

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

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November 15, 2013

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** November 20, 2013 Budget and Finance Committee Meeting

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<p><b>Items 1 and 2</b> <b>Files 13-1090 and 13-1084</b></p>	<p><b>Department:</b> Department of Public Health (DPH) Office of Public Finance Department of Public Works (DPW)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p>	
<ul style="list-style-type: none"> <li>The proposed resolution (File 13-1090) would approve sale of \$209,955,000 of Series 2013D General Obligation Bonds to fund the San Francisco General Hospital (SFGH) Rebuild Project. This would be the fourth and final sale of the previously authorized \$887,400,000 in General Obligation Bonds for the SFGH Rebuild Project. The proposed ordinance (File 13-1084) would appropriate \$209,955,000 to pay SFGH Rebuild Project and the associated financing costs.</li> </ul>	
<p style="text-align: center;"><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>In 2008, San Francisco voters approved issuance of up to \$887,400,000 in General Obligation Bonds to pay for the construction a new acute care hospital on the campus of the existing SFGH to comply with State seismic safety requirements. The City has previously issued \$677,445,000 in bonds, of which \$666,177,934 have been appropriated to fund SFGH Rebuild Project costs and \$11,267,066 to pay financing costs. The project began in January 2008 and is expected to be substantially complete in April 2015.</li> <li>The proposed bond appropriation of \$209,955,000 would be used in 2014 and 2015 to complete the interior build-out of the new hospital and install major medical equipment; complete modifications to the old hospital building associated with construction of the new hospital; complete modifications to the existing service building, including completion of the generator project and connection to PG&amp;E power; and other projects necessary to the completion and transition to the new hospital.</li> </ul>	
<p style="text-align: center;"><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>The proposed Series 2013D Bonds in the amount of \$209,955,000 are projected to have an annual interest rate of 6.0 percent over approximately 20 years. These bonds will result in estimated total debt service payments of \$356,926,345, including \$209,955,000 in principal and \$146,971 in interest, with estimated average annual debt service payments of \$17,846,317.</li> <li>General Obligation Bond debt is repaid through increases to the annual property tax rate. The proposed 2013D Series Bonds will increase the annual property tax rate by an average of \$0.00692 per \$100 of assessed valuation over the 20-year term of the bonds. A single family residence with an assessed value of \$767,300, assuming a homeowner’s exemption of \$7,000, would pay average annual additional property taxes to the City of \$52.61 per year.</li> </ul>	
<p style="text-align: center;"><b>Recommendation</b></p>	
<ul style="list-style-type: none"> <li>Approve the proposed resolution (File 13-1090) and ordinance (File 13-1084).</li> </ul>	

## MANDATE STATEMENT

Charter Section 9.105 provides that the Board of Supervisors is authorized to approve the issuance and sale of General Obligation bonds in accordance with State law or local procedures adopted by ordinance. Charter Section 9.105 also provides that (a) amendments to the Annual Appropriation Ordinance, as finally adopted, are to be adopted in the same manner as other ordinances and (b) no amendment to the Annual Appropriation Ordinance may be adopted unless the Controller certifies the availability of funds.

## BACKGROUND

### San Francisco General Hospital Rebuild Project

The San Francisco General Hospital (SFGH) Rebuild Project provides for the construction of a new acute care hospital and trauma center on the campus of the existing hospital to conform to State seismic safety requirements. The main project components are construction of a new 284-bed acute care hospital, modifications to the existing hospital associated with the new hospital construction, and modifications to the existing service building, including installation of emergency generators. The project began in January 2008 and is expected to be substantially complete in April 2015.

According to the presentation by SFGH Rebuild Project staff to the October 21, 2013 Capital Planning Committee, the SFGH Rebuild Project has completed (1) campus access and site utilities, (2) shoring and excavation, (3) moat walls and mat foundation, (4) steel framing and base isolators<sup>1</sup>, and (5) phase one of the emergency generator project.

Remaining components of the SFGH Rebuild Project include: (1) build-out of the hospital interior, (2) installation of major medical equipment, (3) completion of the exterior skin of the hospital, (4) phase two of the emergency generator project, and (5) completion of modifications to the existing hospital associated with new hospital construction.

### Prior Bond Sales and Appropriations

San Francisco voters approved Proposition A in November 2008, authorizing the City to sell up to \$887,400,000 in General Obligation Bonds to construct SFGH to comply with the State's seismic safety standards.

The City has previously sold three series of General Obligation Bonds, totaling \$677,445,000, with remaining authorization of \$209,955,000, as shown in Table 1 below.

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<sup>1</sup> The construction of the new hospital incorporates a seismic base isolation system, in which the hospital superstructure is decoupled from the substructure, including the moat wall and mat foundation.

**Table 1: Prior Bond Sales**

Bond Sale	Date	Amount
First	March 2009	\$131,650,000
Second	March 2010	294,695,000
Third	August 2012	<u>251,100,000</u>
Total Sold		677,445,000
Total Authorization		887,400,000
Remaining Authorization		\$209,955,000

The Board of Supervisors has previously appropriated \$675,176,059 in bond proceeds to fund the SFGH Rebuild Project and associated financing costs, of which \$576,410,246 has been expended or encumbered with an unexpended balance of \$98,765,813, as shown in Table 2 below. According to Ms. Nadia Sesay, Director of Public Finance, the difference of \$2,268,941 between the amount of the bonds that have been sold (\$677,445,000) and the amount that have been appropriated (\$675,176,059) is due to the underwriter's discount<sup>2</sup>.

**Table 2: Appropriation of Bond Proceeds**

	Project Budget	Prior Appropriations (2009 through 2012)	Total Expenditures and Encumbrances	Unexpended Balance
Architecture and Engineering	\$147,689,768	\$123,504,558	\$121,435,678	\$2,068,880
Environmental Review	17,212,000	16,566,632	10,745,076	5,821,556
City Costs (Permitting, Project Management, City Attorney)	24,858,823	18,005,798	14,492,967	3,512,831
Construction	680,484,834	508,100,946	426,223,527	81,877,419
Subtotal Project Costs	870,245,425	666,177,934	572,897,248	93,280,686
Costs of Issuance, Bond Oversight, Audit	17,154,585	8,998,125	3,512,998	5,485,127
<b>Total Costs</b>	<b>\$887,400,010</b>	<b>\$675,176,059</b>	<b>\$576,410,246</b>	<b>\$98,765,813</b>

## DETAILS OF PROPOSED LEGISLATION

File 13-1090 is a resolution authorizing the sale of not-to-exceed \$209,955,000 of General Obligation Bonds Series 2013D, which is the remaining balance of the previously authorized \$887,400,010 in General Obligation Bonds for the SFGH Rebuild Project, including (1)

<sup>2</sup> The underwriter's discount represents the difference between the price that the underwriter pays the seller of the bonds and the price at which it sells the bonds to the public. The underwriter pays the bond seller (the City) an agreed-upon price to purchase the bonds, which it then sells to investors. While the underwriter's discount was included in the original bond appropriations by the Board of Supervisors, the discount is not accounted for in the City's financial system, FAMIS.

prescribing the form and terms of the bonds; (2) authorizing the execution, authentication and registration of the bonds; (3) providing appointment of depositories and other agents for the bonds; (4) providing for the establishment of accounts related to the bonds; (5) providing for the manner of sale of the bonds by competitive sale; (6) approving the forms of the official notice of the sale and notice of intention to sell bonds; (7) directing the publication of the notice of intention to sell bonds; (8) approving the form of the preliminary official statement and the form and execution of the official statement relating to the sale of the bonds; (8) approving the form of the continuing disclosure certificate; (9) authorizing and approving modifications to documents; (10) declaring the City's intent to reimburse certain expenditures; (11) ratifying certain actions previously taken; and (12) granting general authority to City officials to take necessary actions in connection with the authorization, issuance, sale, and delivery of bonds.

File 13-1084 is an ordinance appropriating \$209,955,000 in General Obligation Bonds Series 2013D to the SFGH Rebuild Project.

#### **Proposed Fourth Sale of SFGH Rebuild Project Bonds (Series 2013 D Bonds)**

The sale of Series 2013D bonds in the amount of \$209,955,000 would be the final bond sale for the SFGH Rebuild Project. The City anticipates selling the bonds in December 2013 through a competitive sale.

The proposed resolution:

- Authorizes the Director of Public Finance to determine the sale date, interest rates, principal amount of the bonds, maturity and redemption dates, with the provision that interest rates cannot exceed 12 percent and the maturity date cannot extend more than 20 years after the date;
- Provides for the execution, authentication and registration of the Series 2013D Bonds;
- Sets the terms for transferring or redeeming the bonds;
- Provides for defeasance of the bonds<sup>3</sup>;
- Requires a special Series 2013D Bond subaccount for payment of principal and interest; and a special Series 2013D project subaccount for acquisition, renovation, and construction of bond-funded projects;
- Approves the appointment of the Depository Trust Company as the securities depository, and authorizes the Treasurer to appoint fiscal and other agents;
- Approves the (a) Office Notice of Sale, which announces the date, time and terms of the competitive bond sale; (b) Notice of Intention to Sell Bonds;

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<sup>3</sup> Defeasance refers to the payment of all or a portion of the Series 2013D Bonds prior to their stated maturity dates by depositing funds with the City Treasurer or escrow agent.

- Approves the Official Statement, describing the sources and uses of funds, security for the Bonds, risk factors, and tax and other legal matters, among other information; and authorizes the Controller or Director of Public Finance to revise the Official Statement to conform to the City’s Comprehensive Annual Fiscal Report (CAFR);
- Restricts use of the bond proceeds to the public purpose for which the bonds were intended;
- Approves the Continuing Disclosure Certificate, which provides certain financial information and operating data relating to the City (the “Annual Report”) not later than 270 days after the end of the fiscal year;
- Authorizes City officials who have responsibility for executing documents related to the Series 2013D Bonds, including the Controller, Director of Public Finance, and Treasurer, to modify the documents as necessary, except that the Series 2013D Bond amount cannot exceed \$209,955,000; and
- Subjects the Series 2013D Bonds to the reporting requirements of the Citizens’ General Obligation Bond Oversight Committee.

Environmental Review and General Plan

Approval of the proposed resolution includes findings by the Board of Supervisors that:

- The project is substantially unchanged from the original project evaluated by the Final Environmental Impact Report, previously approved by the Board of Supervisors; and
- The project is consistent with the City’s General Plan, as set forth in the June 19, 2008 General Plan Referral Report.

**Proposed Appropriation of Series 2013D Bond Proceeds**

The proposed ordinance would appropriate the Series 2013D Bond Proceeds as follows:

**Sources of Funds**

Series 2013D Bond Proceeds	\$209,955,000
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**Uses of Funds**

SFGH Rebuild Project Costs	\$207,570,175
Bond Issuance Cost and Underwriter's Discount	1,159,730
Other Costs of Issuance	600,000
Controller Audits (0.2% of Project Costs)	415,140
General Bond Oversight Committee Audits (0.1% of Project Costs)	<u>209,955</u>
Total	\$209,955,000

**FISCAL IMPACT****Debt Service on the Proposed Bonds**

According to the November 5, 2013 memorandum from Ms. Sesay to the Board of Supervisors, the not-to-exceed amount of \$209,955,000 in Series 2013D Bonds are projected to have an annual interest rate of 6.0 percent over approximately 20 years. These bonds will result in estimated total debt service payments of \$356,926,345, including \$209,955,000 in principal and \$146,971,345 in interest, with estimated average annual debt service payments of \$17,846,317 over the 20 year bond term (see Attachment).

Impact on Property Taxes*General Obligation Bond Debt as a Percentage of Assessed Property Values*

The City Charter imposes a limit on outstanding General Obligation Bond debt of no more than 3 percent of the assessed value of City property. According to Ms. Sesay, as of October 21, 2013, \$1.89 billion in General Obligation Bonds were outstanding, equal to approximately 1.1 percent of the assessed value of City property; if the Board of Supervisors approves the sale of \$209,955,000 in Series 2013D Bonds, the outstanding General Obligation Bonds will equal approximately 1.22 percent of the assessed value of City property, an increase of 0.12 percentage points. If all authorized and unissued General Obligation Bonds were issued, the General Obligation Bond debt would increase to 1.53 percent of the assessed value of City property.

*Impact of General Obligation Bond Debt on Property Tax Rates*

General Obligation Bond debt is repaid through increases to the annual property tax rate. Under the City's Capital Planning Committee policy, property owners' tax rates to repay General Obligation Bonds are limited to the 2006 rate, which was \$0.1201 per \$100 of assessed value. The FY 2013-14 property tax rate to repay General Obligation Bonds is \$0.1195 per \$100 of assessed value.

According to Ms. Sesay, repayment of the annual debt service on the proposed 2013D Series Bonds will increase the annual property tax rate by an average of \$0.00692 per \$100 of assessed valuation over the anticipated 20-year term of the bonds. A single family residence with an assessed value of \$767,300<sup>4</sup>, assuming a homeowner's exemption of \$7,000, would pay average annual additional property taxes to the City of \$52.61 per year if the proposed \$209,955,000 in Series 2013D Bonds are sold. According to Ms. Sesay, any increases to the property tax rate due to the sale of the Series 2013D Bonds will be offset by decreases to the property tax rate due to the retirement of other outstanding General Obligation Bonds in order

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<sup>4</sup> Median value of owner-occupied housing units from 2007 through 2011, based on U.S. Census Bureau data

to maintain a property tax rate of no more than \$0.1201 per \$100 of assessed value, consistent with the City's existing policy.

### Appropriation of \$209,955,000

The total SFGH Rebuild Project budget is \$885,131,059, including the proposed appropriation of \$209,955,000 in Series 2013D Bonds. As noted above, the difference of \$2,268,941 in the proposed project budget of \$885,131,059 compared to the original project budget of \$887,400,000 is due to the underwriter's discount.

**Table 3: Proposed Appropriation of Series 2013D Bond Proceeds**

	Project Budget	Prior Appropriation (2009 through 2012)	Proposed Appropriation	Total Appropriation	Increase/ (Decrease) in Project Budget
Architecture and Engineering	\$147,689,758	\$123,504,558	\$5,257,733	\$128,762,291	(18,927,467)
Environmental Review	17,212,000	16,566,632	2,320,900	18,887,532	1,675,532
City Costs (Permitting, Project Management, City Attorney)	24,858,823	18,005,798	3,236,845	21,242,643	(3,616,180)
<u>Construction:</u>					
Hospital Construction Contract	668,196,701	496,158,897	194,647,597	690,806,494	22,609,793
Related Construction Contract	1,246,833	4,426,649	0	4,426,649	3,179,816
Temporary Relocation Contract	1,000,000	118,302	0	118,302	(881,698)
Art Enrichment	7,041,300	5,069,929	907,100	5,977,029	(1,064,271)
Technology Wiring	3,000,000	2,327,169	1,200,000	3,527,169	527,169
Subtotal, Construction	680,484,834	508,100,946	196,754,697	704,855,643	24,370,809
<b>Subtotal Project Costs</b>	<b>870,245,415</b>	<b>666,177,934</b>	<b>207,570,175</b>	<b>873,748,109</b>	<b>3,502,694</b>
Costs of Issuance, Bond Oversight, Audit	17,154,585	8,998,125	2,384,825	11,382,950	(5,771,635)
<b>Total Costs</b>	<b>\$887,400,000</b>	<b>\$675,176,059</b>	<b>\$209,955,000</b>	<b>\$885,131,059</b>	<b>(\$2,268,941)</b>

According to Mr. Ronald Alameida, Department of Public Works (DPW) Project Manager, although the total project budget of \$887,400,000 has not been revised from 2008 to 2013, components of the project budget have been revised to reflect actual costs compared to projected costs in the original budget. Mr. Alameida states that the overall scope of the project has not changed from the original project scope and budget in 2008.

According to the SFGH Rebuild Project staff presentation to the October 21, 2013 Capital Planning Committee, the proposed bond appropriation of \$209,955,000 as shown in Table 3 above will be used for the following projects in 2014 and 2015:

- Modifications to the existing service building, including phase two of the generator project, installation and enclosure of new oxygen tanks, and completion of connection to Pacific Gas and Electric Company (PG&E) power;



- Landscaping of the roof garden and campus;
- Completion of the interior build-out of the new hospital and installation of major medical equipment;
- Completion of bridge and tunnel connections among facilities on the campus;
- Completion of modifications to the old hospital building; and
- Transition planning and implementation of the move to the new hospital.

The Capital Planning Committee approved the issuance and sale of the Series 2013D Bonds and the associated supplemental appropriation at the October 21, 2013 meeting.

## **RECOMMENDATION**

Approve the proposed resolution (File 13-1090) and ordinance (File 13-1084).

<p><b>Item 4</b> <b>File 13-1089</b></p>	<p><b>Department:</b> San Francisco Housing Authority (SFHA)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p>	
<ul style="list-style-type: none"> <li>The proposed resolution would waive payments in lieu of taxes that the San Francisco Housing Authority (SFHA) owes the City for the period from FY 1990 91 through FY 2012-13.</li> </ul>	
<p style="text-align: center;"><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>On January 21, 1965, the City and the SFHA entered into a cooperative agreement that exempted all public housing developments from all real and personal property taxes and special assessments. According to the cooperative agreement, the SFHA and the City agreed to an annual payment in lieu of taxes equal to ten percent of the total rent charged by the SFHA to the occupants of the SFHA’s housing units during each fiscal year net of the SFHA’s utilities costs.</li> <li>The Board of Supervisors waived the payments in lieu of taxes for the period from FY 1981-82 through FY 1989-90, but did not act on the waiver requests from the SFHA from FY 1990-91 through FY 1995-96. The SFHA has not submitted a waiver request to the Board of Supervisors since FY 1996-97.</li> </ul>	
<p style="text-align: center;"><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>The proposed resolution would exempt the SFHA from paying \$12,058,935 in lieu of taxes to the City for the period of FY 1990-91 through FY 2012-13. Although the SFHA owes the City payments in lieu of taxes, because the City does not include receipt of these payments in the annual budget, the waiver of these payments will not impact the City’s annual budget. According to the proposed resolution, the SFHA will request a waiver of the payment in lieu of taxes owed to the City as part of the City’s annual budget process, beginning in the spring of 2014</li> </ul>	
<p style="text-align: center;"><b>Policy Consideration</b></p>	
<ul style="list-style-type: none"> <li>Out of ten housing authorities reviewed by the Budget and Legislative Analyst’s Office, four obtained waivers for payments in lieu of taxes and six made payments to local governmental entities. Whether the local government entities granted the waiver or required payment in lieu of taxes varied by year, depending on the financial condition of the housing authority.</li> </ul>	
<p style="text-align: center;"><b>Recommendation</b></p>	
<ul style="list-style-type: none"> <li>Approval of the proposed resolution is a policy matter for the Board of Supervisors.</li> </ul>	

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

According to the cooperative agreement signed January 21, 1965 between the City and the San Francisco Housing Authority (SFHA), the SFHA is required to make annual payments to the City in lieu of real and personal property taxes or special assessments.

**Background**

On January 21, 1965, the City and the SFHA entered into a cooperative agreement that exempted all public housing developments from real and personal property taxes and special assessments. In FY 2012-13, those public developments consisted of 41 developments, including 404 buildings, and totaling 4,519,594 square feet of land.

According to the cooperative agreement, the SFHA and the City agreed to an annual payment in lieu of taxes equal to ten percent of the total rent charged by the SFHA to the occupants of the SFHA's housing units during each fiscal year net of the SFHA's utilities costs.

The Board of Supervisors waived the payments in lieu of taxes for the period from FY 1981-82 through FY 1989-90, but did not act on the waiver requests from the SFHA from FY 1990-91 through FY 1995-96. The SFHA has not submitted a waiver request to the Board of Supervisors since FY 1996-97.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would waive the payments in lieu of taxes owed by the SFHA to the City for the period from FY 1990-91 through FY 2012-13. According to the proposed resolution, the SFHA will request a waiver of the payment in lieu of taxes owed to the City as part of the City's annual budget process, beginning in the spring of 2014.

**FISCAL IMPACT**

The proposed resolution would waive payments in lieu of taxes owed by the SFHA to the City for the period from FY 1990-91 through FY 2012-13 in the amount of \$12,058,935 as shown in Table 1 below. Under the cooperative agreement, outstanding payments owed to the City are not subject to interest or penalties.

**Table 1: SFHA Payments in Lieu of Taxes Owed to the City by Fiscal Year  
Based on 10% of Rent Charged to Occupants of SFHA Housing Units**

<b>Fiscal Year*</b>	<b>Amount</b>
1990-91	\$700,348
1991-92	616,350
1992-93	613,932
1993-94	543,602
1994-95	451,456
1995-96	478,551
1996-97	443,255
1997-98	478,551
1998-99	525,734
1999-00	602,073
2000-01	408,279
2001-02	643,206
2002-03	560,354
2003-04	595,933
2004-05	548,772
2005-06	356,291
2006-07	518,082
2007-08	420,780
2008-09	576,480
2009-10	545,306
2010-11	460,650
2011-12	479,980
2012-13	490,970
<b>Total</b>	<b>\$12,058,935</b>

\* SFHA fiscal years are for the period of October 1 through September 30.

Although the SFHA owes the City the payment in lieu of taxes, because the City does not include receipt of these payments in the annual budget, the waiver of these payments will not impact the City's annual budget.

## **POLICY CONSIDERATION**

Out of ten housing authorities reviewed by the Budget and Legislative Analyst's Office, four obtained waivers for payments in lieu of taxes and six made payments to local governmental entities.<sup>1</sup>

<sup>1</sup> The 10 housing authorities were Seattle, Chicago, El Paso, Los Angeles, New York City, San Diego, Baltimore, Denver, Trenton, and Ventura.

Whether the local government entities granted the waiver or required payment in lieu of taxes varied by year, depending on the financial condition of the housing authority. For example, the Trenton Housing Authority (New Jersey) received waivers for tax years 2008 through 2010 but made a payment in lieu of taxes in 2011. The Chicago Housing Authority made its first payment in lieu of taxes in 50 years to Cook County (Illinois) in 2012.

Although the City called upon the State Legislature to authorize the New York City Housing Authority to forego future payments in lieu of taxes due to the New York City Housing Authority's budget shortfalls, the New York Housing Authority has continued to make payments in lieu of taxes of \$23 million per year.

In 2008, the City of Ventura amended their cooperation agreement with the Ventura Housing Authority to waive the payment in lieu of taxes and instead deposit the funds into the Housing Trust Fund for the acquisition and development of affordable housing. In 2013, the City of El Paso (Texas) waived the payment in lieu of taxes for the El Paso Housing Authority for ten years, requiring the funds to be allocated to childcare and social services to benefit Housing Authority residents.

## **RECOMMENDATION**

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

<b>Item 7</b> <b>File 13-1022</b>	<b>Department:</b> Human Services Agency (HSA)
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would (1) extend the current security guard contract between the Human Services Agency (HSA) and Guardsmark LLC (Guardsmark) by one month from December 1, 2013 to December 31, 2013, and (2) increase the contract amount by \$1,900,000, from a not-to-exceed amount of \$19,326,260 to a not-to-exceed amount of \$21,226,260.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In April 2008 the Board of Supervisors approved the original security guard contract between HSA and Guardsmark for security guard services at 19 HSA facilities throughout the City for a five-year term from May 1, 2008 through April 30, 2013, and a not-to-exceed amount of \$21,100,370. The Board of Supervisors approved the revised contract in November 2008 subsequent to a bid protest, which revised the contract term for one year from December 1, 2008 through November 30, 2009, with four one-year options to extend the term through November 30, 2013. The contract amount was reduced from \$21,100,370 to \$19,326,260 due to projected reductions in security guard service hours.</li> <li>• However, since December 1, 2008, HSA has increased the security guard service hours at many of the facilities, which increased the annual costs above what was initially budgeted. Additionally, HSA is requesting to increase the contract term by one month from December 1, 2013 through December 31, 2013, pending award and execution of a new security guard contract on January 1, 2014 through a competitive Request for Proposals (RFP) process. Consequently, HSA does not have sufficient remaining expenditure authority to pay for security guard services through December 31, 2013.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• HSA is requesting an increase of \$1,900,000 in the contract amount to pay for (1) \$1,455,960 in security guard services from September through December 2013, and (2) a contingency of \$444,040. The Budget and Legislative Analyst recommends reducing the contingency to \$168,000, which is sufficient to pay for any unanticipated increase in security guard service hours.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution to reduce the increase in the not-to-exceed amount by \$276,040, from \$1,900,000 to \$1,623,960, to reflect a 10.0 percent contingency, or \$168,000, in lieu of a contingency percentage of 26.4 percent contingency, or \$444,040.</li> <li>• Approve the proposed resolution, as amended.</li> </ul>	

**MANDATE STATEMENT / BACKGROUND****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 Human Services Agency (HSA) contracts for security services at 19 facilities throughout the City including client service centers, employee offices, homeless shelters, medical facilities and parking lots.

On April 22, 2008 the Board of Supervisors approved a contract between HSA and Guardsmark LLC (Guardsmark) for Guardsmark to provide security services for HSA at 19 facilities operated by HSA throughout the City for a five-year period from May 1, 2008 through April 30, 2013, in an amount not-to-exceed \$21,100,370, based on a competitive Request for Proposals (RFP) process.

Due to litigation by an unsuccessful bidder and further negotiations, the Board of Supervisors approved ordinance 306-08 (File 08-1346) on November 19, 2008 that amended the contract to:

- Change the effective term from May 1, 2008 through April 30, 2013 to December 1, 2008 through November 30, 2013.
- Change the structure of the contract from a five-year contract to a one-year contract with four one-year options to extend that did not require further Board of Supervisors approval.
- Reduce the not-to-exceed amount by \$1,774,110 from \$21,100,370 to \$19,326,260 by reducing the number of security guard hours by 37,000 from 750,000 to 713,000 hours.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would (1) extend the current security guard contract by one month from December 1, 2013 to December 31, 2013, and (2) increase the contract amount by \$1,900,000, from a not-to-exceed amount of \$19,326,260 to a not-to-exceed amount of \$21,226,260.

According to Mr. David Curto, HSA Director of Contracts and Facilities, when the initial contract was awarded, HSA and Guardsmark assumed that the number of security guard hours would gradually decrease when HSA implemented technological or facility improvements such as electronic card-readers at entrances. While some of these efficiencies were realized, Mr. Curto advises that the security conditions at some of the facilities became increasingly dangerous, including instances of physical assaults on both clients and HSA staff at HSA homeless shelters. Also there was one homicide at an HSA drop-in center. In response to requests by shelter and facility managers to increase security at the HSA facilities, HSA implemented 24-hour security presence at all of the shelters and at many of the drop-in facilities, which increased the number of security guard hours and costs (see Fiscal Impact Section below)

HSA issued a new RFP for security guard services on August 2, 2013 and is currently reviewing competitive proposals for a new security guard contract that will begin on January 1, 2014. Therefore, HSA is requesting a one-month extension of the existing contract with Guardsmark pending award and execution of a security guard contract.

## FISCAL IMPACT

The proposed resolution would increase the not-to-exceed contract amount by \$1,900,000, or 9.8 percent of the total contract, from \$19,326,260 to \$21,226,260. HSA has spent \$19,102,220 of the budgeted not-to-exceed amount of \$19,326,360 from December 1, 2008 through August 31, 2013, resulting in a balance of \$224,040.

The proposed budget for the \$1,900,000 increase is shown in Table 1 below.

**Table 1: Requested \$1,900,000 Increase in Contract Not-to-Exceed Amount**

<i>Estimated average monthly spending over the remaining four months of the contract</i>	
Sept	\$420,000
Oct	420,000
Nov	420,000
Dec	420,000
Subtotal Average Monthly Spending	1,680,000
Less Unexpended Balance	(224,040)
Subtotal	1,455,960
Contingency (26.4% of September through December Payment)	444,040
<b>Total</b>	<b>\$1,900,000</b>



The Budget and Legislative Analyst recommends reducing the contingency from 26.4 percent, or \$444,040, to 10.0 percent, or \$168,000, thereby reducing the requested increase in the not-to-exceed contract amount from \$1,900,000 to \$1,623,960. The proposed reduction in the contingency should provide sufficient additional funds to meet the contract requirements for the remaining contract term from September 1, 2013 through December 31, 2013.

Under the California State Department of Social Services (CDSS) County Welfare Department Cost Allocation Plan, HSA is eligible to receive Federal Financial Participation (FFP) funds for certain programs supported by Federal fund sources. Mr. Curto advises that approximately 62 percent, or \$1,006,855 of the proposed increase in the contract amount of \$1,623,960, would be reimbursed by the CDSS with the remaining 38 percent, or \$617,105, would come from the City General Fund.

### RECOMMENDATIONS

1. Amend the proposed resolution to reduce the increase in the not-to-exceed amount by \$276,040, from \$1,900,000 to \$1,623,960 to reflect a 10.0 percent contingency, or \$168,000, in lieu of a contingency percentage of 26.4 percent contingency, or \$444,040.
2. Approve the proposed resolution, as amended.