CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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July 10, 2020

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: July 15, 2020 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease agreement between the City, as tenant, and 333 Valencia Owner LLC, as landlord, for the DPH program staff occupying 30 Van Ness to relocate to 333 Valencia Street for a term of 15 years, commencing in February 2021, with the option to extend for ten years. According to the proposed lease agreement, initial annual base rent is $2,209,239 ($49.95 per square foot) and increases three percent annually thereafter. DPH will pay for 79.41 percent of operating costs and real estate taxes, along with electricity.

Key Points

- The Board of Supervisors previously approved the sale of the city-owned building at 30 Van Ness Avenue for the sales proceeds to be used as a source of funds for development of the new City office building at 49 South Van Ness Avenue. Under the terms of the purchase as sale agreement, the City occupants at 30 Van Ness, including DPH staff, would continue to lease space pending relocation to another site. The DPH programs at 30 Van Ness Avenue were not intended to move into 49 South Van Ness Avenue.
- The proposed lease for 333 Valencia Street is for up to 25 years, including extension option. The proposed lease provides an option for the City to purchase 333 Valencia Street from the lease commencement date in approximately February 2021 to October 2021, a nine-month period. The purchase price would be $56,000,000, plus the landlord's costs for tenant improvements, less rent paid by the City

Fiscal Impact

- Initial rent of $49.95 per square foot is at or below fair market value based on a third party appraisal obtained by the Real Estate Division. Total rent and operating expenses over the initial 15-year term are $58.3 million.
- Tenant improvement costs are $9.1 million, of which the City's share is approximately $6.5 million. The sources of funding for the lease will be distributed across the DPH programs occupying the building, and includes a mix of grant revenue, General Fund, and fees in case of Emergency Medical Services.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

The Board of Supervisors authorized the sale of the City-owned building at 30 Van Ness Avenue in 2017, and use of the sale proceeds as a source of funds for the development of a new City office building at 49 South Van Ness Avenue.[1] Several City departments occupied 30 Van Ness Avenue at the time of the sale, including the Department of Public Works, Recreation and Park Department, Department of Public Health, Department of Emergency Management, Office of Civic Engagement and Immigrant Affairs, and Administrative Services Contract Monitoring Division. The purchase and sale agreement between the City and the purchaser provided for the City to continue to lease space at 30 Van Ness Avenue through April 2020, with two one-year options to extend the lease through April 2022. According to Mr. Andrico Penick, Director of the City's Real Estate Division, the first option to extend expires after one year or ninety (90) days after Substantial Completion of the 49 South Van Ness project. 49 South Van Ness Avenue was substantially complete on June 9, 2020 making the expiration date for the lease at 30 Van Ness, September 7, 2020.

According to Mr. Penick, four City departments currently located at 1660 Mission Street, 1680 Mission Street, and 30 Van Ness Avenue – Public Works, Building Inspection, Planning, and Recreation and Park - are all consolidating into office space at the new 49 South Van Ness building. The Office of Civic Engagement and Immigrant Affairs and Contracting Monitoring Division are relocating to 1155 Market into space that was previously occupied by Public Works. Department of Emergency Management is relocating to City Hall, Rm 348 which was space previously occupied by Public Works. Recreation and Park Department staff are moving to 49 South Van Ness Avenue.

The Department of Public Health (DPH) presently maintains office space at 30 Van Ness for its Maternal, Child and Adolescent Health, Public Health Emergency Preparedness and Response, Emergency Medical Services, Primary Care leadership, and related Administrative staff. The space at 30 Van Ness is under a leaseback that is anticipated to expire in early September 2020. These DPH programs are not moving into the space at 49 South Van Ness Avenue, and according to Mr. Penick, cannot be supported long-term at any existing City-owned or leased spaces, which requires them to move into a new space.

DPH is the only department for which the City did not have an initial relocation plan for when making the 30 Van Ness sale. According to Ms. Kathy Jung, Director of Facilities and Capital Planning for DPH**,** DPH programs currently located at 30 Van Ness Avenue have been working

[1] The Board also authorized the sale of two other City-owned buildings at 1660 Mission Street and 1680 Mission Street, for which the sales proceeds were used as sources of funds for the development of 49 South Van Ness Avenue.

together for ten years, and their co-location facilitates collaboration and creates synergy across areas.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a lease agreement between the City, as tenant, and 333 Valencia Owner LLC, as landlord, for the DPH program staff occupying 30 Van Ness to relocate to 333 Valencia Street for a term of 15 years, commencing in February 2021, with the option to extend for ten years. According to the proposed lease agreement, initial annual base rent is $2,209,239 ($49.95 per square foot) and increases three percent annually thereafter. DPH will pay for 79.41 percent of operating costs and real estate taxes, along with electricity. Key terms of the proposed lease are show in Table 1 below.

The agreement also includes approximately $6.5 million in tenant improvement costs to reconfigure and complete interior construction at the 333 Valencia Street space. According to Mr. Penick and Ms. Jung, the interior of the building is new and requires build out, and interior construction is planned to configure the space to best meet the needs of the DPH programs that will be located in the office (i.e. creating conference room and training space needed by PHEPR and EMS but shared across all programs) and also includes open workspace that better allows for social distancing.

Table 1: Key Terms of Proposed Lease

	Terms Specified in Proposed Lease
Square Feet	44,229
Term	15 Years, from approximately February 2021 through 2035 (with an optional 10-year extension)
Annual Base Rent	$2,209,239 ($49.95 per square foot)
Rent Increases	3 percent annually
Tenant Improvement Costs	• Total Tenant Improvement costs budgeted at $9.1 million • $6.5 million paid by the City • $2.6 million paid by the landlord
Utilities and Janitorial Services	• City will contract and pay for any electricity and any other utility services necessary. • Building owner will provide heating, ventilation and air conditioning, along with Building elevators and water services.
Operating Costs and Real Estate Taxes	79.42 percent based upon square footage of the premises divided by the square footage of the building

Source: Draft Lease Agreement

The space at 333 Valencia Street is similar to the current size of the space at 30 Van Ness that these programs occupy. According to Mr. Penick, the plan is for DPH to move out of 30 Van Ness at the end of August, temporarily relocate some staff at existing office space while others work remotely. Targeted move-in to the space at 333 Valencia Street is for February 2021.

Appraisal

Administrative Code Section 23.27 requires the Director of Real Estate to obtain a third party appraisal of the fair market value of leases in which the City is tenant if the base rent is greater than $45 per square foot. An appraisal conducted by Mateo Advisors for the Real Estate Division as of May 2020 determined that the rent under the proposed lease, equal $49.95 per square foot plus the City's tenant improvement costs, was at or below the fair market rent.

Purchase Option

The proposed lease provides an option for the City to purchase 333 Valencia Street from the lease commencement date in approximately February 2021 to October 2021, a nine-month period. The purchase price would be $56,000,000, plus the landlord's costs for tenant improvements, less rent paid by the City.

FISCAL IMPACT

Under the proposed lease agreement, DPH would pay $2,209,239 ($49.95 per square foot) in initial base rent with a three percent annual increase. The first year's rent will include six months' rent abatement. DPH will pay 79.42 percent of operating costs. The operating costs include real estate taxes, insurance and shared utilities. The Landlord will pay for janitorial and security services but these are pass through costs billed to DPH. DPH will arrange and pay for electricity directly. Operating costs are projected to increase by 3 percent annually according to Mr. Penick. Table 2 below summarizes the costs associated with the lease agreement in year one and years 2 through 15. Year one costs, including the City's share of the tenant improvement costs, are projected to be $8,68,639 and the total costs of leasing 333 Valencia for 15 years are projected to be $67,026,397, including tenant improvement costs.

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Table 2: Projected Expenditures over Lease Term of 15 Years

	Year 1*	Years 2-15	Total Costs over 15 Years
Rent per Square Foot	$49.95	$62.79 (average)	$61.93 (average)
Base Rent*	$1,104,619	$38,880,199	$39,984,818
Operating Expenses	530,748	9,340,588	9,871,336
Utilities	331,718	5,837,868	6,169,586
Custodial & Security	243,260	4,281,103	4,524,363
Tenant Improvement Costs	6,476,295	N/A	6,476,295
Total Cost	**$8,686,639**	**$58,339,758**	**$67,026,397**

*Year 1 includes 6-month free rent
Source: Real Estate Division

Table 3 details the budget for the tenant improvement costs. These costs will be shared by the DPH and the building, which has agreed to pay $60 per square foot of these improvement costs. Total tenant improvement costs are anticipated to be $9,130,035 with the building owner paying $2,653,740, and DPH paying the remainder, $6,476,295, using General Fund sources

Table 3: Year 1 Tenant Improvement Costs

Contractor Portion of Tenant Improvements	
Construction and Office Build-Out*	$6,213,127
Bonds, Insurance, Taxes	$696,798
Contingency	
Overhead and Fees	
Subtotal	$6,909,925
Building Management Portion of Tenant Improvements	
Communications (AV, Data Cabling) and Security Improvements	$962,331
Tenant Contingency	$197,771
Indirect Costs**	$695,345
Project Management Fee	$364,663
Subtotal	$2,220,110
Total Costs	$9,130,035
Share of Total Cost	
Building Owner, Tenant Improvement Allowance ($60 per square foot)	$2,653,740
City Contribution (General Fund) ($146.43 square foot)	$6,476,295
Total	$9,130,035

*Construction and Office Build-Out includes constructing offices and conference space, flooring, finishing, electrical, HVAC, etc.
**Indirect Costs include soft costs of architect, engineers, city construction manager, and consultants.
Source: Real Estate Division

According to Ms. Jenny Louie, DPH Budget Director, the sources of funding for the lease will be distributed across the DPH programs occupying the building, and includes a mix of grant revenue, General Fund, and fees in case of Emergency Medical Services. Table 4 breaks down the DPH programs, the percent of the lease each anticipates covering and the source of funds.

Table 4. Sources of Funding for 333 Valencia Lease, excluding tenant improvement costs

Program	Share of Lease	Dollar Amount over 15 Years	Source
Maternal, Child and Adolescent Health	62%	$37,541,063	Grant
Primary Care	18%	$10,899,018	General Fund and Medical
Emergency Medical Services	9%	$5,449,509	Fees
Public Health Emergency Preparedness and Response	7%	$4,238,507	Grant
Population Health Admin	4%	$2,422,004	General Fund and Grant Overhead
Total	100%	$60,550,102	

Source: DPH

RECOMMENDATION

Approve the proposed resolution.

Item 3 **Files 20-0603** *Continued from July 8, 2020*	**Department: Airport**

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the first modification to the General Airport Security Services Contract No. 50178 between the San Francisco International Airport and Covenant Aviation Security, LLC, for a new contract amount not to exceed $11,785,254 and extending the term by two years through June 30, 2022.

Key Points

- The Board of Supervisors previously approved an emergency contract between the Airport and Covenant Aviation Security for airport security services in 2017. Subsequently, following a request for proposals, Covenant was awarded an approximate 21-month contract from October 2018 through June 2020, in the amount of $5,500,000. The proposed resolution would approve the first of two (2) two-year options to extend the contract to June 2022 and increase the contract amount by $6,285,254 to $11,785,254.

Fiscal Impact

- As of June 2020, the Airport has paid a total of $5,209,502 to Covenant Aviation Security, LLC for Airport Security under this contract. Because the Airport may reduce the number of security posts in early FY 2020-21 due to decreased passenger travel during the COVID-19 pandemic, the Airport estimates that the FY 2020-21 budget may range from $2,784,066 to $3,012,768. Total estimated contract amounts through June 2022 range from $11,270,207 to $11,498,909.
- According to Airport staff, because the contractor is only reimbursed for actual expenses, the Airport will not spend more than the actual services provided by the contractor if operations are reduced below the contracted amount in FY 2020-21.
- The contract is funded by Airport operating revenues, and according to Airport staff, sufficient funds to pay for the contract will be included in the proposed FY 2020-21 and FY 2021-22 budget to be reviewed by the Board of Supervisors in August 2020.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

The Federal Transportation Security Administration (TSA) requires that all commercial service Airports have a TSA-approved Airport Security Program to provide trained security guard and inspection services throughout Airport terminals and exits.

In November 2016, the San Francisco International Airport Commission approved the issuance of a request for proposals for General Airport Security Services. The top scoring applicant of the eight that submitted proposals was HSS Inc. Accordingly, HSS Inc. was awarded the contract for an initial period of three years from July 1, 2017 through June 30, 2020, with one (1) two-year extension option, in an amount not to exceed $6.5 million. The contract was approved by the Airport Commission on May 2, 2017.

Within the first year of contractual services, the Airport determined that HSS Inc. had defaulted on its contractual obligations by failing to provide sufficient staffing on at least 19 separate occasions.[1] The Airport Commission declared an emergency on April 6, 2018 and terminated the contract with HSS Inc. effective April 9, 2019. Covenant Aviation Security, LLC—the second highest scorer on the initial RFP—took over the contract with the Airport immediately.

The emergency contract with Covenant Aviation Security was retroactively approved by the Board of Supervisors on October 5, 2018 for an amount not to exceed $1,700,000 over a six-month term from April 9, 2018, through October 8, 2018.[2]

Subsequently, following a new request for proposals, on September 18, 2018, the Airport Commission approved Resolution No. 18-0299 authorizing Airport staff to award Professional Services Contract No. 50178 to Covenant Aviation Security, LLC, to provide General Airport Security Services in an amount not to exceed $5,500,000 for a period of 20 months, ending on June 30, 2020, with two (2) two-year options to extend, exercisable at the sole discretion of the Airport Commission. This contract did not appear before the Board of Supervisors at that time because it was under the $10 million threshold. Today's proposed modification would exceed that threshold and so it is now under the Board's consideration.

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[1] According to Ms. Teresa Scism, Aviation Security & Regulatory Compliance Manager Safety and Security Services, SFO.

[2] Resolution 313-18, File No 180494 retroactively approving Emergency Contract No. 50177 for General Airport Security Services between Covenant Aviation Security, LLC, and the City and County of San Francisco, acting by and through its Airport Commission.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution is the first modification to the contract between the Airport Commission and Covenant Aviation Security, LLC which would: a) increase the contract amount by $6,285,254 for a new contract amount not to exceed $11,785,254; and, b) extend the term by two years for a total of three years and eight months, from September 18, 2018 through June 30, 2022.

Services Provided

Covenant Aviation Security, LLC is to provide trained and supervised security guards to perform inspections of all goods, employee ID badge verifications, and guarding of specific security screening checkpoints, lanes, airfield operations access gates, and buildings. Post staffing and hours of operation are set forth in the contract.[3]

Performance Monitoring

The contract stipulates that Covenant Aviation Security, LLC is to submit written reports as requested by the Airport Commission. According to Ms. Teresa Scism, Aviation Security & Regulatory Compliance Manager: "Overall, the vendor is performing satisfactorily. We had some initial hiccups and the vendor made immediate corrective actions and acquired additional tools and resources as training aids that were not funded by the Airport in an effort to improve their performance which has proven to be successful. The management team partners with the Airport, is responsive, and provides information as requested in a timely manner. They are adaptable to the changing needs of the Airport operation and implement changes and adjustments as requested without hesitation or resistance according to the Airport's timelines."

FISCAL IMPACT

As of June 2020, the Airport has paid a total of $5,209,502 to Covenant Aviation Security, LLC for Airport Security under this contract.[4] Because the Airport may reduce the number of security posts in early FY 2020-21 due to decreased passenger travel during the COVID-19 pandemic, the Airport estimates that the FY 2020-21 budget may range from $2,784,066 to $3,012,768. The projected budgets for FY 2020-21 and FY 2021-22 depend on staffing levels which are uncertain due to COVID-19 operational adjustments. Monthly salaries and benefits could range from low end estimates of $212,947 to high end estimates of $251,064, according to Ms. Scism**.** Total estimated contract amounts through June 2022 range from $11,270,207 to $11,498,909, as shown in the Table below.

[3] Appendix B to the Contract No. 50178 contains "Minimum Hourly Staffing Levels" for 15 cited locations throughout the Airport.

[4] According to payroll data from November 2018 through June 10, 2020 provided to the Budget & Legislative Analyst's Office by Airport staff.

Table: Actual, Projected, and Budgeted Contract Expenditures October 2018 through June 2022

	Reduced Operations	Normal Operations
Actual Expenditures October 2018 to May 2020	5,209,502	5,209,502
Projected Expenditures June 2020	212,947	212,947
Subtotal Actual & Projected Expenditures	5,422,449	5,422,449
FY 2020-21 Budget	2,784,066	3,012,768
FY 2021-22 Budget	3,012,768	3,012,768
Subtotal Budget	5,796,834	6,025,536
Total	11,219,283	11,447,985

Source: Airport

According to Ms. Scism, because the contractor is only reimbursed for actual expenses, the Airport will not spend more than the actual services provided by the contractor if operations are reduced below the contracted amount in FY 2020-21.

The contract is funded by Airport operating revenues. According to Ms. Scism, sufficient funds to pay for the contract will be included in the proposed FY 2020-21 and FY 2021-22 budget to be reviewed by the Board of Supervisors in August 2020.

POLICY CONSIDERATION

Due to the financial impacts that the Airport and City are currently experiencing as a result of the COVID-19 pandemic, City requested that all service contractors reduce the management fees by at least 5% under their contracts. Accordingly, under this amended contract, the Monthly Management fee for the term July 1, 2020 to June 30, 2021 is reduced from $49,576 per month to $47,097.20 per month.

RECOMMENDATION

Approve the resolution.

Item 4 File 20-0668	Department: Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the third modification to the existing contract between the Airport and Hallmark to (a) exercise the second of three two-year options to extend the contract from July 1, 2020, through June 30, 2022, in order to provide Information and Guest Services, and (b) increase the contract not-to-exceed amount by $13,758,746 from $27,353,224 to $41,111,970.

Key Points

- In 2016, the Airport Commission consolidated into one management contract three related services: (a) the Airport Information Desk, (b) customer assistance in the Federal Inspection Services area, and (c) lost and found. The Board of Supervisors approved the original contract between the Airport and Hallmark to provide these services in December 2019 for an initial 18-month term and contract amount of $11.5 million, and approved the first modification to the contract in May 2018 to extend the term through June 2020 and increase the contract amount to $27.4 million.

Fiscal Impact

- Total actual and budgeted expenditures through June 2022 are $38,229,296. Contract staffing and associated expenditures decreased after March 2020 amidst a decline in Airport passengers. The Airport estimates that the FY 2020-21 budget will continue to be reduced due to reduced air travel and passengers. The expectation is that in FY 2021-22 many of the reduced contract posts will be restored. According to Airport staff, due to Covid-19 related uncertainty, significant numbers of contract staff may be reactivated earlier than predicted to staff critical queuing areas. Additionally, contract staff are likely to continue staffing information desks as a consequence of not re-establishing the Airport's volunteer information desk program as early as originally forecasted due to staff health concerns. Because the contractor is reimbursed for actual expenditures, the Airport will only incur expenses for actual hours worked.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

In 2016, the Airport Commission consolidated into one management contract three related services: (a) the Airport Information Desk, (b) customer assistance in the Federal Inspection Services area, and (c) lost and found.[1] On March 16, 2016, the Airport issued a Request for Proposals (RFP) to award this "Airport Information and Guest Assistance Services" contract, and ultimately selected the highest ranking of the two proposers that responded to the RFP: Hallmark Aviation Services, L.P. (Hallmark).

In December 2016, the Board of Supervisors approved the contract between the Airport and Hallmark in an amount not-to exceed $11,550,000 for an initial 18-month term to commence January 1, 2017 through June 30, 2018. The contract contained three two-year options to extend the professional services agreement through June 30, 2024.

In May 2018, the Board of Supervisors approved the first modification to the contract to exercise the first of the three two-year extension options for a term from July 1, 2018 through June 30, 2020 and increase the contract amount from $11,500,000 to $27,353,224. On July 1, 2019, the Airport Director administratively approved the second modification to the contract to increase the labor rate to the new Quality Standards Program rate.[2]

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the third modification to the contract between the Airport Commission and Hallmark Aviation Services, L.P. (Hallmark) which would: a) increase the contract amount by $13,758,746, from $27,353,224 to not to exceed $41,111,970; and, b) extend the contract term by two years from July 1, 2020 through June 30, 2022 for a total of five years and six months, from January 1, 2017 through June 30, 2022.

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[1] According to the Airport Director, the customer assistance in the Federal inspection Services area serves 6.5 million guests annually, and the Information Desk serves more than 1.5 million guests annually.

[2] Under the QSP, the minimum hourly rate for covered employees will increase effective July 1, 2020. The minimum hourly wage is at all times $0.50 an hour above the current San Francisco Minimum Wage. https://media.flysfo.com/media/Quality-Standards-Program-2016.pdf.

Services Provided

The Airport Information and Guest Assistance Services contract is comprised of three services:[3]

(a) Airport Information Desk Program, providing information to the public on airport services, transportation, visitor attractions, and other services at 11 information desks in Airport Terminals 1, 2, and 3 and the International Terminal. This service is performed by Polaris Research and Development, Inc. (Polaris), which is a Local Business Enterprise subcontracted by Hallmark. Polaris provided these services to the Airport prior to the 2016 contract consolidation.

(b) Guest Assistance in the International Terminal, consisting primarily of queue management and assistance with Automated Passport Control kiosks, and

(c) Airport's Lost and Found program, which aims to reunite customers with their belongings and is operated 24 hours daily, 365 days a year.

Performance Monitoring

Under the existing contract, the Airport staff conducts a quarterly review of Hallmark's performance based on 10 criteria, including staff on duty at all locations, reports of transit pass sales, customer service ratings, complaint investigations and foreign language requirements. Hallmark received an "Outstanding" five out of five score on each of these metrics in the 2019 fourth quarter audit.[4]

FISCAL IMPACT

Appendix B of the contract states that the Airport will only reimburse the contractor for actual costs. Actual and projected contract expenditures from January 2017 through June 2020 are $24,470,550.[5] According to Mr. Christopher Birch, Airport Director of Guest Experience, contract staffing and associated expenditures decreased after March 2020 when Airport passengers decreased, and therefore, contract expenditures did decrease between March 2020 and June 2020.

The contract budgets for FY 2020-21 and FY 2021-22 depend on staffing levels which are uncertain due to operational adjustments amidst decreased passenger travel during the COVID-19 pandemic. Actual and budgeted contract expenditures are $38,229,296, as shown in Table 1 below.

[3] Appendix A "Scope of Services" to original contract.
[4] Q4 2019 Performance Measures Report of Hallmark Aviation Services.
[5] According to budget data from January 2017 through June 2020 provided to the Budget & Legislative Analyst's Office by Airport staff.

Table 1: Total Contract Expenditures from January 1, 2017 through June 30, 2022

	Management Fee	Hallmark Salaries and Benefits	Polaris Salaries and Benefits	Other Operating Expenses	Total
Actual and Projected Expenditures					
FY 2016-17 (6 months)	$742,824	$1,454,691	$1,002,094	$55,852	$3,255,460
FY 2017-18	1,485,648	2,914,376	2,110,609	76,034	6,586,667
FY 2018-19	1,485,648	3,679,852	2,212,094	162,229	7,539,823
FY 2019-20	1,485,648	3,311,304	2,127,824	163,825	7,088,600
Subtotal	$5,199,768	$11,360,221	$7,452,622	$457,939	$24,470,550
Budgeted Expenditures					
FY 2020-21	$1,411,366	$2,571,354	$2,396,491	$187,307	$6,566,518
FY 2021-22	1,411,366	3,199,819	2,396,491	184,552	7,192,228
Subtotal	$2,822,732	$5,771,173	$4,792,982	$371,859	$13,758,746
Total	**$8,022,500**	**$17,131,394**	**$12,245,604**	**$829,798**	**$38,229,296**

Source: Airport

The Airport estimates that the FY 2020-21 budget will decline by 18 percent to $6,566,518, with salaries and benefits accounting for the bulk of these reductions. The expectation is that in FY 2021-22 many of the reduced Hallmark posts will be restored, while Polaris staffing will remain the same**.** According to Mr. Birch, due to Covid-19 related uncertainty, significant numbers of Hallmark staff may be reactivated earlier than predicted to staff critical queuing areas. Additionally, Hallmark staff are likely to continue staffing information desks as a consequence of not re-establishing the Airport's volunteer information desk program as early as originally forecasted due to staff health concerns. Because the contractor is reimbursed for actual expenditures, as noted above, the Airport will only incur expenses for actual hours worked.

Budgeted positions under the proposed contract are shown in Table 2 below.

Table 2: Budgeted Full Time Equivalent (FTE) Positions

	Hallmark	Polaris	Total
FY 2016-17 (6 months)	39.30	19.70	59.00
FY 2017-18	78.60	39.40	118.00
FY 2018-19	72.70	37.60	110.30
FY 2019-20	72.70	37.60	110.30
FY 2020-21	44.20	36.70	80.90
FY 2021-22	55.00	36.70	91.70

Source: Contract and Modifications

According to Mr. Birch, due to the financial impacts that the Airport and City are currently experiencing as a result of the COVID-19 pandemic, City requested that all service contractors reduce the management fees by at least 5 percent under their contracts. Accordingly, under this amended contract, the management fee for the next two years starting with the term July 1, 2020 to June 30, 2021 is reduced by 5 percent annually from $1,485,648 to $1,411,366. The management fee is a fixed fee, which in the original contract and first modification equaled 24 percent of salaries and benefits. Under the proposed modification, even with the reduction in the management fee, the management fee increases to 28 percent of salaries and benefits. According to Mr. Birch, the management fee percentage of total costs has increased since the Quality Standards Program (QSP) hourly rate increased on July 1, 2020 and the Airport negotiated an incremental increase in health insurance reimbursement rates for Hallmark.

The contract is funded by Airport operating revenues. According to Mr. Christopher Birch, sufficient funds to pay for the contract will be included in the proposed FY 2020-21 and FY 2021-22 budget to be reviewed by the Board of Supervisors in August 2020.

RECOMMENDATION

Approve the proposed resolution.

Item 5 File 20-0667	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 2 to the contract between San Francisco International Airport (Airport) and Vanderlande Industries Inc. to operate, maintain, and repair Airport-owned passenger boarding bridges and baggage handling systems in the domestic terminals, increasing the not-to-exceed amount by $3,852,617, from $9,793,875 to $13,646,492, and exercising the final one-year option to extend the contract term from October 2020 through September 2021.

Key Points

- The Airport owns four baggage handling systems and 21 common use passenger boarding bridges in the domestic terminals. In 2016, the Airport awarded Vanderlande a contract to operate, maintain, and repair the domestic terminals baggage handling systems in Terminals 1 and 2 and two passenger boarding bridges, with a term of three years and one month, from September 2016 through September 2019, for an amount not to exceed $5,397,000, and two one-year options to extend. In August 2019, the Airport Commission approved Modification No. 1 to the contract, exercising the first one-year option to extend through September 2020, and increasing the not-to-exceed amount to $9,793,875.
- Vanderlande currently performs complete maintenance on the Terminal 2 baggage handling system and three passenger boarding bridges, as well as on-call maintenance on an additional 18 passenger boarding bridges. Under the proposed Modification No. 2, Vanderlande would perform complete maintenance on the Terminal 2 baggage handling system and all 21 passenger boarding bridges.

Fiscal Impact

- The proposed Modification No. 2 would increase the contract's not-to-exceed amount by $3,852,617, for a total not to exceed $13,646,492. Sufficient funding is available in the Airport's proposed FY 2020-21 operating budget.
- Actual and projected expenditures on the contract through September 2020 are approximately $7,908,714, which is approximately $1,885,161 less than the existing not-to-exceed amount of $9,793,875. Of the $1,885,161 the Airport estimates expenditures in the amount of $986,500 for as-needed services or service level increases due to new passenger boarding bridge installations or unanticipated baggage handling system repairs and parts replacement. Therefore, the Budget and Legislative Analyst recommends reducing the proposed Modification No. 2 not-to-exceed amount by $898,661.

Recommendations

- Amend the proposed resolution to reduce the not-to-exceed amount by $898,661, for a new total not to exceed $12,747,831.
- 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

San Francisco International Airport (Airport) owns four baggage handling systems and 21 common use passenger boarding bridges in the domestic terminals.[1] In February 2016, the Airport conducted a Request for Proposals (RFP) to select a contractor to operate, maintain, and repair the domestic terminals baggage handling systems and passenger boarding bridges. The Airport received four proposals, and a three-person panel reviewed the proposals, and scored them as shown in Table 1 below.

Table 1: Proposals and Scores from RFP

Proposer	Score (Max 520 Points)
Vanderlande Industries, Inc.	471.00
Siemens Postal, Parcel & Airport Logistics LLC	378.51
ERMC	242.55
Daifuku Elite Line Services	191.86

Vanderlande was deemed the highest scoring responsive and responsible proposer and was awarded a contract. In June 2016, the Airport Commission approved a contract with Vanderlande for a term of three years from October 2016 through September 2019, for an amount not to exceed $5,397,000, and two one-year options to extend. In August 2016, the Airport Commission amended the contract to commence September 2016, to allow the contractor to perform preliminary work before beginning operations, and not changing the expiration date or not-to-exceed amount. In August 2019, the Airport Commission approved Modification No. 1, exercising the first one-year option to extend the contract through September 2020, and increasing to not-to-exceed amount by $4,396,875, for a total not to exceed $9,793,875.[2] In June 2020, the Airport Commission approved Modification No. 2, which is the subject of the proposed resolution,

[1] Two baggage handling systems are located in Terminal 1, one is located in Terminal 2, and one is located in Terminal 3. 19 common use passenger boarding bridges are located in Terminal 1, and two are located in Terminal 2.

[2] According to Mr. Guadiamos, the contract annual not-to-exceed cost increased from approximately $1.8 million in Years 1-3 to approximately $4.4 million in Year 4 largely due to a wage rate determination made by the Office of Labor Standards Enforcement (OLSE). OLSE ruled that Maintenance Technicians shall be paid at the Millwright prevailing wage classification, which increased the base pay from $38.55 per hour to $66.95 per hour, and that the Unjammer/ Manual Encoder position shall be paid at the Laborer classification, which increased the base pay from $18.74 per hour to $56.03 per hour. The Millwright and Laborer classifications are typically used for construction work, and the City does not have a prevailing wage rate specific to Airport baggage handling maintenance workers. The Airport attempted to challenge these wage rates, but OLSE's determination was final. Additionally, the number of full-time Maintenance Technician positions increased from 5.6 to 7.0, and the scope of services increased, as shown in Table 2 below.

exercising the second one-year option to extend the contract through September 2021, and increasing the not-to-exceed amount by $3,852,617, for a total not to exceed $13,644,492.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 2 to the Airport's contract with Vanderlande, exercising the second one-year option to extend through September 2021, and increasing the not-to-exceed amount by $3,852,617, for a total not to exceed $13,644,492.

According to Mr. Enrique Guadiamos, Airport Director of Terminal Systems and Wayfinding, the contract scope has changed several times since it was executed in 2016. An overview of the contract scope over time is shown in Table 2 below

Table 2: Overview of Contract Scope over Time

Contract	Effective Date	Contract Scope
Original Contract	October 2016	Complete maintenance on Terminals 1 and 2 baggage handling systems and two passenger boarding bridges
Original Contract	July 2019	Complete maintenance on Terminals 1 and 2 baggage handling systems and two passenger boarding bridges; on-call maintenance on nine passenger boarding bridges
Modification No. 1	October 2019	Complete maintenance on Terminals 1 and 2 baggage handling systems and three passenger boarding bridges; on-call maintenance on nine passenger boarding bridges
Modification No. 1	May 2020	Complete maintenance on Terminal 2 baggage handling system and three passenger boarding bridges; on-call maintenance on 18 passenger boarding bridges
Modification No. 2 (proposed)	October 2020	Complete maintenance on Terminal 2 baggage handling system and 21 passenger boarding bridges

According to Mr. Guadiamos, Vanderlande has exceeded performance targets for Availability Standard and Preventive Maintenance Standard. Vanderlande has performed slightly below targets for Tracking Accuracy due to factors outside of its control.

FISCAL IMPACT

The proposed Modification No. 2 would increase the contract's not-to-exceed amount by $3,852,617, for a total not to exceed $13,644,492. The projected cost breakdown for the one-year extension term is shown in Table 3 below.

Table 3: Projected Cost Breakdown for One-Year Extension Term

Position Title	Full-Time Employees	Hourly Wage with Burden[3]	Annual Total Hours (Excluding PTO)	Annual Labor Cost with Burden
Site Manager	1.000	$105.56	1,856.0	$195,911
Maintenance Technician	9.325	121.58	17,307.2	2,104,265
Control Room Operator	2.800	56.11	5,196.8	291,575
Laborer / Unjammer / Manual Encoder	4.000	117.09	7,424.0	869,281
Labor Subtotal				*$3,461,032*
Costs for Service[4]				$121,600
Profit (7.8% of Labor Cost)				269,960
Total				**$3,852,592**

According to Mr. Guadiamos, the actual and projected expenditures on the contract through September 2020 are approximately $7,908,714, which is approximately $1,885,161 less than the existing not-to-exceed amount of $9,793,875. Of the $1,885,161 the Airport estimates expenditures in the amount of $986,500 for as-needed services or service level increases due to new passenger boarding bridge installations or unanticipated baggage handling system repairs and parts replacement. Therefore, the Budget and Legislative Analyst recommends reducing the proposed Modification No. 2 not-to-exceed amount by $898,661, for a new total not to exceed $12,747,831.

According to Mr. Guadiamos, the Airport has negotiated with Vanderlande to increase the amount of equipment to be maintained with minimal increase to the staffing levels. The Airport had previously issued an RFP for stand-alone passenger boarding bridge maintenance but was unable to attract proposers. By combining passenger boarding bridge and baggage handling system maintenance in the proposed Modification No. 2, the Airport will save approximately $1,800,000 from the planned FY 2020-21 operating budget.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not-to-exceed amount of the contract by $898,661, for a new total not to exceed $12,747,831.
2. Approve the proposed resolution as amended.

[3] Burden includes paid time off, payroll taxes, pension costs, health insurance, dental insurance, unemployment insurance, workers' compensation insurance, and any other benefits and indirect labor costs.

[4] Costs for service include use of tools and equipment, uniforms, parking and badging, phones, corporate insurance, office supplies, fuel and consumables, arranging for purchase and delivery of spare parts, training, licenses and permits associated with work, and travel.

Item 7 File 20-0670	**Department:** San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 6 to Contract CS-155-2 Architectural and Engineering Services for the Final Design and Construction of the Central Subway Project between the San Francisco Municipal Transportation Agency (SFMTA) and Central Subway Design Group, which would increase the contract by $6,879,086 for a total amended contract amount not to exceed $54,779,692.

Key Points

- On March 2, 2010, the Board of Supervisors approved the SFMTA's award of the "Architectural and Engineering Services for the Final Design and Construction of the Central Subway Project" to Central Subway Design Group (CSDG) for the design of three underground stations, for an original amount not to exceed $39,949,959, for a ten-year base term, and an option to extend the term two years.
- To date, the contract has been amended five times. The proposed Sixth Amendment allocates $6,879,086 in funds to be used for design support during construction, which has been extended to the end of 2020, and for preparing as-built construction documents and supporting post-construction activities to achieve revenue service at the end of 2021. The Program does not anticipate further delays to construction.

Fiscal Impact

- SFMTA does not anticipate any further delays or cost increases in the construction of the Union Square/Market Street, Chinatown, and Moscone subway stations, and therefore, does not anticipate any further extensions or increases in the associated contract with CSDG for architectural and engineering services.

Policy Consideration

- According to the Central Subway Program Director, SFMTA is in receipt of all of the funding for the $1.578 billion budget of which $1.569 billion has been allocated to the project. SFMTA anticipates allocating the remaining funds in the next 1-2 months.

Recommendation

- Approve the 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

Central Subway Project

The San Francisco Municipal Transportation Agency (SFMTA) Central Subway Project will provide a new 1.7-mile transit connection between Chinatown (Washington Street and Stockton Street) and the Caltrain Terminal/Muni T-Line (King Street and Fourth Street). The Central Subway Project will have four new subway stations, three underground: (1)Yerba Buena/Moscone Station (YBM), (2) Union Square/Market Street Station (UMS), (3) Chinatown Station (CTS), and one above ground: (4) Fourth/Brannan Street Station (FBS).[1]

On December 1, 2009, the SFMTA Board of Directors awarded Contract CS-155-2 to Central Subway Design Group (CSDG)[2], following a competitive request for proposals, to design the three underground stations for the Central Subway Project, for an original amount not to exceed $39,949,959, for a ten-year base term, and an option to extend the term two years. On March 2, 2010, the Board of Supervisors approved the SFMTA's award of the Contract to CSDG.

Amendments to Contract

To date, the contract between SFMTA and CSDG for "Architectural and Engineering Services for the Final Design and Construction of the Central Subway Project" has been amended five times, as shown in Table 1.

[1] SFMTA Central Subway Project, https://www.sfmta.com/projects/central-subway-project.

[2] CSDG is a joint venture between Parsons Brinkerhoff, Inc. (now called WSP), Michael Willis Architecture, Inc., and Kwan Henmi Architecture, Inc. (now called DLR Group).

Table 1. Amendments to Contract CS-155-2 as of July 2020:

Amend. No.	Date	Contract Increase	Total Not to Exceed Amount	Term End Date	Description
1	Dec. 2011*	$1,010,600	$40,960,548	Apr. 2020	Design work to lower Chinatown Station
2	Feb. 2016	$484,053	$41,444,601	Apr. 2020	Design of the plaza above Chinatown Station
3	Nov. 2016	$132,069	$41,576,6 70	Apr. 2020	Design work associated with relocation of the tunnel boring machine retrieval shaft in North Beach
4	Jun. 2018	$6,323,936	$47,900,606	Apr. 2020	Engineering services
5	Apr. 2020		$47,900,606	Apr. 2022	Extend contract Term
Subtotal		$7,950,658			
6	*Subject of Resolution*	$6,879,086	$54,779,692	Apr. 2022	Design support services tied to construction

*Retroactively approved by the Board of Supervisors in June 2018 after process error.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the sixth amendment to the Contract (CS 155-2) between the San Francisco Municipal Transportation Agency (SFMTA) and Central Subway Design Group for "Architectural and Engineering Services for the Final Design and Construction of the Central Subway Project." This amendment would increase the contract amount by $6,879,086 for a total amended contract amount not to exceed $54,779,692, with no change to the term of 12 years to expire on April 4, 2022.

Services Provided

According to the Department, the additional funds will be used for design support during construction, which has been extended to the end of 2020, and for preparing as-built construction documents and supporting post-construction activities to achieve revenue service at the end of 2021 (See Table 2). The $6,879,086 translates to approximately 37,600 hours of professional engineering services (Task 16 in the Contract). The design support services are tied to construction, and the Program does not anticipate further delays to construction.

FISCAL IMPACT

Subway Stations

According to the Central Subway Program Director, the construction of the Union Square/Market Street, Chinatown, and Moscone subway stations has been delayed from the original completion date of December 2018 to the new completion date of December 2021 because of unexpected site conditions and design changes required by the City. As a result, the total budget to construct these three stations and the associated system-wide facilities has increased from $839,676,400 in 2010 to $905,893,106. The proposed $6,879,086 increase in the contract is for additional design and engineering services to complete the Union Square/Market Street, Chinatown, and Moscone subway stations, as shown in Table 2 below.

Table 2. Amendment No. 6 Uses

Task	Service	Cost
16.2	Design Team Coordination and Management	$1,719,786
16.30 and 16.50	RFIs, Submittals, Other Consultation including SFMTA design support, PCCs, CORs	$3,011,540
16.4	Onsite Field Support / Meetings	$943,845
16.6	As-Builts Drawings	$973,131
16.7	Operations and Maintenance Manual Support	$230,784
	Total	**$6,879,086**

The Contract is structured on a cost reimbursement model. The parties estimated the number of hours CSDG would need to spend on various categories of work, with contract costs estimated by multiplying those hours by the hourly rates of the personnel assigned to perform the work and by an audited rate for overhead. The parties also negotiated a separate fixed fee that covers CSDG's profit and costs not covered as allowed overhead; the fixed fee is paid pro rata to hours worked with each progress payment.

According to the Central Subway Program Director, SFMTA does not anticipate any further delays or cost increases in the construction of the Union Square/Market Street, Chinatown, and Moscone subway stations, and therefore, does not anticipate any further extensions or increases in the associated contract with CSDG for architectural and engineering services.

Central Subway Project

The SFMTA original budget for the Central Subway Project remains the same at $1.578 billion. The Program is in the process of determining the Estimate at Completion (EAC), which is trending at $1.626 billion. The anticipated cost overruns are accounted for in the revised budget for FY 2021-25 Capital Improvement Projects that was adopted by the SFMTA Board on June 30, 2020. As shown in Table 3 below, according to the most recent monthly report, as of April 2020, the Central Subway Project had remaining funds of $52.4 million.

Table 3: Central Subway Project Budget, Expenditures and Balances Through April 2020

Cost Categories	Approved Budget	Expenditures through April 2020	Remaining Balance
Guideway & Track Elements	$284,261,448	$282,648,964	$1,612,485
Stations, Stops, Terminals, Intermodal	541,663,144	537,445,037	4,218,107
Sitework & Special Conditions	264,806,024	268,630,997	(3,824,973)
Systems	100,637,776	77,935,780	22,701,996
Row, Land, Existing Improvements	32,246,321	30,648,969	1,597,352
Vehicles	16,800,000	11,929,247	4,870,753
Preliminary Engineering	46,202,674	46,202,674	0
Final Design	61,318,331	61,200,826	117,506
Design & Construction Project Management	82,244,281	80,633,297	1,610,984
Construction Management	116,991,299	115,718,021	1,273,278
Insurances	6,800,000	6,340,196	459,804
Legal, Permits and Review Fees	8,212,604	5,605,986	2,606,618
Surveys, Testing, Investigation, & Inspection	933,100	906,553	26,547
Start-up	8,300,329	0	8,300,329
Unallocated contingencies	6,882,672	0	6,882,672
Total	**$1,578,300,003**	**$1,525,846,544**	**$52,453,459**

Source: Table provided by SFMTA staff to BLA upon request

The Central Subway project is funded with Federal Transit Administration New Starts, Federal Congestion Management & Air Quality, State Transportation Bond Proposition 1A and 1B, State Regional Improvement Program, State Transportation Congestion Relief Program, and Prop K Half-Cent Local Sales Tax funds as shown in Table 4.

Table 4: Central Subway Project Funding Sources

Sources	Total
FTA 5309 New Starts	$942,200,000
Federal CMAQ3	41,025,000
Proposition1A High Speed Rail Connectivity	61,308,000
State Proposition1B-MTA	87,895,815
State Proposition1B-SFMTA	219,896,185
RIP-SF/Other	74,248,000
State TCRP	14,000,000
Local Proposition K	137,727,000
TOTAL	**$1,578,300,000**

POLICY CONSIDERATION

According to the Central Subway Program Director, SFMTA is in receipt of all of the funding for the $1.578 billion budget of which $1.569 billion has been allocated to the project. SFMTA anticipates allocating the remaining funds in the next one to two months.

RECOMMENDATION

Approve the resolution.

Item 8 File 20-0705	Department: Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution retroactively approves a new grant agreement between the City and the Tenderloin Housing Clinic to provide property management and support services to tenants of the 16 master lease hotels, noted in Table 1 above. The grant agreement is for three years and eight months from July 1, 2020 through February 29, 2024, in an amount not to exceed $95,000,000.

Key Points

- The Tenderloin Housing Clinic provided property management and support services to the 16 master lease hotels under a prior agreement that began in 2014. Tenderloin Housing Clinic was selected to provide services under the new grant agreement through Ordinance No.61-19, which allows the Department of Homelessness and Supportive Housing to award service contracts without a competitive process due to the housing/shelter crisis.
- The 16 SRO hotels have 1,566 units, of which 594 are funded through the City's Care Not Cash program and are set aside for individuals enrolled in the County Adult Assistance Program (CAAP), and the remainder are funded by the General Fund and available to eligible adults.

Fiscal Impact

- The total budget for the Tenderloin Housing Clinic to provide property management and services to the 16 master lease hotels over the three-year and eight-month term is $112.9 million, of which $79.8 million is funded by the proposed grant agreement between the City and Tenderloin Housing Clinic, and $33,123,563 is funded by Tenderloin Housing Clinic revenues, including tenant rents.
- Approximately 61 percent of the grant agreement budget is General Fund and 39 percent is Care Not Cash, which is a General-Fund supported program.

Policy Consideration

- The total grant agreement is $95,000,000, which includes a 19 percent contingency for future increases to master lease costs, future approved Cost of Doing Business (CODB) and Minimum Compensation Ordinance (MCO) adjustments, and other costs that may be incurred during the duration of this new agreement. The Budget and Legislative Analyst recommends reducing the contingency from 19 percent to 12 percent to conform to the City's other service contracts.

Recommendations

- Amend the proposed resolution to reduce total not-to-exceed amount by $5,599,513, from $95,000,000 to $89,400,486.
- 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

Single Room Occupancy (SRO) Hotel Master Leases

The Department of Homelessness and Supportive Housing enters into grant agreements with nonprofit organizations that hold master leases with private single room occupancy (SRO) hotel owners, and contracts with nonprofit organizations to provide property management and supportive services. Some buildings are funded through Care Not Cash, which was approved by San Francisco voters in 2004 to transfer some of the city's cash assistance to homeless individuals to investments in supportive housing. SRO units funded by Care Not Cash are set aside specifically for individuals in the County Adult Assistance Program (CAAP), a County General Fund program. SRO units not funded by Care Not Cash are made available to other homeless adults.

Tenderloin Housing Clinic

Tenderloin Housing Clinic, a nonprofit organization, provided property management and supportive services to the 16 SRO hotels under an agreement that began in 2014, shown in Table 1 below. The 16 SRO hotels consist of 1,566, including 594 CAAP units.

Table 1: Master Lease Hotels

Type	Program	Address	Zip Code	# of Units
1. All Star Hotel	CAAP	2791 16th St.	94103	85
2. Boyd Hotel	CAAP	41 Jones St.	94102	81
3. Cal Drake Hotel	CAAP	1541 California St.	94109	50
4. Edgeworth	Non-CAAP	770 O'Farrell St.	94109	44
5. Elk Hotel	CAAP	670 Eddy St.	94109	88
6. Graystone Hotel	CAAP	66 Geary St.	94108	73
7. Hartland Hotel	Non-CAAP	909 Geary St.	94109	136
8. Jefferson Hotel	Non-CAAP	440 Eddy St.	94109	109
9. Mayfair Hotel	Non-CAAP	626 Polk St.	94102	54
10. Mission Hotel	Non-CAAP	520 S. Van Ness Ave.	94110	244
11. Pierre Hotel	CAAP	540 Jones St.	94102	87
12. Raman Hotel	Non-CAAP	1011 Howard St.	94103	85
13. Royan Hotel	CAAP	405 Valencia St.	94103	69
14. Seneca Hotel	Non-CAAP	34 6th St.	94103	200
15. Union Hotel	CAAP	811 Geary Blvd.	94109	61
16. Vincent Hotel	Non-CAAP	459 Turk St.	94102	100
Total Units				**1,566**

According to Department of Homelessness and Supportive Housing staff, the vacancy rate for these 16 hotels is 7.4 percent.[1]

Performance Monitoring

The Tenderloin Housing Clinic submitted performance monitoring reports to the Department of Homelessness and Supportive Housing for FY 2018-19 for CAAP and non-CAAP programs.[2] According to our review of the FY 2018-19 performance monitoring reports, the Tenderloin Housing Clinic generally met its performance targets. The reports also stated that the Tenderloin Housing Clinic had high turnover among case management staff, and had seen an increase in evictions for non-payment of rent due to a change in Social Security rules for the Medicare Payment Program and Representative Payee Services.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution retroactively approves a new grant agreement between the City and the Tenderloin Housing Clinic to provide property management and support services to tenants of the 16 master lease hotels, noted in Table 1 above. The grant agreement is for three years and eight months from July 1, 2020 through February 29, 2024, in an amount not to exceed $95,000,000.

According to Department of Homelessness and Supportive Housing staff, the proposed resolution is retroactive due to Department's work as part of the City's COVID-19 response including the deployment of several key Department staff to the Emergency Operations Center.

Tenderloin Housing Clinic was selected to provide services under the new grant agreement through Ordinance No.61-19, which allows the Department of Homelessness and Supportive Housing to award service contracts without a competitive process due to the housing/shelter crisis. As noted above, Tenderloin Housing Clinic provided these services under the prior agreement that began in 2014.

Grant Agreement Services

Under the proposed agreement, the Department refers eligible adults to the Tenderloin Housing Clinic for placement in one of the 16 hotels. Only adults who are enrolled in CAAP may be placed in a vacant CAAP unit.

The Tenderloin Housing Clinic's property management responsibilities include accepting referrals, annually certifying tenant income, entering into rental agreements with each tenant, collecting rent, enforcing lease provisions, maintaining the building, and providing front desk coverage. The Tenderloin Housing Clinic's service responsibilities include outreach, intake and assessment, case management, benefits advocacy and assistance, wellness checks, housing stability and other social support, clinical services, and exit planning and after care services.

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[1] This is a point in time count.

[2] Performance monitoring reports for FY 2019-20 were not available for this report.

The grant agreement details service requirements, such as language access, accessibility, staff qualifications and training, tenant procedures, record keeping and reporting, and other requirements. The grant agreement also details service and outcome objectives and sets numerical goals to meet these objectives.

FISCAL IMPACT

The total budget for the Tenderloin Housing Clinic to provide property management and services to the 16 master lease hotels over the three-year and eight-month term is $112.9 million, of which $79.8 million is funded by the proposed grant agreement between the City and Tenderloin Housing Clinic, as shown in Table 2 below, and $33.1 million is funded by Tenderloin Housing Clinic revenues, including tenant rents.

Table 2: Grant Agreement Budget FY 2020-21 through FY 2023-24 (through Feb. 29, 2024)

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24 (8 months)	Total
Salaries & Benefits	$10,290,397	$10,290,397	$10,290,397	$6,860,265	$37,731,455
Operating Expense	3,462,803	3,462,803	3,462,803	2,308,535	12,696,944
Subtotal	$13,753,200	13,753,200	13,753,200	9,168,800	50,428,399
Indirect Cost (11.5%)	1,581,618	1,581,618	1,581,618	1,054,412	5,799,266
Other Expenses	6,434,781	6,434,781	6,434,781	4,289,854	23,594,199
Total Expenditures	**$21,769,599**	**$21,769,599**	**$21,769,599**	**$14,513,066**	**$79,821,864**

Source: Grant Agreement

Approximately 61 percent of the grant agreement budget is General Fund and 39 percent is Care Not Cash, which is a General-Fund supported program.

Contingency

The proposed grant agreement of $95,000,000 includes base expenditures of $79,821,863 and a contingency of $15,178,137, equal to 19 percent of base expenditures. According to Ms. Gilda Kemper, Contracts Manager, the 19 percent contingency is needed to account for future increases to master lease costs, which are based on the Consumer Price Index; increased operations costs; future approved Cost of Doing Business (CODB) and Minimum Compensation Ordinance (MCO) adjustments; one-time building maintenance and repairs; and other costs that may be incurred during the duration of this new agreement.

Because the 19 percent contingency is high compared to other City services contracts (which generally have contingency of 12 percent), the Budget and Legislative Analyst recommends reducing the contingency from 19 percent to 12 percent. This would reduce the grant agreement amount by $5,599,513, from $95,000,000 to not-to-exceed $89,400,486.

RECOMMENDATIONS

- Amend the proposed resolution to reduce total not-to-exceed amount by $5,599,513, from $95,000,000 to $89,400,486.
- Approve the proposed resolution as amended.

Item 13 File 20-0707	Department: San Francisco Unified School District

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution authorizes the San Francisco Unified School District to issue and sell on its own behalf its general obligation bonds, Election of 2016, Series B in an aggregate principal amount not to exceed $280,000,000 without further action of the City and County of San Francisco.

Key Points

- San Francisco voters approved Proposition A in 2016, authorizing the School District to issue up to $744.25 million in general obligation bonds for various school projects, including new school construction, classroom and building upgrades and expansion, information technology improvements, School of the Arts, and teachers' housing. The District issued $180 million in Series A bonds in March 2017, and the proposed resolution approves issuance of $280 million in Series B bonds, totaling $460 million, with $284.25 of the $744.25 million of authorized bonds to be issued at a future date.
- According to the proposed resolution, the District will issue the bonds that it determines to be in the best interest of the District and taxpayers. The City is responsible to set the property tax rate to cover debt service on the bonds, levy and collect property taxes, and pay principal and interest on the bonds. The bonds are not considered a debt of the City, and the City is not responsible for the issuance of the bonds or use of bond proceeds.
- The general obligation bond debt does not count against the City's debt limit of 3 percent of assessed valuation, nor is it subject to the City's Capital Plan policy to constrain increases in the property tax rate from issuance of general obligation bonds to no more than $0.1201 per $100 assessed value.

Fiscal Impact

- Bond program spending of $225.79 million as of June 30, 2020 is $39.06 million more than Series A Bond proceeds of $180 million and interest earning of $6.73 million, totaling $186.73 in available funds. According to District staff, the District successfully applied for and received $70.95 million in State Facility Program funds in FY 2019-20 which is used to cover the $39.06 million project cost, and provide $30.8 million in fund balance to meet the cash flow needs. In addition, $3.47 million School Facility Program fund is expected to be approved by the State for fund release in FY2020-21 which would be allocated to the Bond program.

Recommendation

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

MANDATE STATEMENT

California Education Code Section 15140(b) authorizes a county board of supervisors to allow school districts over which the county superintendent of schools has jurisdiction to issue and sell school bonds directly without further action by the board of supervisors if the school district has not received a qualified or negative certification in its most recent interim report.

BACKGROUND

Proposition 39, approved by California voters in 2000, allows voters to approve general obligation bonds for schools with a 55 percent majority rather the two-thirds majority required for other general obligation bonds. In 2016, San Francisco voters approved Proposition A authorizing general obligation bonds for San Francisco Unified School District with 79.8 percent majority.

The bond was for $744.25 million to fund seismic upgrades, accessibility projects, repair damaged properties and remove hazardous materials, repair or replace major building systems, modify building interiors and exteriors, renovate administrative and other buildings, expend classrooms, construct new classrooms and new schools, make technology upgrades, and replace temporary classrooms with permanent structures. Proposition A provided for the District to use up to $100 million for classrooms and performance spaces for the District Arts Center, and up to $5 million to construct below market rate housing for teachers and other school staff. The District was to create an independent citizens' oversight committee to report on use of bond funds; and the Board of Education was to conduct annual independent audits.

The $744.25 million in general obligation bonds are allocated to the following programs:

Table 1: Bond Funded Programs ($ millions)

Modernization Program	
Modernization projects	
Bond administration and operation	$30.00
Bond construction contingency	20.00
Bond program management	9.75
Bond planning	1.50
Sustainability	5.00
Green schoolyard	5.00
School modernization projects	349.50
Modernization projects subtotal	$420.75
Teacher's housing	3.50
New schools	100.00
Ruth Asawa School of the Arts	100.00
Modernization Program Total	$624.25
Technology Improvements	100.00
Kitchen and Dining Facilities	20.00
	$744.25

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the San Francisco Unified School District to issue and sell on its own behalf its general obligation bonds, Election of 2016, Series B in an aggregate principal amount not to exceed $280,000,000 without further action of the City and County of San Francisco.

District Responsibilities

According to the proposed resolution, the District will issue the bonds that it determines to be in the best interest of the District and taxpayers. The Board of Education approved issuance of the bonds in April 2020, and authorized that the bonds could be sold through a competitive or negotiated process. The District is to provide notice to the Controller's Office of Public Finance at least 45 days prior to the issuance of the bonds.

Under California Education Code and included in the proposed resolution is a statement that the District will not be entitled to issue the bonds if it has received a qualified or negative certification in the most recent interim report. According to the proposed resolution, the District has represented and warranted to the City that it has not received a qualified or negative certification in its most recent interim report.

City Responsibilities

The City is responsible to set the property tax rate to cover debt service on the bonds, levy and collect property taxes, and pay principal and interest on the bonds. The bonds are not considered a debt of the City, and the City is not responsible for the issuance of the bonds or use of bond proceeds.

Bond Issuance

According to Ms. Meghan Wallace, SFUSD Chief Financial Officer, expected annual debt service on the bonds is $19.7 million and total debt service is $395 million over 20 years based on an estimated market interest rate of 3.5 percent. As noted above, the City is responsible to pay principal and interest on the bonds from property tax revenues. The general obligation bond debt does not count against the City's debt limit of 3 percent of assessed valuation.

The City is responsible to set the property tax rate to cover debt service on the bonds. The impact of the proposed issuance of $280 million in general obligation bonds is not available at this time. While the City's Capital Plan constrains the increase in property taxes from issuance of general obligation bond debt to $0.1201 per $100 of assessed value, the property tax constraint does not apply to general obligation bonds issued by SFUSD.

FISCAL IMPACT

The Bond Program consists of general obligation bond proceeds and other funds. The District issued $180 million in Series A bonds in March 2017. The proposed resolution would authorize an additional $280 million in Series B bonds, totaling $460 million, with $284.25 of the $744.25 million of authorized bonds to be issued at a future date.

According to the District, the Bond Program has spent $225.79 million as of June 30, 2020, with a balance of $518.46 million, as shown in Table 2 below.

Table 2: Bond Program Spending as of June 30, 2020 ($ millions)

Program	Total Allocation	Expenditures as of June 30, 2020	Remaining Balance
Modernization Program	$624.25	$173.19	451.06
Technology Improvements	100.00	45.23	54.77
Kitchen and Dining Facilities	20.00	7.37	12.63
Total	**$744.25**	**$225.79**	**$518.46**

Source: SFUSD

Bond program spending of $225.79 million as of June 30, 2020 is $39.06 million more than Series A Bond proceeds of $180 million and interest earning of $6.73 million, totaling $186.73 in available funds. According to District staff, the District successfully applied for and received $70.95 million in State Facility Program funds in FY 2019-20 which is used to cover the $39.06 million project cost, and provide $30.8 million in fund balance to meet the cash flow needs. In addition, $3.47 million School Facility Program fund is expected to be approved by the State for fund release in FY2020-21 which would be allocated to the Bond program.

RECOMMENDATION

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