CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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January 23, 2015

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: January 28, 2015 Budget and Finance Committee Meeting

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Item 1 **File 15-0015**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would authorize a new 12 year Master License Agreement between the SFPUC and Mobilitie Investments III, LLC (Mobilitie) to install Distributed Antenna System (DAS) equipment on 200 to 300 existing street light poles which would provide expanded wireless data capacity coverage.

Key Points

- SFPUC owns and maintains approximately 16,800 street light poles in San Francisco. The Board of Supervisors approved two master license agreements between SFPUC and ExteNet Systems, LLC (Extenet) and GTE Mobilenet of California, LP (Verizon) in December 2014, authorizing each of these telecommunications companies to install Distributed Antenna Systems (DAS) on SFPUC's street light poles (File 14-1162). A DAS installation consists of multiple low-power antennas that are connected by fiber-optic lines to the carrier's hubs. DAS facilities distribute wireless network coverage, providing for more efficient management of wireless cellular telephone and data capacity in heavily trafficked areas.
- The proposed resolution would approve a new 12-year Master License Agreement with Mobilitie; SFPUC will enter into separate licenses with Mobilitie for specific street light pole locations to install DAS equipment.

Fiscal Impact

- Estimated payments by Mobilitie to SFPUC in the first year for one-time fees and installation of DAS equipment on 50 street light poles are $274,500. Estimated payments by Mobilitie to SFPUC over 12 years range from $9,939,032 for 200 street light pole licenses, to $14,866,089 for 300 street light pole licenses.

Policy Consideration

- Currently, the City does not require the licensees to identify the exact number of street light poles or locations at the time of signing each Master License Agreement. Additionally, the SFPUC has not imposed any restrictions as to the number of street light poles a company may license. However, as more companies seek to license street light poles for DAS equipment, the SFPUC should annually report on the number of licensed street light poles, as well as their respective locations in order to better understand the scope and impact of the DAS equipment Master License Agreements.

Recommendations

- Amend the proposed resolution to request SFPUC to submit to the Board of Supervisors an annual report and a report with each resolution approving a Master License Agreement for installation of Distributed Antenna System (DAS) equipment that detail the number and location of existing DAS street pole licenses resulting from Master License Agreements.
- Approve the proposed resolution as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Charter Section 9.118(a) states that contracts entered into by a department, board or commission that will generate revenue in excess of $1 million or any modification of that contract is subject to Board of Supervisors approval.

Background

The San Francisco Public Utilities Commission (SFPUC) owns and maintains approximately 16,800 street light poles in San Francisco. In April 2012, the SFPUC adopted the San Francisco Street Light Pole Use Policy which identifies priorities for alternative uses of street light poles such as for decorative purposes or holiday displays, and grants the General Manager of the SFPUC the authority to issue licenses for alternative uses of street light poles by city agencies, neighborhood associations and community business districts. The Street Light Use Policy does not address the use of street lights for private commercial uses.

The Board of Supervisors approved two master license agreements between SFPUC and ExteNet Systems, LLC (Extenet) and GTE Mobilenet of California, LP (Verizon) in December 2014, authorizing each of these telecommunications companies to install Distributed Antenna Systems (DAS) on SFPUC's street light poles (File 14-1162). A DAS installation consists of multiple low-power antennas that are connected by fiber-optic lines to the carrier's hubs. DAS facilities distribute wireless network coverage, providing for more efficient management of wireless cellular telephone and data capacity in heavily trafficked areas. SFPUC expects to receive up to $14,465,260 in revenues over the 12-year terms of the initial two master license agreements with ExteNet and Verizon for installation of DAS equipment on up to 270 street light poles.

The proposed resolution would authorize a third Master License Agreement between SFPUC and Mobilitie Investments III, LLC (Mobilitie) to install DAS equipment on 200 to 300 additional street light poles.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize a new 12 year Master License Agreement between the SFPUC and Mobilitie to install Distributed Antenna System (DAS) equipment on 200 to 300 existing street light poles which would provide expanded wireless data capacity coverage. This resolution would authorize the General Manager of the SFPUC to enter into any modifications[1] to the Master License Agreement, in consultation with the City Attorney, which do not materially increase the obligations of liabilities of the SFPUC or the City.

[1] According to Ms. Mary Tienken, SFPUC project manager, such modifications may include adjustments to technical elements related to installation of DAS.

Master License Agreement

The proposed Master License Agreement establishes the fees, charges, procedures and conditions in which SFPUC may grant permission to Mobilitie to install DAS equipment on specific street light poles. Prior to installation of DAS equipment, Mobilitie must apply for individual licenses for each street light pole they wish to use, which authorizes the specific street light pole location and any specific site constraints for that pole. Each street light pole will constitute an amendment to the Master License Agreement, and will not be subject to future approval by the Board of Supervisors. Key terms of the Master License Agreement are shown in Table 1 below.

Table 1: Key Terms of the Master License Agreement

Permitted Use	Installation, operation, and maintenance of DAS equipment on street light poles in the area specified in each Pole License and no other location. Use of the License Area for any other purpose without SFPUC's prior consent is prohibited.
Term	12 years after effective date
Pole License application deadline	10 years after effective date
Master License Application Fee to be paid by Mobilitie to SFPUC	$7,500 (one time)
Pole License Fees to be paid by Mobilitie to SFPUC	Pole License Fee - $4,000 (per pole, per year) Administration Fee - $900 (per pole, one time) Service Connection Fee - $440 (per pole, one time)
Pole License Fee Adjustments	Pole License Fees will escalate by 4% on January 1 of each year

Source: SFPUC

Licensee Selection of Location and Quantity of Poles

According to Mr. Alan Galloway, an attorney representing Mobilitie, the company has not yet determined the specific number of street light poles it expects to license. Mr. Galloway estimates the company could license between 200 and 300 street light poles over time for DAS equipment installation. Mobilitie expects to select poles primarily in the Downtown area of the City, the exact locations of which will be based on demand from customers for coverage and capacity. Each specific DAS equipment installation on street light poles is subject to SFPUC approval.

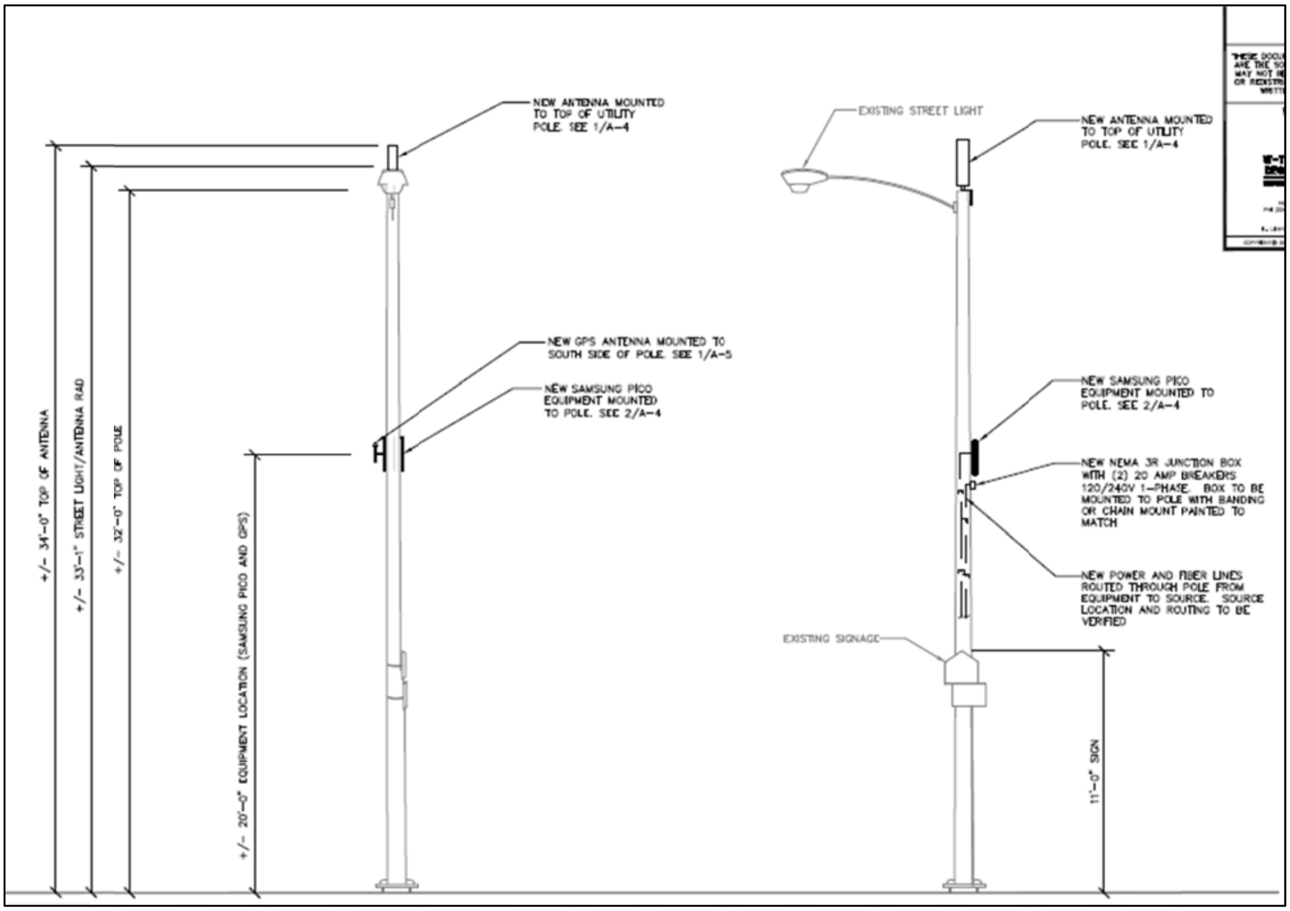
Description of Infrastructure and Installation

The proposed DAS equipment consists of an antenna mounted on top of a street light pole, along with a radio enclosure attached to the street light pole at a height of approximately 20 feet above the sidewalk. According to Mr. Galloway, the actual design of the DAS equipment may vary based on the technical requirements in the City's code, and to accommodate variations in particular poles, as well as in equipment used from different manufacturers.

The Master License Agreement provides a streamlined procedure for use of standard steel tapered poles. It prohibits DAS equipment on concrete poles and "historic" poles as defined in the SF Public Works Code.

Exhibit 1 below illustrates the installation of the DAS equipment by Mobilitie on a street light pole using Samsung equipment. The exact design may vary slightly if Mobilitie chooses to use similar equipment from a competing manufacturer.

Exhibit 1: Sample Street Light with DAS Equipment Design



Source: Mobilitie

SFPUC Rights to Poles

According to the Master License Agreement, the SFPUC retains possession and control of all SFPUC poles for SFPUC operations. The SFPUC will maintain and repair SFPUC poles as needed. Licensees are liable for any damage to SFPUC poles. The SFPUC may terminate a pole license for street light pole(s) and require removal of the DAS equipment if the SFPUC determines that continued use of the street light pole for DAS interferes with the SFPUC's street light operations.

In approving a street light pole license, SFPUC may consider any matter affecting its municipal obligations and interests. SFPUC staff engineers will review the street light pole license applications and conduct site visits with the Licensee to determine feasibility of use for each street light pole location to adhere to SFPUC interests. Examples of these interests may include:

1) The resulting total load on the SFPUC pole;

2) The impact of the installation on street lighting operations;
3) Whether the equipment would create a hazardous or unsafe condition;
4) Aesthetic concerns, particularly for historic or decorative poles; and
5) Cumulative level of emissions in the vicinity of the pole.

Coordination with Other City Agencies

The SFPUC, in consultation with the Department of Public Health (DPH) will require that each DAS installation fully comply with Federal Communications Commission requirements for human exposure to radio frequency emissions. The SFPUC will also consult with the Planning Department to limit the aesthetic impacts of the proposed DAS installation.

Prior to approval of the street light pole license, licensees must demonstrate compliance with regulatory approvals from the Department of Public Works (DPW). DPW will review Wireless Telecommunications Service Facility Site Permit applications and issue a Wireless Telecommunications Service Facility Site Permit, under Article 25 of the San Francisco Public Works Code, which sets limits on the number, size, and type of antennas that can be installed on street light poles. Additionally, Article 25 requires that DPW and the Planning Department consider the aesthetic impacts of a proposed street light pole installation, and that the Department of Public Health (DPH) confirms that the proposed street light pole is in compliance with the Public Health Compliance Standard. Compliance with regulations is performed by the licensee and SFPUC does not have a role in coordinating approvals from DPW, DPH and the Planning Department, although SFPUC will confirm that all regulatory approvals have been granted prior to issuing a street light pole use license.

Municipal Use of Fiber-Optic Cable

According to the agreement, Mobilitie will grant the City a license to use four strands of any fiber-optic cable that it owns at each licensed SFPUC pole. The licensee agrees that upon the expiration or termination of this agreement, licensee will grant to the City, by quitclaim or sale, any fiber strands that the City uses or desires to use.

FISCAL IMPACT

Mobilitie will be required to pay a one-time application fee of $7,500 for processing of the Master License Agreement. Additionally, when executing subsequent street light pole licenses, SFPUC requires an annual $4,000 Street Light Pole License Fee per pole, as well as a one-time Administration Fee of $900 per street light pole, and a one-time Service Connection Fee of $440 per street light pole, as shown in Table 2 below.

Table 2: Fees Associated with Master License Agreement

Fees	Amount	Frequency
Master License Agreement Application Fee	$7,500	One-time
Street Light Pole License Fee	$4,000	Per pole, per year
Administration Fee	$900	Per pole, one-time
Service Connection Fee	$440	Per pole, one-time

SFPUC set the first year license fee at $4,000 per street light pole, subject to an annual 4% increase, which was determined to be fair market value based on research conducted by SFPUC staff on similar DAS agreements across the United States. SFPUC also contacted cities in the Bay Area and a wireless communications trade association to find data on rental rates.

Estimating that Mobilitie installs antenna equipment on between 0 and 50 street light poles during Year One, the total estimated revenue to SFPUC from the subject Master License Agreement would range between $7,500 and $274,500 in the first year, as shown in Table 3 below.

Table 3: Year One Revenues from the Master License Agreement Paid by Mobilitie to SFPUC

Year One	0 Poles	50 Poles
MLA Application Fee (one-time)	$7,500	$7,500
Street Pole License Fee (per pole, per year)	$0	$200,000
Administration Fee (per pole, one-time)	$0	$45,000
Service Connection Fee (per pole, one-time)	$0	$22,000
Total	**$7,500**	**$274,500**

Over the twelve-year term of the Master License Agreement, the estimated revenues payable by Mobilitie to SFPUC solely from annual Street Pole License Fees range from $9,939,032 for 200 street light pole licenses, to $14,866,089 for 300 street light pole licenses, as shown in Table 4 below.

Table 4: Estimated Street Light Pole License Fee Revenue Paid by Mobilitie to SFPUC

	Annual License Fee	Low Estimate	Total Annual Revenue	High Estimate	Total Annual Revenue
Year 1	$4,000	0	$0	50	$200,000
Year 2	$4,160	50	$208,000	100	$416,000
Year 3	$4,326	100	$432,640	150	$648,960
Year 4	$4,499	150	$674,918	200	$899,891
Year 5	$4,679	200	$935,887	250	$1,169,859
Year 6	$4,867	200	$973,322	300	$1,459,983
Year 7	$5,061	200	$1,012,255	300	$1,518,383
Year 8	$5,264	200	$1,052,745	300	$1,579,118
Year 9	$5,474	200	$1,094,855	300	$1,642,283
Year 10	$5,693	200	$1,138,649	300	$1,707,974
Year 11	$5,921	200	$1,184,195	300	$1,776,293
Year 12	$6,158	200	$1,231,563	300	$1,847,345
Total			**$9,939,032**		**$14,866,089**

Mobilitie will additionally pay to SFPUC one-time fees including the Master License Agreement Application Fee of $7,500, an Administration Fee of $900 per street light pole, and a Service Connection Fee of $440 per street light pole.

The City will also benefit from the use of four fiber cables at each licensed street pole site. According to Ms. Tienken, the SFPUC has not estimated the value of these fiber strands to the City.

POLICY CONSIDERATION

Previous Policy Discussion

During the December 10, 2014 Budget and Finance Committee hearing on the first two Master License Agreements with ExteNet and Verizon , members of the Committee expressed concern about the use of public resources (SFPUC street light poles) for the benefit of private companies. However the Committee ultimately decided that expanded cellular wireless data capacity would be beneficial to the City.

In accordance with the Board of Supervisors' amendment to the resolution approving the Master License Agreements with ExteNet and Verizon, all revenues from the Master License Agreement will be appropriated to the streetlight program in the Annual Appropriation Ordinance.

Cumulative Impact of Master License Agreements

Cumulatively, the City's three Master License Agreements with ExteNet, Verizon, and Mobilitie are estimated to generate between $19,998,513 and $29,331,349 in additional revenue to SFPUC over their 12-year lease terms as shown in Table 5 below.

Table 5: Cumulative Impact of ExteNet, Verizon, and Mobilitie Master License Agreements

ExteNet	$7,362,211	$8,970,719
Verizon	$2,697,270	$5,494,541
Mobilitie	$9,939,032	$14,866,089
Total	**$19,998,513**	**$29,331,349**

Managing Street Light Pole Licenses

Currently, the City does not require the licensees to identify the exact number of street light poles or locations at the time of signing each Master License Agreement. Additionally, the SFPUC has not imposed any restrictions as to the number of street light poles a company may license. However, as more companies seek to license street light poles for DAS equipment, the SFPUC should annually report on the number of licensed street light poles, as well as their respective locations in order to better understand the scope and impact of the DAS equipment Master License Agreements.

RECOMMENDATIONS

1. Amend the proposed resolution to request SFPUC to submit to the Board of Supervisors an annual report and a report with each resolution approving a Master License Agreement for installation of Distributed Antenna System (DAS) equipment that detail

the number and location of existing DAS street pole licenses resulting from Master License Agreements.

2. Approve the proposed resolution as amended.

Item 2 File 15-0008	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would approve an emergency contract awarded by the San Francisco Public Utilities Commission (SFPUC) to Cornely Company in accordance to Administrative Code 6.60 to replace the space heating boiler and distribution piping at the San Francisco Housing Authority (SFHA) development, Potrero Terrace, for an amount not-to-exceed $425,000.

Key Points

- SFPUC provides electricity to San Francisco Housing Authority (SFHA) properties, and SFHA is responsible for maintenance and upkeep on all related equipment. SFHA staff identified water leakage in the Potrero Terrace space heating boiler and distribution piping on March 16, 2014. SFPUC and SFHA met in April to discuss the Potrero Terrace space heating boiler and distribution piping systems leakage and identify funding sources to pay for the repair project. SFPUC staff performed a site visit on May 29, 2014 and determined that the leakage in the space heating boiler and distribution piping systems was a serious health and safety issue. The SFUPC declared an emergency on June 6, 2014.
- SFPUC entered into a contract with Cornely Company (Cornely) on September 3, 2014 to provide the emergency repair services for an amount not-to-exceed $425,000 including contingencies and expenses. SFPUC selected Cornely, a Local Business Enterprise (LBE) contractor, to provide the emergency repair work for replacement of the heater boiler and piping system based on their prior work for SFHA and the San Francisco Unified School District.
- According to SFPUC, the three month delay between the emergency declaration in June 2014 and entering into the contract with Cornely in September 2014 was due to modifications to the draft letter of agreement between SFPUC and SFHA requested by legal counsel of both SFHA and SFPUC. The work is expected to be completed by January 30, 2015.

Fiscal Impact

- Cornely originally bid the emergency repair work at $398,800. The contract was written for an amount not-to-exceed $425,000, including contingencies and expenses. To date, $249,800 of the work has been completed, and approximately $154,184 remains.
- San Francisco Electrical Reliability Payment/Trans Bay Cable Agreement is the funding source for this project.

Recommendation

Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Administrative Code Section 6.60(D) states that contracts entered into for emergency work in the amount of $250,000 or more are subject to Board of Supervisors approval. Section 6.60(D) also states that if the emergency work does not permit the required approval to be obtained before work is commenced or the contract entered into, department heads may enter into a contract, notify the Controller and Board of Supervisors, and seek approval as soon as conditions permit.

Background

The San Francisco Public Utilities Commission (SFPUC) provides electricity to San Francisco Housing Authority (SFHA) properties, and SFHA is responsible for maintenance and upkeep on all related equipment. On June 6, 2014, SFPUC declared an emergency for replacement of the space heating boiler and its distribution piping systems at SFHA's housing development, Potrero Terrace, Buildings E-4 and G-6, located at 1099 Connecticut Street in the Potrero Hill neighborhood.

The June 6, 2014 memorandum from the SFPUC General Manager to the SFPUC President stated that the space heating boiler and distribution piping leak hot water profusely at all times, resulting in a loss of the building's heating system. According to Ms. Lori Mitchell, SFPUC Project Manager, SFHA staff identified the water leakage in March 16, 2014. SFPUC and SFHA met in April to discuss the Potrero Terrace space heating boiler and distribution piping systems leakage and identify funding sources to pay for the repair project. SFPUC staff performed a site visit on May 29, 2014 and determined that the leakage in the space heating boiler and distribution piping systems was a serious health and safety issue, and began working with the SFPUC Contracts Division on the fastest way to proceed. SFPUC staff determined that declaring an emergency was the fastest was to proceed.[1]

Because the broken space heating boiler and distribution piping posed a threat to the public's health and welfare due to a lack of heat, thermal pollution from the leakage, and electrical hazards, SFHA vacated the ground level apartments, and the second level apartments in each of the two buildings. Such apartments remained without heat until the new boiler system was recently installed.[2]

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[1] According to Ms. Mitchell, SFPUC considered using the SFPUC's Job Order Contract program, which allows for expedited contracting for projects of less than $400,000. Under the Job Order Contract program, contractors submit proposals not for a specific project, but for a general contract that allows them to perform repair, maintenance and minor construction work as needed. According to Ms. Mitchell, because the estimate of proposed emergency work at Potrero Terrace exceeded $400,000, the work was not eligible for the Job Order Contract program.

[2] SF Housing Code Sec 701 (c)(1) states: "Apartment houses and hotels shall comply with the requirements set forth in Section 701 above except that heat capable of maintaining a room temperature of 68 degrees Fahrenheit (20 degrees Centigrade) at a point midway between the heating unit and the furthest wall and which point is three feet above the floor, shall be made available to each occupied habitable room for 13 hours between the hours of 5:00 a.m. and 11:00 a.m. and 3:00 p.m. and 10:00 p.m."

Although the emergency was declared on June 6, 2014, the Letter of Agreement (LOA) between SFHA and SFPUC to administer the necessary repairs was not signed until September 2, 2014. According to SFPUC, the three month delay between the emergency declaration and finalization of the LOA was due to modifications to the draft LOA requested by legal counsel of both SFHA and SFPUC, as well as the cancellation of a Housing Authority Commission Development and Finance Committee meeting that was required to make a recommendation to the full Housing Authority Commission, further delaying the process. According to Mr. Carlos Jacobo, SFPUC Budget Manager, SFPUC was not able to undergo a competitive bid process to select a contractor during the three-month period from June 6, 2014 to September 2, 2014 because the competitive bid process takes approximately six months.

Emergency Repair Contract Award

SFPUC selected Cornely Company (Cornely), a Local Business Enterprise (LBE) contractor, to provide the emergency repair work for replacement of the heater boiler and piping system. According to Mr. Jacobo, SFPUC awarded the emergency contract to Cornely based on their reputation. For example, SFHA had used Cornely in the past to perform boiler work at the Potrero Terrace Housing Development, and the San Francisco Unified School District had used Cornely in the past on numerous boiler replacement projects throughout the City. SFPUC issued the Notice to Proceed for the emergency repair on September 2, 2014. According to the Notice to Proceed, all work on this project should be completed on or before January 30, 2015. SFPUC expects this work to be fully complete by January 23, 2015.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve emergency public work by SFPUC under Administrative Code, Section 6.60 to replace the Potrero Terrace heating system including the space heating boiler and distribution piping in an amount not-to-exceed $425,000.

SFPUC entered into a contract with Cornely on September 3, 2014, for an amount not to exceed $425,000 including contingencies and expenses. In accordance with Administrative Code Section 6.60, this emergency contract with Cornely was not subject to a competitive bid procedure.

SFPUC had cost estimates for work on two similar repair projects which helped inform their determination of a fair price outside of the competitive bid process. In 2011, SFHA hired an engineering consultant to survey the Potrero Terrace Boiler Room and provide an estimate for future repair work comparable to work performed under the subject contract. The consultant estimated the work would cost $512,688. Additionally, a similar project was recently completed at the Potrero Terrace Housing Development by another contractor for $450,000. Cornely’s bid for the emergency repair work was $398,800, and based on the previous estimates and repair work discussed above, the SFPUC determined Cornely’s price of not-to-exceed $425,000 to be competitive, and selected the company to perform the emergency repair work.

FISCAL IMPACT

Cornely submitted a bid for the emergency repair work at $398,800. The contract with Cornely states the repairs will be completed for an amount not to exceed $425,000, including contingencies and expenses. The current budget for the emergency repair work includes three change order items not included in the original bid. According to Mr. Jacobo, the contract may require additional change orders; however, the total contract amount will not exceed $425,000. The total emergency repair work including the three change order items is $403,984, as shown in Table 1 below.

Table 1: Potrero Terrace Emergency Repair Work Budget

Equipment	Price	Work Completed to Date
Boiler Room		
Equipment Piping	$85,050	
Insulation	$3,000	
Demolition	$3,500	
Building G-6		
Waste Stacks	$10,480	$10,480
Abatement and Demolition	$7,500	$7,500
Piping domestic system	$30,300	
Piping on hydronic system	$47,320	$47,320
Insulation on domestic system	$7,260	
Insulation on hydronic system	$8,022	
Building E-3		
Demolition	$3,000	$3,000
Piping on domestic system	$30,600	$30,600
Piping on hydronic system	$43,200	$43,200
Insulation on domestic system	$3,740	
Insulation on hydronic system	$5,678	
Underground Piping		
Fence and Port-A-Potty	$650	
Trenching	$18,900	$18,900
Piping	$53,000	$53,000
Testing of new lines	$1,500	
Insulation	$16,800	$16,800
Backfilling	$6,000	$6,000
Bond	$13,000	$13,000
Original Bid Subtotal	***$398,500***	***$249,800***
Change Order Items		
2013 Title 24 insulation	$4,450	
Rotten waste and overflow	$363	
Rotten hot water riser	$671	
Change Order Items Subtotal	***$5,484***	
Total	**$403,984**	**$249,800**

Source: Cornely Company

To date, Cornely has completed $249,800 of emergency repair work, and $154,184 worth of work remains to be done. According to Mr. Jacobo, $250,000 has already been encumbered, and the remaining amount of $153,984 is subject to approval by the Board of Supervisors before the remaining work can be completed and the balance can be paid to Cornely.

Funding for the emergency work comes from the San Francisco Electrical Reliability Payment/Trans Bay Cable Agreement. A condition of the 53-mile Trans Bay high voltage direct current transmission cable's operation license requires Trans Bay Cable to make ten annual payments of $2,000,000 to SFPUC, referred to as the "San Francisco Electrical Reliability Payment." Resolution 414-07 (File No. 07-0314) directs the SFPUC to use these payments for "renewable energy, conservation, and environmental health programs which benefit low-income, at-risk, and environmentally disadvantaged communities." As this emergency repair work takes place in a low-income public housing development, it meets the requirements set forth in the Resolution.

Ongoing Maintenance Costs

After completion of the emergency repair work, SFHA will be responsible for operation and ongoing maintenance of the equipment. Neither SFPUC nor Cornely will be responsible for maintenance of the new equipment upon completion of the emergency repair work.

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 14-0978**	**Department:** Department of Public Health

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the second amendments to the contracts between the Department of Public Health (DPH) and Crestwood Behavioral Services (Crestwood) and Mental Health Management, Inc. (Canyon Manor) to provide long-term mental health services. The amendments will extend the contracts from January 1, 2015 through June 30, 2018, for total contract terms of October 1, 2008 through June 30, 2018. The proposed total contract not-to-exceed amount for these two contracts is $117,451,707; $86,216,860 for Crestwood and $31,234,847 for Canyon Manor.

Key Points

- In 2008, DPH established contracts with Crestwood and Canyon Manor based on a competitive Request for Proposals (RFP) process. The total compensation for the Crestwood contract was $48,787,156 and the total compensation for the Canyon Manor contract was $20,966,758. The terms for the contracts were October 1, 2008 through June 30, 2013 with five one-year options to extend the contract through June 30, 2018.
- In 2013, the Board of Supervisors approved amendments to extend the contract terms by 18 months through December 31, 2014 for both Crestwood and Canyon Manor. The compensation for Crestwood was increased to $51,728,151 from $48,787,156. The compensation for Canyon Manor increased to $26,530,847 from $20,966,758.
- The proposed amendments will extend the contracts from January 1, 2015 through June 30, 2018. The proposed total contract not-to-exceed amount for the two contracts is $117,451,707; $86,216,860 for Crestwood and $31,234,847 for Canyon Manor.

Fiscal Impact

- Under the proposed resolution, the Crestwood contract not-to-exceed amount would increase from $51,728,151 to $86,216,860, and the Canyon Manor contract not-to-exceed amount would increase from $26,530,847 to $31,234,847. However, the actual needed contract amount for the Crestwood contract is $84,847,392 or $1,369,468 less than the resolution amount of $86,216,860; and for the Canyon Manor contract is $28,086,226 or $3,148,621 less than the resolution amount of $31,234,847.

Recommendations

- Amend the proposed resolution for retroactivity to reflect the contract commencement date of January 1, 2015.

- Amend the proposed resolution to reduce (a) the Crestwood contract not-to-exceed amount by $1,369,468 from $86,216,860 to $84,847,392; (b) the Canyon Manor contract not-to-exceed amount by $3,148,621, from $31,234,847 to $28,086,226; and (c) the combined Crestwood and Canyon Manor contract not-to-exceed amounts by $4,518,089 from $117,451,707 to $112,933,618.

- Approve the proposed resolution as amended.

MANDATE STATEMENT

In accordance with Charter Section 9.118(b), any contracts or agreements entered into by a department, board or commission requiring anticipated expenditures by the City and County of San Francisco of $10,000,000, or the modification of amendments to such contract or agreement having an impact of more than $500,000 shall be subject to approval of the Board of Supervisors by resolution.

BACKGROUND

In 2008, the Department of Public Health (DPH) established contracts with Crestwood Behavioral Health Services (Crestwood) and Mental Health Management, Inc. dba Canyon Manor (Canyon Manor) to provide long-term mental health services in a 24-hour locked facility to San Francisco residents aged 18-60 who have a diagnosed mental illness. These contracts were awarded based on a competitive Request for Proposals (RFP) process and were approved by the Board of Supervisors through Resolution No. 460-08.

The total compensation for the Crestwood contract was $48,787,156 and the total compensation for the Canyon Manor contract was $20,966,758, for total contract amounts of $69,753,914. The terms for the contracts were October 1, 2008 through June 30, 2013 with five one-year options to extend the contracts through June 30, 2018.

In 2013, the Board of Supervisors approved amendments to extend the contracts by 18 months through December 31, 2014 to continue to provide long-term mental health services. The total compensation for Crestwood was increased to $51,728,151 from $48,787,156, an increase of $2,940,995. The total compensation for Canyon Manor increased to $26,530,847 from $20,966,758, an increase of $5,564,089. The total increased amount for the two contracts was $78,258,998.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a second amendment to the contracts between DPH and Crestwood and Canyon Manor to continue to provide long-term mental health services to San Francisco residents in a 24-hour locked facility. The amendments will extend the contracts from January 1, 2015 through June 30, 2018, an extension of three years and six months. Therefore, the proposed resolution should be amended for retroactivity. The total term of the contracts will be October 1, 2008 through June 30, 2018. The proposed total not-to-exceed amount for these two contracts is $117,451,707. The not-to-exceed amount for each contract will be amended, as follows:

1) The not-to-exceed amount for the contract between DPH and Crestwood will increase to $86,216,860, from $51,728,151, an increase of $34,488,709.

2) The not-to-exceed amount for the contract between DPH and Canyon Manor will increase to $31,234,847, from $26,530,847, an increase of $4,704,000.

Table 1 below summarizes the increases to the Crestwood and Canyon Manor contracts to be approved through the proposed resolution.

Table 1: Increases to Contract Not-to-Exceed Amount

Program Year	Crestwood	Canyon Manor	Total
1/1/2015 - 6/30/2015	$4,409,336	600,000	$5,009,336
7/1/2015 - 6/30/2016	8,818,673	1,200,000	10,018,673
7/1/2016 - 6/30/2017	8,818,673	1,200,000	10,018,673
7/1/2017 - 6/30/2018	8,818,673	1,200,000	10,018,673
Subtotal	**$30,865,355**	**4,200,000**	**35,065,355**
Contingency @ 12%	3,703,843	504,000	4,207,843
Proposed Increase to Not-To-Exceed Amount	**$34,569,198** [a]	**$4,704,000**	**$39,273,198**

Source: DPH

[a] The proposed resolution states that the Crestwood contract will be increased by $34,488,709, rather than the actual contract amount of $34,569,198, shown in the table above. The contract amounts are discussed in the Fiscal Impact section below.

The current agreement contains provisions for four one-year extensions. According to Ms. Jacquie Hale, Director of the Office of Contracts Management and Compliance at DPH, DPH chose to extend the contracts for an additional three years and six months because there remains a longstanding need for these long-term mental health services in a 24-hour locked facility for San Francisco residents. By implementing a single extension for an additional three years and six months, rather than individual one-year extensions to be exercised each year, DPH will have more flexibility in administering the contracts. Ms. Hale further states that DPH has performed regular, ongoing performance monitoring of these contracts and both Crestwood and Canyon Manor have meet expectations established by DPH. DPH will continue these monitoring practices throughout the extended term of the contracts. DPH advises that both Crestwood and Canyon Manor are in compliance with all State licensing requirements. According to Ms. Hale, DPH plans to solicit a new competitive process to procure long-term mental health services upon completion of the proposed contract terms in 2018.

Contract Case Load

According to data provided by DPH, the average monthly patient census was 183 for Crestwood and 56 for Canyon Manor for FY 2008-09, and has decreased to 178 and 14, respectively, through November 30, 2014. Table 2 below shows the changes over time in average monthly census for each contract.

Table 2: Average Monthly Census for Crestwood and Canyon Manor

Year	Crestwood	Canyon Manor
FY 08/09	183	56
FY 09/10	203	56
FY 10/11	227	56
FY 11/12	216	49
FY 12/13	207	52
FY 13/14	192	32
FY 14/15	178	14

Source: DPH

According to Ms. Hale, DPH had previously sought to eliminate the Canyon Manor contract entirely; however this was not feasible because not all of the clients served through these contracts are clinically able to be accommodated at DPH's converted Behavioral Health Center, and therefore would need to remain at a locked facility, such as Crestwood or Canyon Manor.

Due to changes in State policy regarding mentally ill state prison inmates, DPH expects to receive an additional 15 individuals from state hospitals who will require additional treatment at a locked facility under supervision by the County. DPH is planning to serve these individuals through the Crestwood contract, increasing the average monthly census to 193 for the remainder of the contract.

FISCAL IMPACT

Under the proposed resolution, over the proposed three year and six month extended period, the Crestwood contract not-to-exceed amount would increase by $34,488,709, from $51,728,151 to $86,216,860, and the Canyon Manor contract not-to-exceed amount would increase by $4,704,000, from $26,530,847 to $31,234,847. However, as shown in Table 3 below, the actual needed contract amount for the Crestwood contract is $84,847,392 or $1,369,468 less than the requested amount of $86,216,860; and the actual needed contract amount for the Canyon Manor contract is $28,086,226 or $3,148,621 less than the requested amount of $31,234,847.

Table 3: Actual and Proposed Expenditures in the Crestwood and Canyon Manor Contracts

	Crestwood	Canyon Manor	Total
Prior Expenditures [a]	$50,278,194	$23,382,226	$73,660,420
Requested Expenditures (Table 1)	34,569,198	4,704,000	39,273,198
Total Prior and Requested Expenditures	**$84,847,392**	**$28,086,226**	**$112,933,618**
Not-to-exceed amount	86,216,860	31,234,847	117,451,707
Total Recommended Reduction	**($1,369,468)**	**($3,148,621)**	**($4,518,089)**

[a] DPH provided contract expenditure data 11/30/2014. The Budget and Legislative Analyst took the average monthly expenditure to determine projected expenditures through the authorized contract term of 12/31/2014.

The proposed resolution should be amended to show the following correct needed contract amounts:

- The Crestwood contract not-to-exceed amount will increase by $33,119,241, from the current contract amount of $51,728,151 to the needed amount of $84,847,392. The amount of $84,847,392 is $1,369,468 less than the amount of $86,216,860 requested under the proposed resolution.
- The Canyon Manor contract not-to-exceed amount will increase by $1,555,379, from the current contract amount of $26,530,847 to the needed amount of $28,086,226. The amount of $28,086,226 is $3,148,621 less than the amount of $31,234,847 requested under the proposed resolution.
- The combined Crestwood and Canyon Manor contracts not-to-exceed amounts will increase by $34,674,620, from the current combined contract amounts of $78,258,998 to the needed amount of $112,933,618. The amount of $112,933,618 is $4,518,089 less than the combined requested amount of $117,451,707.

Funding for these two contracts for the period of January 1, 2015 through June 30, 2015 was appropriated by the Board of Supervisors in the DPH budget for Fiscal Year 2014-15. Funding for future years of the contracts will be subject to Board of Supervisors appropriation approval.

RECOMMENDATIONS

1. Amend the proposed resolution for retroactivity to reflect the contract commencement date of January 1, 2015.
2. Amend the proposed resolution to reduce (a) the Crestwood contract not-to-exceed amount by $1,369,468 from $86,216,860 to $84,847,392; (b) the Canyon Manor contract not-to-exceed amount by $3,148,621, from $31,234,847 to $28,086,226; and (c) the combined Crestwood and Canyon Manor contract not-to-exceed amounts by $4,518,089 from $117,451,707 to $112,933,618.
3. Approve the proposed resolution as amended.

Item 7 **File 15-0006**	**Department:** Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the Human Services Agency (HSA) to lease 13,938 square feet on the first and second floors at 2 Gough Street (which is also referred to as 86 Otis Street) from Raychris, LLC. HSA will pay annual rent of $487,830, equal to $35 per square foot.

Key Points

- Through the proposed lease, HSA plans to develop a service hub for the Department of Aging and Adult Services (DAAS) located at 2 Gough Street that will include: 1) an office for seniors and persons with disabilities to access medical benefits, 2) various services for veterans, and 3) an intake office for other DAAS services.

Fiscal Impact

- Under the terms of the proposed lease, the base annual rent for 13,938 square feet of office space at 2 Gough Street will be $487,830, or $35 per square foot. Payment of a monthly rent of $40,652.5 will commence after the substantial completion of tenant improvements in early March, 2015. The base rent will be subject to annual three percent rent adjustments over the course of the lease.
- An estimated $727,774 in tenant improvements will be completed, of which $117,079 will be covered by a landlord allowance, and $610,695 will be paid for by the City.
- Annual operating expenses are estimated to be $10 per square foot, or a total of $139,380. The HSA will pay 49% of any operating costs which exceed this base year estimate during the remaining four years of the lease.
- Utilities and janitorial fees combined are estimated to be $5 per square foot/year. All costs associated with the lease will be paid for by 55 percent General Fund revenue and 45 percent state and federal reimbursements.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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

Background

The Human Services Agency's (HSA) Department of Aging and Adult Services has historically provided services to seniors by contracting with community-based organizations. The main office for the Department of Aging and Adult Services is currently located at 1650 Mission Street.

Through the proposed lease, HSA plans to develop a service hub for the Department of Aging and Adult Services (DAAS) located at 2 Gough Street that will include: 1) an office where seniors and persons with disabilities can obtain access to medical benefits, 2) various services for veterans, and 3) an intake office for other DAAS services. The new location, 2 Gough Street, was selected based upon its proximity to existing HSA offices located at 1650 Mission Street and 170 Otis Street.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes a new five-year lease with one five-year option to renew between the Human Services Agency (HSA), as tenant, and Raychris, LLC, as landlord, for 13,938 square feet on the first and second floors at 2 Gough Street (which is also referred to as 86 Otis Street). HSA will pay annual rent of $487,830, equal to $35 per square foot. Lease terms are summarized in Table 1 below.

Table 1: Proposed Lease Terms for 2 Gough Street

Square Feet	13,938
Term	Five years beginning with Board of Supervisors approval and substantial completion of tenant improvements in early March, 2015 and terminating in March, 2020
Options to Extend	One five-year option exercisable by the City
Base Rent	$35 per square foot per year
Increases to base rent	3% per year
Option Period Rent	95% of Fair Market Value (as determined by the Real Estate Division)
Property Taxes and Operating Expenses	Pro-rata share paid by City
Utilities and Janitorial Services	Paid by City

Source: Proposed Lease between City and Raychris, LLC.

The term of the lease will be five years, beginning upon Board of Supervisors' approval of the lease and the substantial completion of tenant improvements in March of 2015. The City will have one additional five-year option term to extend the lease at 95 percent of the prevailing fair market rent, subject to approval by the Board of Supervisors. The 13,938 square feet at 2 Gough Street will be utilized by 68 staff, for an average of 205 square feet per employee.

FISCAL IMPACT

Base Rent

Under the terms of the proposed lease, the base rent for 13,938 square feet of office space at 2 Gough Street for first lease year will be $487,830, or $35 per square foot. Payment of a monthly rent of $40,652.50 will commence after the substantial completion of tenant improvements. The base monthly rent of $40,652.50 will be subject to annual three percent rent adjustments. According to the Real Estate Division, the $35 per square foot base rent is slightly below the market range of $39-$52 for comparable office rentals.

Tenant Improvements

An estimated $727,774 in tenant improvements will be completed, of which $117,079 will be covered by a landlord allowance, and $610,695 will be paid for by the HSA, as shown in Table 2 below.

Table 2: Proposed Tenant Improvements at 2 Gough Street

Category	**Estimated Cost**
Construction	
Demolition	$ 25,000
Walls, Doors, FLS	$ 97,566
Electrical	$ 111,504
Flooring	$ 69,690
LEED & Other	$ 153,318
Plumbing and Restrooms	$ 100,000
Subtotal: Construction Costs	$ 557,078
Contingency (10% of subtotal)	$ 55,709
Permits	$ 31,361
Soft Costs	$ 83,628
Estimated Total	$ 727,774
Landlord Allowance	$ 117,079
Estimated City Cost	$ 610,695

Source: Human Services Agency

Operating Expenses

The Human Services Agency will pay 49% of any operating expenses which exceed base year operating costs of $139,380 during the remaining four years of the lease. Operating costs are estimated to increase by 2-3 percent per year to adjust for inflation.

Utilities and Janitorial Services

Utilities and janitorial costs combined are estimated to be $5 per square foot/year, for a total cost of $69,690 for the first lease year. These costs are also estimated to increase by 2-3 percent annually with inflation.

Total Estimated Annual Lease Costs

Table 3 below summarizes the total estimated annual costs for the lease, including operating expenses, utilities, and janitorial services. Excluding tenant improvements, as shown in Table 3 below, the total estimated cost over the five-year lease term is $2,967,071.

Table 3: Total Annual City Cost for 2 Gough Street Lease

Lease Year	**Base Rent**	**Operating Costs***	**Utilities, Janitorial and blank Costs****	**Total Cost (Annual)**
One	$487,836	$ -	$69,690	$557,526
Two	$502,471	$1,707	$71,781	$575,959
Three	$517,545	$1,750	$73,934	$593,229
Four	$533,072	$1,794	$76,152	$611,018
Five	$549,064	$1,839	$78,437	$629,340
Total Estimated Costs	$2,589,988	$7,090	$369,994	$2,967,072

Source: HSA and Real Estate Division

*The City will pay 49% of any operating costs which exceed the base year cost estimate of $139,380. Operating costs are anticipated to increase by 2-3 percent annually.

**Utilities and janitorial costs are anticipated to increase 2-3 percent annually.

Funding Source

The monthly rent, operating costs, utilities and janitorial fees, as well as the cost of services to be located at 2 Gough Street, will be paid for through a funding mix of 55 percent General Fund revenue and 45 percent state and federal reimbursements, subject to Board of Supervisors appropriation approval.

RECOMMENDATION

Approve the proposed resolution.