin a capital planning process for improvements to the facilities on the leased site.

¹ The Recreation Center for the Handicapped, Inc. is now called the Pomeroy Recreation and Rehabilitation Center.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the amended and restated ground lease between SFPUC and the Pomeroy Recreation and Rehabilitation Center² (Recreation Center), a nonprofit organization, without undergoing a competitive selection process. The proposed amended and restated ground lease is for an initial term of 25 years from approximately July 2017 to July 2042, with one 25-year option to extend the lease to approximately July 2067 at the sole discretion of the Recreation Center. The proposed resolution also authorizes SFPUC's General Manager to execute documents, make certain modifications, and take certain actions in furtherance of this resolution.

Under the proposed amended and restated ground lease, the Recreation Center would not pay ground rent to SFPUC. In the event that the Recreation Center earns net revenue, SFPUC would be entitled to 50 percent of the net revenue. "Net revenue" is defined as any revenue received by the Recreation Center in a calendar year that exceeds the Recreation Center's operating expenses. However, net revenue excludes charitable donations, bequests, grants, capital gains, allocations to the capital expenditure or endowment fund, and other revenues. Given that this definition of net revenue excludes almost all sources of revenues to the Recreation Center, the SFPUC would likely not be entitled to any revenues under this amended and restated ground lease.

FISCAL IMPACT

Property Market Rate

R. Blum and Associates, a real estate appraisal and consulting firm retained by the City's Real Estate Division, submitted a report in April 2017, appraising the fair market ground lease rent of the subject property at \$600,000 per year. The rent was established by comparisons with the leases of nine nearby properties with recreational, institutional and/or educational uses, and assumes use of the property in as-is condition. "As-is condition" includes the existing facilities constructed by the Recreation Center. The restriction in the lease that the subject space be used only to operate a center providing recreational, vocational, and educational opportunities for people with disabilities was also taken into consideration.

According to the appraisal report, the present value of the proposed 25-year amended and restated ground lease is \$7,000,000 and the present value of the proposed 50-year amended and restated ground lease, including the initial 25-year term and the 25-year extension term is \$8,300,000.

² As noted above, the name of the Recreation Center was changed from the Recreation Center for the Handicapped to the Pomeroy Recreation and Rehabilitation Center.

POLICY CONSIDERATION**The Recreation Center would lease publicly-owned property from SFPUC for up to 96 years and six months without a competitive process.**

The current ground lease between the Recreation Center and SFPUC is for 50 years from February 1971 to February 2021. The proposed amended and restated ground lease would extend the term by up to 46 years and six months through July 2067, as noted above.

According to Mr. Anthony Bardo, SFPUC Assistant Real Estate Director, SFPUC is proposing entering into the amended and restated ground lease with the Recreation Center without undergoing a competitive process for the following reasons:

- (1) The Recreation Center has constructed buildings and made improvements to the property at an estimated cost of \$12,005,959.³
- (2) The Recreation Center's programs to provide recreational, vocational and educational opportunities for people with disabilities conform to the SFPUC's Community Benefits Policy, and are funded largely by the California Department of Education, federal Medicaid funds, and City. The SFPUC's Community Benefits Policy identifies outcomes for community programs, including: (a) use of land in a way that maximizes health, environmental sustainability, and innovative ideas; and (b) in-kind contributions and volunteerism. According to the Recreation Center's 2016 Annual Report, the Center served 287 adult and 76 children with disabilities, offered 1,920 hours of occupational therapy, provided weekly pool access to 1,130 swimmers, including 300 therapeutic swimmers, and provided 155 classes. The Recreation Center had 909 volunteers for 16,908 volunteer hours.
- (3) The Recreation Center would risk the permanent disruption of its programs if the Center had to relocate, because the facilities located at the leased site were designed and constructed by the Recreation Center to meet program needs for adults and children with disabilities. The Recreation Center would have difficulty replicating these facilities elsewhere in San Francisco due to the lack of affordable space, potentially requiring the Recreation Center to relocate outside of San Francisco or to discontinue its programs altogether.

Capital Improvements

The proposed amended and restated ground lease between the SFPUC and the Recreation Center allows the Recreation Center to lease the site for up to an additional 46 years and six months to approximately July 2067 with no charge to the Recreation Center for ground rent. Although the Recreation Center is requesting the amended and restated ground lease in order to begin a capital planning process for improvements to the facilities on the leased site,

³ According to the Recreation Center's FY 2014-15 federal tax filing (Form 990), the cost basis for buildings, improvements, and equipment to the leased site is \$12,005,959, which includes \$1,423,940 in roof repairs made by the Recreation Center in 2015.

according to the SFPUC staff report to the September 13, 2016 Public Utilities Commission meeting, the actual plan for capital improvements to the site has not been developed. Nor does the proposed amended and restated ground lease require a minimum investment by the Recreation Center.

According to Mr. Bardo, the intent of the proposed restated and amended lease is also to allow the Recreation Center to benefit from their original investment in buildings and improvements to the leased site of \$12,005,959. Due to depreciation, this original investment has a current book value as of FY 2014-15 of \$3,726,999.⁴ As noted above, under the existing lease, these buildings and improvements, which were constructed between 1972 and 1984, would become the property of the City on termination of the existing lease in February 2021.

The City does not have a consistent policy leasing City-owned property to nonprofit organizations at no rent

According to the Budget and Legislative Analyst's April 2017 performance audit of the City's Real Estate Division, the City leases approximately 457,074 square feet of City-owned property to nonprofit organizations for rent of \$0 to \$1 per year. However, the City leases an additional 129,973 square feet of space to nonprofit organizations at market rate rent. The City does not have policies to identify which nonprofit organizations should be able to lease City-owned property, and whether such nonprofit organizations should pay no or market rate rent.

Summary

The Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors because the proposed amended and restated ground lease would allow the Recreation Center to lease 4.5 acres of land owned by SFPUC on Lake Merced for up to up to an additional 46 years and six months to approximately July 2067 with no charge to the Recreation Center for ground rent without undergoing a competitive process. While the justification, stated in the SFPUC staff report to the September 16, 2016 Public Utilities Commission meeting, for extending the lease for up to an additional 46 years and six months at no rent without a competitive process is to allow the Recreation Center to begin a capital planning process for the leased site, the actual plan for capital improvements to the site has not been developed, and the proposed amended and restated ground lease does not require a minimum investment for such improvements by the Recreation Center.

Further, the City does not have policies to identify which nonprofit organizations should be able to lease City-owned property, and whether such nonprofit organizations should pay no or market rate rent. The Board of Supervisors should request the SFPUC Director of Real Estate to work with the Director of the City's Real Estate Division to develop criteria on (a) leasing City-owned property to non-profit organizations through a sole source or competitive process, and (b) when such leases should be at no rent, below market rate rent, or market rate rent.

⁴ While the cost basis for the Recreation Center's construction of buildings, improvements, and equipment to the leased site is \$12,005,959, these improvements have depreciated by \$8,278,960, resulting in a FY 2014-15 book value of \$3,726,999. The Form 990 for FY 2015-16 is not available.

The Budget and Legislative Analyst also recommends that the Board of Supervisors request the SFPUC Director of Real Estate to evaluate and report to the Board of Supervisors on (a) amortization of the Recreation Center's existing capital improvements to the leased site and when such improvements will be fully amortized, and (b) the Recreation Center's proposed plan for future capital improvements to the leased site, whether those improvements will significantly increase the services provided to San Francisco residents with disabilities, and the length of time for such improvements to be fully amortized.

The Board of Supervisors should request reports from the SFPUC Director of Real Estate on (a) criteria for leasing to non-profit organizations, including sole source/competitive processes, and market rate/below market rate/no rent requirements; and (b) amortization of existing and future capital improvements, and whether future capital improvements will significantly increase services to San Francisco residents with disabilities.

RECOMMENDATIONS

- Amend the proposed resolution to request:
 - (1) The SFPUC Director of Real Estate to work with the Director of the City's Real Estate Division to develop criteria on (a) leasing City-owned property to non-profit organizations through a sole source or competitive process, and (b) when such leases should be at no rent, below market rate rent, or market rate rent;
 - (2) The SFPUC Director of Real Estate to evaluate and report to the Board of Supervisors on (a) amortization of the Recreation Center's existing capital improvements to the leased site and when such improvements will be fully amortized, and (b) the Recreation Center's proposed plan for future capital improvements to the leased site, whether those improvements will significantly increase the services provided to San Francisco residents with disabilities, and the length of time for such improvements to be fully amortized; and
 - (3) Reports from the SFPUC Director of Real Estate on (a) criteria for leasing to non-profit organizations, including sole source/competitive processes, and market rate/below market rate/no rent requirements; and (b) amortization of existing and future capital improvements, and whether future capital improvements will significantly increase services to San Francisco residents with disabilities.
- Approval of the proposed resolution as amended is a policy matter for the Board of Supervisors.