CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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April 24, 2020

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: April 29, 2020 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a fifth amendment to the contract between the Sheriff's Department and the San Francisco Pretrial Diversion Project, Inc. to (1) exercise the first of the two one-year extension options for a total term of October 1, 2017 through June 30, 2021, and (2) increase the contract amount by $5,905,402 from $9,958,915 for a total amount not to exceed $15,864,317.

Key Points

- San Francisco Pretrial Diversion has provided pretrial services to the Sheriff's Department since the 1980s. In October 2017, the Sheriff's Department awarded a new contract to the San Francisco Pretrial Diversion Project following a Request for Proposals in which San Francisco Pretrial Diversion was the only respondent. Because the contract was less than $10 million and less than 10 years, the contract did not require Board of Supervisors' approval.
- Under the proposed contract, the San Francisco Pretrial Diversion Project will provide services in the following areas: probable cause facilitation, pretrial risk assessment, the continuum of pretrial supervision levels, in-custody referral and release program, and data collection and reporting.
- According to Sheriff's Department staff, the increased contract expenditures and extended term under the contract amendment will enable the San Francisco Pretrial Diversion Project to continue to manage the increased workload following California's First District Court of Appeal decision in the "Re Humphrey" ruling and the Buffin settlement and resulting changes in detention practices. Department staff also state that as the criminal justice system develops safe social distancing protocols as a result of the COVID19 public health emergency, the average daily jail count has decreased by approximately 250 to 300 individuals since February, with a significant percentage of individuals being released to pretrial services.

Fiscal Impact

- The proposed resolution would increase the not-to-exceed amount of the contract by $5,905,402 from $9,958,915 for a total amount not to exceed $15,864,317. The proposed expenditures during the one-year extension include an increase of 10 positions, from 43 to 53, and a cost of living increase of 2.5 percent. The source of funds for the proposed expenditures is the General Fund.

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 Sheriff's Department has contracted with San Francisco Pretrial Diversion Project, Inc. ("San Francisco Pretrial Diversion"), a nonprofit organization, for pretrial diversion services since the 1980s. In June 2017, the Sheriff's Department selected San Francisco Pretrial Diversion to provide pretrial services after issuing a competitive Request for Proposals (RFP) in April 2017. San Francisco Pretrial Diversion was the only vendor who submitted a proposal. According to Mr. Crispin Hollings, Chief Financial Officer at the Sheriff's Department, the Department reviewed the proposal for minimum qualifications and services requested but did not assign scores per San Francisco Administrative Code Section 21.6[1]. Consequently, in October 2017, the Sheriff's Department awarded a new contract to San Francisco Pretrial Diversion to provide pretrial services for (1) a term of October 01, 2017 through June 30, 2020, for an initial not to exceed amount of $7,007,275 and, (2) two one-year options to extend with a maximum contract period of not more than five years[2]. Because the contract was less than $10 million and less than 10 years, the contract did not require Board of Supervisors' approval.

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

[1] When a Contracting Officer issues a Solicitation for Commodities and/or Services and no responsive and responsible Offers are received, the Contracting Officer shall review the Solicitation to determine whether the Solicitation could be altered and reissued in a manner that would be likely to attract responsive offers. If the Contracting Officer determines that the lack of responsive Offers is not due to the content of the Solicitation, the Contracting Officer may purchase the Commodities or Services called for from any source.

[2] The contract term specified in the RFP is July 1, 2017 to June 30, 2020 with two one-year options to extend with a maximum contract period of five years.

Table 1: San Francisco Pretrial Diversion Project Contract Modifications

No.	Date	Description	Not-to-Exceed Amount
1	3/1/2018	Added a Bureau of Justice Assistance (BJA) Grant – Pretrial Mental Health Enhancement Project	$7,128,915
2	3/2/2018	Added In-Custody Referral (ICR) Case Manager	$7,239,371
3	7/1/2018	Reduced the term of the contract to two years with two one-year extension options. Increased the contract amount in response to the January 2018 Court of Appeal ruling, "Re Humphrey," which banned detention based solely on a defendant's ability to pay money bail.	$5,468,352
4	7/1/2019	Extended the contract term by one year with two one-year extension options. Increased the contract amount in response to ongoing increases in case load resulting from the January 2018 Court of Appeal ruling, "Re Humphrey". Added an annual Cost of Doing Business (CODB) of 2.5 percent.	$9,958,915

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a fifth amendment to the contract between the Sheriff's Department and the San Francisco Pretrial Diversion Project, Inc. to (1) exercise the first of the two one-year extension options for a total term of October 1, 2017 through June 30, 2021, and (2) increase the contract amount by $5,905,402 from $9,958,915 to $15,864,317.

Under the proposed contract, the San Francisco Pretrial Diversion Project will provide services in the following areas:

- Probable cause[3] facilitation
- Pretrial risk assessment[4]
- Continuum of supervision levels: This entails providing three levels of pretrial supervision to which the Court may order for clients as a condition of their release on Own Recognizance[5]:
  1) No Active Supervision (OR-NAS): Provide court date reminders only;
  2) Minimum Supervision (OR-MS): Provide court date reminders and twice per week phone reporting;
  3) Assertive Case Management (ACM): Up to four weekly in-person client meetings, review of adherence to medication schedules, ongoing review of court-ordered

[3] Probable cause refers to the process by which an arrest report is presented to the Duty Officer within 48 hours of arrest for a probable cause determination in compliance with the Supreme Court decision Riverside vs. McLaughlin (500 U.S.44), which held those arrested without a warrant are entitled to judicial determination of probable cause within 48 hours including weekends and holidays.

[4] This entails San Francisco Pretrial Diversion staff assessing eligible in-custody defendants utilizing the Public Safety Assessment (PSA) and presenting their cases to a judicial officer for possible pre arraignment release.

[5] Own Recognizance is the basis for a judge allowing a person accused of a crime to be free while awaiting trial, without posting bail, on the defendant's own promise to appear and his/her reputation.

release conditions including participation in treatment groups including those to anger-management and/or substance use, accompanying clients to court appearances, connecting clients with long-term community-based resources. These are intensive needs clients with serious and/or violent cases.

- In-custody referral and release program
- Data collection and reporting

Buffin Settlement and Humphrey Ruling

Mr. Hollings states that the increased expenditures and extended term under the contract amendment will enable the San Francisco Pretrial Diversion Project to continue to manage the increased workload following California's First District Court of Appeal decision in the "Re Humphrey" ruling and the Buffin settlement and resulting changes in detention practices. A January 2018 Court of Appeal ruling, "Re Humphrey" banned detention based solely on a defendant's ability to pay money bail. According to Mr. Hollings, this ruling increased the workload of San Francisco Pretrial Diversion Project staff by adding clients who otherwise would have remained in custody (absent their ability to post bail). In addition, a March 2019 settlement in the case of Buffin v. City and County of San Francisco et al., (Case No. C15-04959 YGR) followed a U.S. District Court ruling that the use of a cash bail schedule as required by state law unconstitutionally discriminates against people who are unable to pay. Under the terms of the settlement, the Sheriff's Department will provide the San Francisco Superior Court with a public safety assessment for eligible pre-arraignment detainees within eight hours of the person's identity being confirmed in the jail, and will not enforce the San Francisco Superior Court's bail schedule. Consequently, the timeline for completion of Public Safety Assessments changed from twenty-four to eight hours. Mr. Hollings states that like the Humphrey ruling, the Buffin settlement resulted in an increase in staff workload by adding clients who otherwise would have been released on bail. Also, the settlement requires the need for additional off-shift staff in order to operate 24 hours a day, seven days a week to comply with the eight-hour time limit. Specifically, the terms of the Buffin settlement requires the following services:

- Expand Own Recognizance staff work hours for 24-hour, 7-days per week coverage;
- Print, process, analyze, and summarize criminal history information, ensuring completeness and accuracy;
- Submit Public Safety Assessment workups for eligible cases within eight hours of confirmation of identification;
- Monitor of the 18-hour timeline for judicial release determinations;
- Monitor of the submission of affidavits submitted by law enforcement agencies that may extend the 18-hour timeline to 30-hours;
- Make routine contact with San Francisco County Jail inmates and post-release clients to communicate conditions of release and gather contact information;
- Wraparound support

Pretrial Services Caseload

According to Mr. Hollings, as the criminal justice system develops safe social distancing protocols as a result of the COVID19 public health emergency, the average daily jail count has decreased by approximately 250 to 300 individuals since February, with a significant percentage of individuals being released to pretrial services.

As shown in Table 2 below, from July 2019 to January 2020, pretrial services had a combined total average monthly caseload of 928 for the three levels of pretrial supervision (No Active Supervision – OR-NAS, Minimum Supervision – OR-MS, and Assertive Case Management – ACM). This is projected to increase by approximately 143, or 15.4 percent, to a combined total average monthly caseload of 1,071 from February 2020 to June 2020. Because the majority of the increase comes from ACM, which requires more time per client than OR-NAS and OR-MS, the projected increase in total Pretrial workload hours is 35.3 percent. From July 2020 to June 2021, combined total average monthly caseload is projected to be 1,224, which is an increase of approximately 296, or 31.9 percent, from the caseload of 928 from July 2019 to January 2020. Because the majority of the increase comes from ACM, the projected increase in total Pretrial workload hours is 57.6 percent. Mr. Hollings states that the increase in caseload is driven largely, in roughly equal parts, by the COVID19 public health emergency and the Buffin settlement requirements. In addition, some of the increase in caseload is also a result of the Humphrey ruling which expanded the eligibility criteria for pretrial services.

Table 2. Pretrial Services Monthly Caseload and Workload Hours from July 2019 to June 2021

	OR-NAS Avg Monthly Case Count	**OR-MS Avg Monthly Case Count**	**ACM Avg Monthly Case Count**	**Total Avg Monthly Case Count**	**Percentage Increase from Jul 2019 - Jan 2020**
Jul 2019 - Jan 2020	399	169	360	928	
Feb 2020 - Jun 2020	397	173	500	1,070	15.4%
Jul 2020 - Jun 2021	437	204	583	1,224	31.9%
	Monthly OR-NAS Workload (0.5 hrs./case)	**Monthly OR-MS Workload (2 hrs./case)**	**Monthly ACM Workload (14 hrs./case)**	**Total Avg Monthly Workload**	**Percentage Increase from Jul 2019 - Jan 2020**
Jul 2019 - Jan 2020	200	338	5,040	5,578	
Feb 2020 - Jun 2020	199	346	7,000	7,545	35.3%
Jul 2020 - Jun 2021	219	408	8,162	8,789	57.6%

Performance Metrics

The primary performance measures monitored for the proposed contract include the following:

- Appearance Rate: the percentage of pretrial clients who appeared at all court hearings in that quarter.
- Safety Rate: the percentage of pretrial clients who did not have a new filed charge in that quarter.

According to Mr. Hollings, since the May 2016 implementation of the Public Safety Assessment tool, San Francisco Pretrial Diversion has been working with criminal-justice stakeholders to improve performance on both of these metrics. These metrics also serve as a feedback loop to San Francisco Pretrial Diversion and stakeholders to understand the impact of release decisions which are ultimately made by the courts (courts may release individuals to San Francisco Pretrial Diversion even when San Francisco Pretrial Diversion recommends no release). The current performance target for both measures for No Active Supervision (OR-NAS) and Minimum Supervision (OR-MS) clients is 90 percent. The current performance target for both measures for Assertive Case Management (ACM) clients is 85 percent. Both appearance and safety rates are reviewed quarterly as part of a formal continuous improvement process.

According to a performance measures monitoring report from the Sheriff's Department, the contractor failed to meet the appearance rate target of 90 percent for No Active Supervision (OR-NAS) and Minimum Supervision (OR-MS) clients from May 2016 to December 2018. However, from January 2019 to December 2019, the contractor achieved or exceeded the appearance rate target for No Active Supervision (OR-NAS) and Minimum Supervision (OR-MS) clients. Except for April to June 2017 and April to June 2018, the contractor achieved or exceeded the safety rate target of 90 percent for No Active Supervision (OR-NAS) and Minimum Supervision (OR-MS) clients.

For Assertive Case Management (ACM) clients, the contractor failed to meet the appearance rate target of 85 percent from May 2016 to December 2018 but achieved or exceeded the appearance rate target from January 2019 to December 2019. Except for April to June 2017 and January to March 2018, the contractor achieved or exceeded the safety rate target of 85 percent for Assertive Case Management (ACM) clients.

FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount of the contract by $5,905,402 from $9,958,915 for a total amount not to exceed $15,864,317. The sources and uses of funds for the proposed contract to the San Francisco Pretrial Diversion Project are shown in Table 3 below.

Table 3. Sources and Uses of Funds for Proposed San Francisco Pretrial Diversion Project Contract

Sources of Funds	FY 2017-18 (through February)	FY 2018-19 (Actual)	FY 2019-20 (Budget)	Existing Agreement	FY 2020-21 (Proposed Modification)	Total
General Fund	$2,034,150	$3,331,768	$4,471,357	$9,837,275	$5,905,402	$15,742,677
Bureau of Justice Assistance Grant	25,610	76,823	19,207	121,640	0	121,640
Total Sources	**$2,059,760**	**$3,408,591**	**$4,490,564**	**$9,958,915**	**$5,905,402**	**$15,864,317**

Uses of Funds	FY 2017-18 (through February)	FY 2018-19 (Actual)	FY 2019-20 (Actual)[6]	FY 2019-20 (Projected)	Existing Agreement	FY 2020-21 (Proposed Modification)	Total
Salaries & Benefits	$1,325,902	$2,469,958	$2,178,798	$1,265,536	$7,240,194	$4,303,191	$11,543,385
Operating Expenses	228,415	146,875	175,790	7,754	558,834	579,573	1,138,407
Sub-Contractual Services	187,886	36,043	123,661	38,339	385,929	162,000	547,929
Equipment Purchases	35,385	200,955	0	15,000	251,340	0	251,340
Indirect Cost[7]	256,562	477,937	421,598	244,881	1,400,978	860,638	2,261,616
Subtotal	***$2,034,150***	***$3,331,768***	***$2,899,847***	***$1,571,510***	***$9,837,275***	***$5,905,402***	***$15,742,677***
Bureau of Justice Assistance Grant	25,610	76,823	19,207	0	121,640	0	121,640
Total Uses	**$2,059,760**	**$3,408,591**	**$2,919,054**	**$1,571,510**	**$9,958,915**	**$5,905,402**	**$15,864,317**

Source: Appendix B-2 to Proposed Fifth Modification

The proposed expenditures during the one-year extension includes an increase of 10 positions, from 43 to 53, and a cost of living increase of 2.5 percent. According to Mr. Hollings, operating expenditures in the proposed one-year term extension are higher than the current fiscal year because the amount of rent expenses was re-allocated to this proposed contract instead of the department's other Pretrial Diversion Project contract, which previously included the rent expense. The "sub-contractual services" account includes funding for IT managed services, strategic and financial planning, outcomes analysis and reporting and database development.

[6] Expenditures through February 2020

[7] The indirect cost percentage is 19.35 percent from FY 2017-18 through FY 2019-20. For FY 2020-21, the indirect cost percentage is 20 percent. Per the Sheriff's Department, indirect/administrative/overhead (non-program} costs cannot exceed 20 percent of Program Salaries & Fringe Benefits without sufficient justification and the approval of the Chief Financial Officer of the Sheriff Department. indirect/administrative/overhead is only allowed for Program Salaries & Fringe Benefits.

Hazard Pay

According to Mr. Hollings, the proposed contract allows for hazard pay. Non-exempt workers can receive hazard pay ranging from $2.50 per hour to $5.00 per hour depending on how much time is spent working at the office versus working at home.

RECOMMENDATION

Approve the proposed resolution.

Item 4 **File 20-0315**	**Department:** Real Estate Division (RED) Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve lease amendments between the City, as tenant, and K.L.W. Investments, LLC, as landlord, for properties located at 3119 Mission Street and 3120 Mission Street, exercising the first of the three five-year extension options for a term from July 1, 2020 to June 30, 2025. The combined monthly base rent for both properties is $203,232 for a total annual base rent of $2,438,779 with base rent increasing at three percent per year.

Key Points

- The Human Services Agency leases 3119 Mission Street and 3120 Mission Street for the following functions: child welfare services, training center and hiring hall to support workforce development operations, workforce development center primarily serving the Mission District, and public benefit assistance serving families engaged in CalWORKS, Medi-Cal, CalFRESH benefits, etc.
- In June 2015, the Board of Supervisors approved a resolution for a five-year lease agreement between the Human Services Agency and K.L.W. Investments, LLC for 3119 Mission Street. Under this lease agreement, the 3119 Mission Street property includes three buildings – 3119, 3125, and 3127 Mission Street – for a total of 11,085 square feet of office space (File 15-0426).
- In June 2015, the Board of Supervisors approved a resolution for a five-year lease agreement between the Human Services Agency and K.L.W. Investments, LLC for 3120 Mission Street for 39,251 square feet of office space (File 15-0427).

Fiscal Impact

- Under the proposed lease extension, the rent would increase by approximately 3.6 percent to an annual base rent of $1,901,711 with an annual base rent rate of $48.45 per square foot per year
- Over the five-year term of the lease extension from July 1, 2020 through June 30, 2025, total rent to be paid by the Human Services Agency for 3119 Mission Street and 3120 Mission Street is $12,947,810 and the total operating costs is estimated at $1,001,548, resulting in a combined total leasing cost of $13,949,358 for both properties. The operating costs are projected to increase five percent annually. The total leasing costs, including operating costs, would be paid from the City's General Fund, subject to Board of Supervisors appropriation approval in the Human Services Agency's annual budget.

Recommendation

- Approve the proposed resolution

MANDATE STATEMENT

Administrative Code Section 23.27 requires Board of Supervisors approval of leases of one year or more in which the City is the tenant.

BACKGROUND

The Human Services Agency leases 3119 Mission Street and 3120 Mission Street for the following functions:

1) 3119 Mission Street: Child welfare services, training center and hiring hall to support workforce development operations at 3120 Mission Street;
2) 3120 Mission Street: Workforce development center primarily serving the Mission District, and public benefit assistance serving families engaged in CalWORKS, Medi-Cal, CalFRESH benefits, etc.

3119 Mission Street

In June 2015, the Board of Supervisors approved a resolution for a five-year lease agreement between the Human Services Agency and K.L.W. Investments, LLC for 3119 Mission Street. Under this lease agreement, the 3119 Mission Street property includes three buildings – 3119, 3125, and 3127 Mission Street – for a total of 11,085 square feet of office space. Annual base rent was $473,884 ($42.75 per sq. ft.). The lease term was for five years from July 1, 2015 to June 30, 2020 with three five-year options to extend through June 30, 2035 (File 15-0426).

3120 Mission Street

In June 2015, the Board of Supervisors approved a resolution for a five-year lease agreement between the Human Services Agency and K.L.W. Investments, LLC for 3120 Mission Street for 39,251 square feet of office space. Annual base rent was $1,677,980 ($42.75 per sq. ft.). The lease term was for five years from July 1, 2015 through June 30, 2020 with three five-year options to extend through June 30, 2035 (File 15-0427).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve lease amendments between the City, as tenant, and K.L.W. Investments, LLC, as landlord, for properties located at 3119 Mission Street and 3120 Mission Street, exercising the first of the three five-year extension options for a term from July 1, 2020 to June 30, 2025. The combined monthly base rent for both properties is $203,232 for a total annual base rent of $2,438,779 with base rent increasing at three percent per year.

Table 1 below summarizes the terms of the proposed leases for 3119 Mission Street and 3120 Mission Street.

Table 1: Summary of 3119 Mission Street and 3120 Mission Street Proposed Lease Extension

Lease Terms	3119 Mission Street	3120 Mission Street
Landlord	KLW Investments, LLC	KLW Investments, LLC
Square Footage	11,085	39,251
Term	July 1, 2020 through June 30, 2025	July 1, 2020 through June 30, 2025
Option to Renew	Three five-year options to extend through June 30, 2035. Proposed lease amendment would exercise first of three options.	Three five-year options to extend through June 30, 2035. Proposed lease amendment would exercise first of three options.
Tenant and Capital Improvements	None	None
Base Rental Rate	$48.45	$48.45
Base Annual Rent	$537,068	$1,901,711
Utilities & Custodial	$57,614	$123,641 (utilities only paid by the City)
Tax, Insurance, other Operating Expenses	Paid by Landlord	Paid by Landlord
Base Rent Increase Date	Commences July 1, 2021	Commences July 1, 2021
Base Rent Increase Amount	3 percent	3 percent
Parking	15 parking spaces included in rent	N/A

According to Mr. Robert Walsh, Human Service Agency's Director of Facilities and Operations, in addition to the functions previously mentioned, the spaces at 3119 and 3120 Mission Street are also used for agency events such as town halls, community meetings and various types of job training events across the agency. Staff located at 3119 and 3120 Mission Street are predominantly direct service-based (public operations). Mr. Walsh states that there are approximately 12 FTEs at 3119 Mission Street and approximately 174 FTEs at 3120 Mission Street for a total of 186 FTEs for both spaces. There are not expected to be substantive changes in the number of staff located at the spaces.

FISCAL IMPACT

The existing annual rent for 3119 Mission Street from July 1, 2019 to June 30, 2020 is $518,224 equal to approximately $46.75 per square foot per year for approximately 11,085 square feet. Under the proposed lease extension, the rent would increase by approximately 3.6 percent to an annual base rent of $537,068 with an annual base rent rate of $48.45 per square foot per year.

The existing annual rent for 3120 Mission Street from July 1, 2019 to June 30, 2020 is $1,834,984 equal to approximately $46.75 per square foot per year for approximately 39,251 square feet.

Under the proposed lease extension, the rent would increase by approximately 3.6 percent to an annual base rent of $1,901,711 with an annual base rent rate of $48.45 per square foot per year.

In November 2019, an independent appraiser, Colliers International, estimated fair market rent to be $51 per square foot per year for the combined 50,336 square feet of office space for both properties using the direct comparison method and based on recent leases of comparable properties[1]. According to Mr. Josh Keene, Real Estate Division Special Projects and Transactions Manager, the Real Estate Division negotiated a base annual rent at $48.45 per square foot per year for both properties, which is 95 percent of the prevailing fair market rental rate. There will be three percent annual rent escalations over the five-year term of the lease extension[2].

As shown in Table 2 below, over the five-year term of the lease extension from July 1, 2020 through June 30, 2025, total rent to be paid by the Human Services Agency for 3119 Mission Street and 3120 Mission Street is $12,947,810 and the total operating costs is estimated at $1,001,548, resulting in a combined total leasing cost of $13,949,358 for both properties. The operating costs[3] are projected to increase five percent annually. The total leasing costs, including operating costs, would be paid from the City's General Fund, subject to Board of Supervisors appropriation approval in the Human Services Agency's annual budget.

Table 2. Projected Expenditures for Each Property over Lease Extension Term

Year	Base Rent per Square Foot	Annual Base Rent		Total Annual Rent	Operating Costs		Total Costs
		3119 Mission (11,085 sf.)	3120 Mission (39,251 sf.)		3119 Mission (11,085 sf.)	3120 Mission (39,251 sf.)	
1	$48.45	$537,068	$1,901,711	$2,438,779	$57,614	$123,641	$2,620,034
2	$49.90	$553,180	$1,958,762	$2,511,942	$60,495	$129,823	$2,702,260
3	$51.40	$569,776	$2,017,525	$2,587,301	$63,520	$136,314	$2,787,135
4	$52.94	$586,869	$2,078,051	$2,664,920	$66,696	$143,130	$2,874,746
5	$54.53	$604,475	$2,140,392	$2,744,867	$70,031	$150,286	$2,965,184
Total		**$2,851,368**	**$10,096,442**	**$12,947,810**	**$318,355**	**$683,193**	**$13,949,358**

RECOMMENDATION

Approve the proposed resolution.

[1] Per City Administrative Code Section 23.27, an appraisal review was not required. The code states the following: "If the consideration to be paid by the City for the lease as base rent is more than $60 per square foot per year, the Director of Property, on behalf of the department concerned, shall obtain an Appraisal Review for such Appraisal."

[2] According to Mr. Keene, the landlord and the City agreed to change the rent escalation from $1.00 per sq. ft. per year in the original lease to 3 percent per year because 3 percent is the commercially standard escalation for office space.

[3] This includes utilities and custodial services for 3119 Mission Street and utilities for 3120 Mission Street.

Item 5 **File 20-0136**	**Department:** Human Services Agency (HSA), Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an extension to the lease at 2 Gough Street between RACHRIS, LLC as landlord and the Human Services Agency (HSA) as tenant, for a term of five years, from July 2020 through June 2025, with initial annual base rent of $734,533, and three percent annual increases thereafter.

Key Points

- The HSA's Department of Disability and Aging Services maintains a Benefits and Resources Hub at 2 Gough Street. The leased premises consist of approximately 13,938 square feet on the first and second floors of the building. The Benefits and Resources Hub is HSA's primary location catering to older adults, adults with disabilities, and veterans. Residents may drop into the Hub to access information and apply for various services.
- In February 2015, the Board of Supervisors approved a lease with RACHRIS, LLC for the 2 Gough Street facility for a term of five years, from July 2015 through June 2020, and initial annual base rent of $487,836, with a five-year option to extend at prevailing fair market rent. The Real Estate Division has exercised a lease extension with RACHRIS, LLC for a term of five years, from July 2020 through June 2025, and initial annual base rent of $734,533, or $52.70 per square foot, and three percent annual increases thereafter. An appraisal conducted by Colliers International determined that prevailing fair market rent is approximately $55 per square foot annually. Under the lease, HSA also pays utilities and janitorial costs, as well as 49 percent of operating costs that exceed the initial base year amount of $139,380.

Fiscal Impact

- HSA would pay $734,533 in initial annual base rent, with three percent annual increases thereafter. Over the five-year term of the lease extension, HSA would pay approximately $3,899,735 in total base rent.
- Utilities and janitorial costs are estimated at approximately $70,000 annually, and operating costs are estimated at approximately $42,000 annually. These costs are projected to increase approximately five percent annually. Over the five-year lease extension term, projected utilities and janitorial costs are approximately $371,640, and projected operating costs are approximately $232,077. When combined with the base rent, total projected expenditures over the five-year lease extension are approximately $4,518,606.

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 by resolution.

BACKGROUND

The Human Service Agency's (HSA) Department of Disability and Aging Services maintains a Benefits and Resources Hub at 2 Gough Street. The leased premises consist of approximately 13,938 square feet on the first and second floors of the building. The Benefits and Resources Hub is HSA's primary location catering to older adults, adults with disabilities, and veterans. Residents may drop into the Hub to access information and apply for various services, including CalFresh, Medi-Cal, Adult Protective Services (APS), In-Home Supportive Services (IHSS), and veterans' services.

In February 2015, the Board of Supervisors approved a lease between HSA as tenant and RACHRIS, LLC as landlord, for a term of five years, from July 2015 through June 2020, and initial annual base rent of $487,836, with three percent annual increases (File 15-0006). The lease allowed for one five-year option to extend at prevailing fair market rent.[1]

The Real Estate Division (RED) has exercised the five-year lease extension and negotiated initial annual base rent of $734,533, or $52.70 per square foot, with three percent annual increases thereafter. An appraisal conducted by Colliers International in October 2019 based on leases of comparable properties determined fair market rent to be approximately $55 per square foot annually.[2] Therefore, the proposed annual rental rate of $52.70 per square foot is below prevailing fair market rent.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a lease extension with RACHRIS, LLC for the HSA facility at 2 Gough Street for a term of five years, from July 2020 through June 2025, with initial annual base rent of $734,533, and three percent annual increases thereafter. Under the lease, HSA would also pay utility and janitorial costs, and 49 percent of operating costs[3] that exceed the initial base year amount of $139,380. Key terms of the proposed lease extension are shown in Table 1 below.

[1] According to Mr. Keene, the resolution for File 15-0006 approving the initial lease incorrectly stated that the base rent for the extension period would be set at 95 percent of prevailing fair market rent. The lease actually stated that base rent would be set at prevailing fair market rent.

[2] An appraisal review was not required because the proposed annual rent is below $60 per square foot.

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

Table 1: Key Terms of Proposed Lease Extension

Square Feet	13,938
Term	Five years, from July 1, 2020 through June 30, 2025
Annual Base Rent	$734,533 ($52.70 per square foot)
Rent Increases	3% per year
Utilities and Janitorial Services	Paid by City
Operating Costs	City pays 49% of annual amount exceeding $139,380

FISCAL IMPACT

Under the proposed lease extension, HSA would pay $734,533 in initial base rent, with three percent annual increases. Over the five-year extension term, HSA would pay approximately $3,899,735 in base rent. HSA would also pay utility and janitorial costs, and 49 percent of operating costs that exceed the initial base year amount of $139,380. According to Mr. Joshua Keene, RED Special Projects and Transactions Manager, the initial annual utility and janitorial costs are estimated at approximately $70,000 and initial annual operating costs are estimated at approximately $42,000. The utility and janitorial costs and operating costs are projected to increase five percent annually. Over the five-year extension term, total expenditures would be approximately $4,518,606, as shown in Table 2 below.

Table 2: Projected Expenditures over Lease Extension Term

Year	Base Rent	Utilities and Janitorial Costs	Operating Costs	Total Cost
1	$734,533	$70,000	$42,000	$846,533
2	756,569	73,500	44,100	874,169
3	779,266	77,175	46,305	902,746
4	802,644	81,034	48,620	932,298
5	826,723	85,085	51,051	962,860
Total	**$3,899,735**	**$386,794**	**$232,077**	**$4,518,606**

According to Mr. Keene, the funding source for the rent, utilities and janitorial costs, and operating costs is the City's General Fund.

RECOMMENDATION

Approve the proposed resolution.

Item 7 **Files 20-0374**	**Department:** Human Services Agency

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would appropriate $17,800,000 from the General Reserve to provide an additional 1,200 hotel rooms for COVID-19 self-isolation units. To the extent that State or federal funds are available to reimburse the City for hotel rooms and associated expenses, the Controller is authorized to reduce the appropriation return funds to the General Reserve.

Key Points

- The Board of Supervisors approved an emergency ordinance on April 14, 2020 to require the City to secure 8,250 private rooms by April 26, 2020. According to the presentation by the Mayor's Budget Office and Controller's Office to the April 8, 2020 Budget and Finance Committee, the City had approximately 1,977 hotel rooms under contract and planned for 7,000 total hotel rooms.

Fiscal Impact

- The estimated cost per hotel room per day is $237, which includes the daily room rate, three meals, personal hygiene products, extra room cleaning, and hotel security. The appropriation of $17.8 million would fund 1,200 hotel rooms for approximately 60 days. The actual costs per room will vary from the estimate of $237 per day, depending on hotel room rates and other contractual services negotiated by the Human Services Agency.

Recommendation

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

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance. As with other ordinances, passage of the ordinance requires two readings by the Board of Supervisors and the ordinance is effective 30 days after passage.

BACKGROUND

The Board of Supervisors approved an emergency ordinance on April 14, 2020 to require the City to secure 8,250 private rooms by April 26, 2020, through service agreements with hotels and motels for use as temporary quarantine facilities for people currently experiencing homelessness, people released from local hospitals with COVID-19 exposure or infection, and front-line workers in the COVID-19 crisis (File 20-0363). The ordinance, which waived the requirement under Charter Section 9.118 that the Board of Supervisors approve the service agreements for private rooms, required daily reporting to the Board of Supervisors on the City's progress in procuring and providing the needed rooms; require congregate care facilities for the homeless to comply with social distancing.

According to the presentation by the Mayor's Budget Office and Controller's Office to the April 8, 2020 Budget and Finance Committee, the City had approximately 1,977 hotel rooms under contract and planned for 7,000 total hotel rooms.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate $17,800,000 from the General Reserve to provide an additional 1,200 hotel rooms for COVID-19 self-isolation units. To the extent that State or federal funds are available to reimburse the City for hotel rooms and associated expenses, the Controller is authorized to reduce the appropriation return funds to the General Reserve.

FISCAL IMPACT

The Budget and Legislative Analyst estimates that the average daily cost of a hotel room is $237 as shown below.

	Daily Rate per Room
Room [a]	$110
Security [b]	35
Food [c]	60
Personal Care & Extra Cleaning [d]	32
Total Daily Rate	**$237**

[a] The estimated average daily room rate of $110 is based on a weighted average of the Human Services Agency's contracted rates for 1,294 rooms in seven hotels.
[b] The estimated average daily rate for security per room is based on the hourly rate paid by the Human Services Agency for at least two security guards to provide 24/7 coverage at hotels.
[c] The estimated daily rate for food per room is based on the Human Services Agency's expected rate for caterers to provide three meals per day to isolation/quarantine sites.
[d] The estimated daily rate for personal care and extra cleaning is for personal care supplies (such as basic clean clothes, personal hygiene products, etc.), additional cleaning supplies for the hotel and for the individuals in the rooms, periodic deep cleaning by a bio-hazard company when rooms turn-over, and laundry services.

Based on an estimated cost of $237 per day per room, the appropriation of $17,800,000 would fund 1,200 hotel rooms for approximately 60 days, as shown below.

Amount	$17,800,000
Number of Rooms	1,200
Amount per Room	$14,833
Estimated Rate per Room per Day	$237
Estimated Days	63

The actual costs per room will vary from the estimate of $237 per day, depending on hotel room rates and other contractual services negotiated by the Human Services Agency.

General Reserve

Administrative Code Section 10.60 (b) provides for a General Reserve equal to 2.75 percent of budgeted General Fund revenues in FY 2019-20. If the General Reserve is drawn down, the Administrative Code provides for appropriation of sufficient funds in the Annual Appropriation Ordinance to restore the required funding level. However, the Board of Supervisors may suspend this provision following a declaration of an emergency due to a natural disaster.

According to the Controller's March 31, 2020 presentation to the Board of Supervisors, the General Reserve currently contains $150 million.

RECOMMENDATION

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