CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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September 16, 2022

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst DY

SUBJECT: September 21, 2022 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution sets the property tax rate for FY 2022-23 for taxing entities within San Francisco including (a) the City; (b) the San Francisco Unified School District; (c) the San Francisco County Office of Education; (d) the San Francisco Community College District; (e) BART; and (f) the Bay Area Air Quality Management District (BAAQMD).

Key Points

- The Board of Supervisors annually sets the combined property tax rate that provides revenues for: (1) general operations, (2) specific Charter-required activities for the City such as services for children, open space, or the public library; and (3) paying debt service on voter-approved General Obligation bonds that were issued by the City, the San Francisco Unified School District (SFUSD), the San Francisco Community College District (SFCCD), and the Bay Area Rapid Transit District (BART).
- The proposed resolution also would set the property tax pass-through rate that landlords can pass through to tenants in FY 2022-23, as allowed under the Administrative Code.

Fiscal Impact

- The proposed resolution would set the combined property tax rate (comprised of the property tax rates levied for all of the taxing jurisdictions within the City) for FY 2022-23 at $1.17973782 per $100 of assessed value. The FY 2022-23 property tax rate of $1.17973782 is $0.00274717, or 0.23 percent less, than the FY 2021-22 property tax rate of $1.18248499 per $100 of assessed value.
- The proposed FY 2022-23 property tax rate would increase property taxes by $135.66 on a median valued single family home. Although the property tax rate decreased this year, the allowable two percent increase in the assessed value of a median valued home offsets the property tax rate decrease.
- The FY 2022-23 General Fund share of property tax revenue is budgeted at $2,379.5 million, which is $263.9 million, or 12.5 percent, more than the FY 2021-22 budget.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENTS

California Revenue and Taxation Code Section 2151 requires the Board of Supervisors to fix the rates of county and district property taxes and to levy the property taxes for the County and Districts.

San Francisco Administrative Code Section 3.3(m) requires the Board of Supervisors to adopt the property tax rate for the City and County of San Francisco by September 30.

City Charter Section 16.107-109 requires that portions of the City's annual property tax levy by set aside for specific uses including $0.0250 for the Library Preservation Fund; $0.0400 for the Children's Fund; and $0.0250 for the Open Space Acquisition Fund per $100 of assessed value.

San Francisco Administrative Code Section 37.3(a)(6)(A-D), the Residential Rent Stabilization and Arbitration Ordinance allows landlords to pass through to tenants a portion of property tax increases that result from certain voter-approved General Obligation bonds.

BACKGROUND

The Board of Supervisors annually sets the combined property tax rate that provides revenues for affected taxing entities': (1) General Operations, (2) specific Charter-required activities for the City and County of San Francisco such as services for children, acquiring open space, or constructing, maintaining and operating the public library; and (3) paying debt service on voter-approved General Obligation bonds that were issued by the City, the San Francisco Unified School District (SFUSD), the San Francisco Community College District (SFCCD), and the Bay Area Rapid Transit District (BART).

Under the California Constitution Article XIII(A), the base property tax rate that the City can levy on property owners is one percent and can be used for general purposes. Any amount over the base one percent is used to pay for debt service on voter-approved General Obligation bonds.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution sets the property tax rate for FY 2022-23 for taxing entities[1] within the City and County of San Francisco including (a) the City; (b) the San Francisco Unified School District; (c) the San Francisco County Office of Education; (d) the San Francisco Community College District; (e) BART; and (f) the Bay Area Air Quality Management District (BAAQMD).

The proposed resolution would also set the property tax pass-through rate that landlords can pass-through to tenants in FY 2022-23, as allowed in Chapter 37.3 of the City Administrative Code. The pass through to tenants may only be imposed on a tenant's anniversary date and does

[1] Taxing entities are agencies or organizations located within the City and County of San Francisco that have taxing authority but may not be part of the City government. The General City Operations tax rate factor of $0.80918319 includes $0.25330113 to be shifted to the Educational Revenue Augmentation Fund for the benefit of San Francisco Unified School District, the County Office of Education, and the San Francisco Community College District.

not become part of a tenant's base rent. The allowable tenant pass-through rate is based on the portion of the landlord's property tax liability that comes from General Obligation bond debt service for certain periods and is comprised of three factors as outlined in Chapter 37.3 of the Administrative Code, as shown in Exhibit 1 below.

Exhibit 1: Percent of Property Tax Increases for General Obligation Bond Debt Service Allowed for Pass-Through to Tenants

Entity	Date of GO Bond Approval	Pass-Through Rate
City and County of San Francisco	November 1, 1996-November 30, 1998	100%
City and County of San Francisco	November 14, 2002-Present	50%
San Francisco Unified School District San Francisco Community College District	November 1, 2006-Present	50%

Source: Administrative Code Section 37.3(6)

FISCAL IMPACT

The proposed resolution would set the combined property tax rate for FY 2022-23 at $1.17973782 per $100 of assessed value. The FY 2022-23 property tax rate of $1.17973782 is $0.00274717, or 0.23 percent less than the FY 2021-22 property tax rate of $1.18248499 per $100 of assessed value. See Exhibit 2 below for the proposed tax rates for all taxing jurisdictions in the City, as determined by the Controller.

Exhibit 2. Current and Proposed Tax Rates per $100 of Assessed Property Value

Tax / Entity	FY 2021-22	FY 2022-23	Change
City & County of San Francisco			
General Fund	$0.80918319	$0.80918319	No change
Library Preservation Fund	$0.02500000	$0.02500000	No change
Children's Fund	$0.04000000	$0.04000000	No change
Open Space Fund	$0.02500000	$0.02500000	No change
GO Bond Fund	$0.11463663	$0.10761763	($0.00701900)
City Subtotal	**$1.01381982**	**$1.00680082**	**($0.00701900)**
San Francisco Unified School District			
General Operations	$0.07698857	$0.07698857	No change
General Obligation Bond Debt Service	$0.04503343	$0.04216026	($0.00287317)
SFUSD Subtotal	**$0.12202200**	**$0.11914883**	**($0.00287317)**
San Francisco County Office of Education	**$0.00097335**	**$0.00097335**	**No change**
San Francisco Community College District			
General Operations	$0.01444422	$0.01444422	No change
General Obligation Bond Debt Service	$0.01681493	$0.01595993	($0.00085500)
SFCCD Subtotal	**$0.03125915**	**$0.03040415**	**($0.00085500)**
Bay Area Rapid Transit			
General Operations	$0.00632528	$0.00632528	No change
General Obligation Bond Debt Service	$0.00600000	$0.01400000	$0.00800000
BART Subtotal	**$0.01232528**	**$0.02032528**	**$0.00800000**
Bay Area Air Quality Management District	**$0.00208539**	**$0.00208539**	**No change**
Total Property Tax Rate	**$1.18248499**	**$1.17973782**	**(0.00274717)**

Source: Proposed Resolution

Tenant Pass-Through Tax Rate

The proposed resolution would set the allowable property tax rate that landlords can pass through to tenants at $0.0713 per $100 of assessed value (or 7.13 cents per $100 of assessed value). The FY 2022-23 pass-through rate is $0.0041 less than the FY 2021-22 rate of $0.0754. Residential tenants may file a financial hardship application with the Rent Board to request a portion of the FY 2022-23 pass-through be waived under Section 37.3(a)(6)(E) of the Administrative Code. In such cases, the Rent Board may waive the pass-through amount up to $0.0079 per $100 of assessed value, or 0.79 cents per $100 of assessed value.

Impact of the Combined Property Tax Rate and Allowable Pass-Through

Under Proposition 13, the City may annually increase the assessed value of a property by a State-determined inflation factor or 2.00 percent, whichever is less. For FY 2022-23, the California Consumer Price Index (CCPI) adjustment authorized by the State Board of Equalization is 2.00

percent.[2] The median assessed value of a single-family residence increased from $649,818 in FY 2021-22 to $662,814 in FY 2022-23, as shown in Exhibit 3 below; the taxable assessed value on that same home, with the homeowner's exemption, would be $655,814 in FY 2022-23.

Exhibit 3: Estimated Property Tax for Single Family Residence with Median Assessed Value

Fiscal Year 2021-22	**Single Family Residence**	**Allowable Tenant Pass-Through**
Assessed Value	$649,818	$649,818
Less Homeowner's Exemption	$7,000	$0
Total Taxable Assessed Value	$642,818	$642,818
Rate per $100 of Assessed Value	1.18248499	0.0754
Property Taxes Payable in 2021-22	**$7,601**	**$485**
Proposed FY 2022-23		
Prior Year Assessed Value	$649,818	$649,818
Assessed Value + California Consumer Price Index Increase (2.00%)	$12,996	$12,996
Subtotal	$662,814	$662,814
Less Homeowner's Exemption	$7,000	$0
Total Taxable Assessed Value	**$655,814**	**$655,815**
Tax Rate per $100 of assessed value	1.17973782	0.0713
Property Taxes Payable in 2022-23	**$7,737**	**$468**
Total Increase (Decrease) in Property Taxes Payable in FY 2022-23 versus FY 2021-22	$135.66	($17)

Source: Controller's Office

Note: Total may not add up due to rounding.

As shown above, the proposed FY 2022-23 property tax rate of $1.17973782 per $100 of assessed value would increase property taxes by $135.66 on a single-family residence with an assessed value of $662,814 in FY 2022-23 and decrease the allowable pass-through to tenants by $17. Although the property tax rate decreased this year, the allowable two percent increase in the assessed value of a median valued home offsets the property tax rate decrease.

The FY 2022-23 General Fund share of property tax revenue is budgeted at $2,379.5 million, which is $263.9 million, or 12.5 percent, more than the $2,115.6 million in the FY 2021-22 budget.

RECOMMENDATION

Approve the proposed resolution.

[2] The allowable inflation factor is based on the California Consumer Price Index, which uses a population weighted average equation that combines Los Angeles, San Francisco, San Diego, and Riverside Metropolitan Statistical Areas' consumer price index values.

Item 3 **File 22-0919**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a new contract between Toyon Associates, Inc. and the Department of Public Health (DPH) in an amount not to exceed $6,714,114 for a total term of October 1, 2022 through September 30, 2027.

Key Points

- Under the competitively procured contract, Toyon provides financial reimbursement, regulatory reporting, and revenue optimization consulting services for Zuckerberg San Francisco General Hospital/Community Primary Care (ZSFGH/CPC), Laguna Honda Hospital (LHH), and Health at Home Agency (HAH). Costs are based on either hourly rates or a percentage of realized revenue, depending on the service.
- The proposed resolution states that the contract has a five-year term through September 2027, however the underlying contract has a four-year term. DPH intends to request an amendment to the proposed resolution to increase the not to exceed amount to $8,492,339 to account for the fifth year of the contract and related 12 percent contingency.

Fiscal Impact

- The maximum contact amount paid by DPH to Toyon for the first four years from October 1, 2022 through September 30, 2026 is $6,714,114. The total maximum amount to be paid by DPH to Toyon for the fee for service revenue reimbursements over the first four years of the contract is $3,014,350 for ZSFGH/CPC, $959,720 for LHH, and $120,675 for HAH.
- The total maximum amount to be paid by DPH to Toyon for appealing cost audits on a contingency basis over the first four years of the contract is $1,500,000 for ZSFGH/CPC and $400,000 for LHH. This is paid to Toyon contingent on the outcome of the appeals pertaining to Medicare and Medi-Cal report audits for ZSFGH/CPC and LHH. The contract also provides for a 12 percent contingency to allow for contingent fees exceeding the above amounts if Toyon collects additional Medi-Cal or Medicare revenue.
- The total contract budget will increase by 14.4 percent from $1.4 million in FY 2021-22 to $1.6 million in FY 2022-23 due largely to an increase of approximately 41 percent for “Fee for Service” services offset by a reduction in the Contingent Fee.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

On January 11, 2022, the Department of Public Health (DPH) issued a new Request for Proposals (RFP) for a contract to provide regulatory reporting, financial reimbursement, and revenue optimization consulting services for Medi-Cal and Medicare programs. Toyon Associates Inc. (Toyon) was the only vendor who submitted a proposal. In February 2022, a DPH selection panel[1] evaluated the proposal based on relevant health care professional experience, qualifications, proposed scope of work, and proposed budget. Toyon, the existing vendor to DPH, received a score of 94 out of 100. On February 28, 2022, DPH determined that Toyon met solicitation requirements and was awarded the contract for a maximum term of up to five years.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new contract between Toyon Associates, Inc. and DPH in an amount not to exceed $6,714,114 for a total term of October 1, 2022 through September 30, 2027. The proposed resolution would also allow DPH to enter into any contract amendments or modifications prior to its final execution between the Department and the vendor that do not increase the obligations or liabilities to the City.

Services Provided

Under the proposed contract, Toyon provides financial reimbursement, regulatory reporting, and revenue optimization consulting services for Zuckerberg San Francisco General Hospital/Community Primary Care[2] (ZSFGH/CPC), Laguna Honda Hospital (LHH), and Health at Home Agency (HAH)[3] through the following payment mechanisms:

[1] Selection panelists include the following DPH staff: Cash Management Manager, Patient Accounting Director, Director of Managed Care, Acting Reimbursement Manager and Zuckerberg San Francisco General Hospital Budget Director.

[2] Community Primary Care (CPC) is the clinical service of the San Francisco Health Network comprised of the community-based primary care health centers.

[3] Health at Home is an agency that provides care and support to individuals in San Francisco who are homebound and require skilled medical and rehabilitative care. Home Health services include physical therapy, occupational therapy, home health aide, etc.

1. **Fee for Service:**[4] This includes Toyon's review and filing of required regulatory reports with federal and state agencies to maximize revenue reimbursements to the City from Medicare and Medi-Cal programs with ZSFGH/CPC, LHH, and HAH on a fee for service basis. This also includes the preparation and filing of Medicare and Medi-Cal cost report appeals[5] for ZSFGH/CPC and LHH to be paid on a fee for service basis.
2. **Contingent Fee:**[6] This includes Toyon filing appeals pertaining to Medicare and Medi-Cal report audits for ZSFGH/CPC and LHH on behalf of DPH, paid to Toyon contingent on the outcome of the appeal. Toyon receives 15 percent of Medicare or Medi-Cal revenues generated from successful appeals if services were delivered by DPH on or after April 1, 2014, or 20 percent if services were delivered prior to April 1, 2014, with DPH receiving 80 to 85 percent of recovered revenues (depending on the service delivery date).

Performance Monitoring

According to Appendix A of the proposed contract, two performance measures will be tracked and monitored annually: (1) file federal and state financial reports on time, and (2) resolve federal and state audits with no significant findings. Metrics collected for these measures include the number of reports filed on time and total number of reports, as well as the number of audits without significant findings and the total number of audits.

FISCAL IMPACT

As shown in Exhibit 1 below, the maximum contact amount paid by DPH to Toyon for the first four years from October 1, 2022 through September 30, 2026 is $6,714,114. The total maximum amount to be paid by DPH to Toyon for the fee for service revenue reimbursements over the first four years of the contract is $3,014,350 for ZSFGH/CPC, $959,720 for LHH, and $120,675 for HAH.

The proposed resolution states that the contract has a five-year term through September 2027, however the underlying contract in the legislative file shows a four-year term through September 2026. DPH intends to request an amendment to the proposed resolution at the September 21, 2022 Budget & Finance meeting to increase the not to exceed amount to $8,492,339 to account for the fifth year of the contract and related 12 percent contingency. We present the four-year fiscal impact information in Exhibit 1 below.

The total maximum amount to be paid by DPH to Toyon for appealing cost audits on a contingency basis over the first four years of the contract is $1,500,000 for ZSFGH/CPC and $400,000 for LHH. As previously mentioned, this is paid to Toyon contingent on the outcome of the appeals pertaining to Medicare and Medi-Cal report audits for ZSFGH/CPC and LHH. Also, as

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[4] "Fee for service" entails services being performed at an hourly rate by level of staff, specific tasks, and number of hours.

[5] This entails developing and researching issues and developing documentation on viable Medicare and Medi-Cal appeals related to open cost report settlements to recover entitled reimbursement funds through the appeal process.

[6] In contrast to an hourly fee, a "contingent fee" is a form of payment in which the vendor will receive a percentage of the Medicare or Medi-Cal revenues received by DPH when they win and/or settle Medicare and Medi-Cal appeals.

noted below, the contract provides for a 12 percent contingency to allow for contingent fees exceeding the above amounts if Toyon collects additional Medi-Cal or Medicare revenue.

Exhibit 1. Maximum DPH Payment to Toyon from October 1, 2022 to September 30, 2026

	10/1/22 – 9/30/23	10/1/23 – 9/30/24	10/1/24 – 9/30/25	10/1/25 – 9/30/26	Total ($)
Zuckerberg San Francisco General Hospital/Community Primary Care					
Fee for Service	$716,050	$740,775	$766,100	$791,425	$3,014,350
Contingent Fee	375,000	375,000	375,000	375,000	1,500,000
12% Contingency	130,926	133,893	136,932	139,971	541,722
Subtotal	*$1,221,976*	*$1,249,668*	*$1,278,032*	*$1,306,396*	*$5,056,072*
Laguna Honda Hospital					
Fee for Service	$227,350	$235,410	$243,640	$253,320	$959,720
Contingent Fee	100,000	100,000	100,000	100,000	400,000
12% Contingency	39,282	40,249	41,237	42,398	163,166
Subtotal	*$366,632*	*$375,659*	*$384,877*	*$395,718*	*$1,522,886*
Health at Home Agency					
Fee for Service	$28,515	$29,605	$30,720	$31,835	$120,675
Contingent Fee	0	0	0	0	0
12% Contingency	3,422	3,553	3,686	3,820	14,481
Subtotal	*$31,937*	*$33,158*	*$34,406*	*$35,655*	*$135,156*
Total Maximum Payments					
Fee for Service	$971,915	$1,005,790	$1,040,460	$1,076,580	$4,094,745
Contingent Fee	475,000	475,000	475,000	475,000	1,900,000
12% Contingency	173,630	177,695	181,855	186,190	719,370
Total	**$1,620,545**	**$1,658,485**	**$1,697,315**	**$1,737,770**	**$6,714,115**

Source: Appendix B of Proposed Contract

According to DPH Reimbursement Director Matthew Sur, the “Fee for Service” expenditures were determined by increasing the hourly rates by an average of approximately four to five percent annually from the existing contract with Toyon. The number of hours for staff were estimated based on historical data, along with expected workload projections. The “Fee for Service” expenditures also include $90,000 in annual expenses for ZSFGH/CPC, $5,000 in annual expenses for LHH, and $1,000 in annual expenses for HAH. These expenses include travel, postage, ordered reports, cost report/Office of Statewide Health Planning and Development (OSHPD) related software and eligibility lookup fees, and procurement of cyber insurance for all facilities.[7]

According to DPH Reimbursement Director Sur, a 12 percent contingency is also included per DPH’s policy for contracts and represents a portion of the approved spending authority in case

[7] According to Appendix B of the proposed contract, the City shall contribute 50 percent of the additional five million in excess cyber insurance coverage above $10 million (total $15 million coverage). Total cost shall not exceed $50,000 annually.

the Department must procure additional services allowable under the Request for Proposal or pay an additional amount based on the contingent fee if the vendor collects additional revenue above the maximum contractually allowable amount. The funding source for the proposed contract and 12 percent contingency amount is the General Fund.

Change in Contract Costs

The total contract budget will increase by 14.4 percent from $1.4 million in FY 2021-22 to $1.6 million in FY 2022-23, as shown in Exhibit 2 below, due largely to an increase of approximately 41 percent for "Fee for Service" services offset by a reduction in the Contingent Fee. The proposed contract shows cost increases of approximately 23 percent for ZSFGH and 37 percent for LHH and a decrease of 79 percent for HAH, summarized below in Exhibit 2.

Exhibit 2. Current and Proposed Contract Costs

	Current Budget (10/1/21 – 9/30/22)	**Proposed Year 1 Budget (10/1/22 – 9/30/23)**	**$ Change**	**% Change**
Zuckerberg San Francisco General Hospital/Community Primary Care				
Fee for Service	$512,830	$716,050	$203,220	39.63%
Contingent Fee	375,000	375,000	0	0.00%
12% Contingency	106,540	130,926	24,386	22.89%
Subtotal	*$994,370*	*$1,221,976*	*$227,606*	*22.89%*
Laguna Honda Hospital				
Fee for Service	$138,170	$227,350	$89,180	64.54%
Contingent Fee	100,000	100,000	0	0.00%
12% Contingency	28,580	39,282	10,702	37.44%
Subtotal	*$266,750*	*$366,632*	*$99,882*	*37.44%*
Health at Home Agency				
Fee for Service	$38,710	$28,515	$(10,195)	-26.34%
Contingent Fee	100,000	0	*$(100,000)*	-100.00%
12% Contingency	16,645	3,422	(13,223)	-79.44%
Subtotal	*$155,355*	*$31,937*	*$(123,418)*	*-79.44%*
Total Maximum Payments				
Fee for Service	$689,710	$971,915	$282,205	40.92%
Contingent Fee	575,000	475,000	(100,000)	-17.39%
12% Contingency	151,765	173,630	21,865	14.41%
Total	**$1,416,475**	**$1,620,545**	**$204,070**	**14.41%**

Source: Appendix B of Current and Proposed Contracts

According to DPH Reimbursement Director Sur, the increase in "Fee for Service" expenditures for ZSFGH/CPC and LHH reflect the actual utilization of services in 2021, as well as hourly rate increases by an average of approximately four to five percent annually. In addition, according to DPH Reimbursement Director Sur, in 2016, the Centers for Medicare and Medicaid Services changed policy on how to calculate payments for Medicare Disproportionate Share Hospitals (DSH).[8] Calendar Year 2018 was the first year when hospitals were required to identify the specific services provided to low-income individuals. Because of this change, DPH Reimbursement Director Sur stated that the number of hours the vendor spent on both cost report filing and audits increased. DPH Reimbursement Director Sur noted that the increase in "Fee for Service" proposed expenditures for LHH is also because of the transition in August 2019 to a new electronic medical records system, which impacted the amount of time needed for the vendor to complete quarterly contractual allowance reviews.[9]

Actual Expenditures and Revenues of Current Contract

From April 2014 through July 2022 of the current contract,[10] DPH paid Toyon a total of $5,239,926 for financial reimbursement, regulatory reporting, and revenue optimization consulting services on a fee for service and contingent fee basis for ZSFGH/CPC, LHH, and HAH. According to DPH Reimbursement Director Sur, from FY 2015-16 through FY 2021-22, Toyon's work on appealing cost audits generated a total of approximately $20,893,907 in recovered reimbursement funds from ZSFGH and LHH, as shown in the Appendix below.

RECOMMENDATION

Approve the proposed resolution.

[8] Disproportionate Share Hospitals are defined to be hospitals that serve a significantly disproportionate number of low-income patients and receive payments from the Centers for Medicaid and Medicare Services to cover the costs of providing care to uninsured patients.

[9] These reviews involve assessment of the adequacy of contractual allowance reserves and cost report settlements recorded on the general ledger for financial reporting purposes

[10] File 18-1073 with a contract term of April 1, 2014 through March 31, 2022. A third amendment was approved March 8, 2022 for a no-cost extension from April 1, 2022 to September 30, 2022.

Appendix: Actual Revenues Generated by Toyon Contract from FYs 2015-16 – 2021-22[11]

					Revenues Generated from		
Fiscal Year	End Date of Fiscal Year Audited[12]	MediCare NPR) Date[13]	Facility	Audit on Fee for Service Basis[14]	Appeals Paid on Fee for Service Basis[15]	Appeals Paid on Contingency Basis[16]	Total Revenue Generated
FY15-16	6/30/2003	2/6/2015	ZSFGH	$0	$3,034,550	$0	$3,034,550
Y15-16	6/30/2002	9/1/2015	ZSFGH	0	314,789	0	314,789
		Subtotal		*$0*	*$3,349,339*	*$0*	*$3,349,339*
FY16-17	6/30/2007	2/24/2016	ZSFGH	$3,141,860	$0	$0	$3,141,860
FY16-17	6/30/2006	6/20/2016	ZSFGH	1,907,704	0	0	1,907,704
FY16-17	6/30/2006	7/27/2016	ZSFGH	0	197,111	0	197,111
FY16-17	6/30/2008	12/22/2016	ZSFGH	3,076,612	0	0	3,076,612
FY16-17	6/30/2001	2/15/2017	ZSFGH	0	0	4,340	4,340
FY16-17	6/30/1999	4/27/2017	ZSFGH	0	0	4,440	4,440
		Subtotal		*$8,126,176*	*$197,111*	*$8,780*	*$8,332,067*
FY17-18	6/30/2009	12/6/2017	ZSFGH	$715,208	$0	$0	$715,208
FY17-18	6/30/2007	6/8/2018	ZSFGH	0	32,196	0	32,196
FY17-18	6/30/2010	6/11/2018	ZSFGH	852,961	0	0	852,961
FY17-18	1999-2011	10/14/2015	LHH	0	0	31,009	31,009
		Subtotal		*$1,568,169*	*$32,196*	*$31,009*	*$1,631,374*
FY18-19	6/30/2011	7/24/2018	ZSFGH	$2,217,416	$0	$0	$2,217,416
FY18-19	6/30/2008	3/12/2019	ZSFGH	0	79,529	0	79,529
FY18-19	6/30/2012	3/21/2019	ZSFGH	3,646,443	0	0	3,646,443
		Subtotal		*$5,863,859*	*$79,529*	*$0*	*$5,943,388*
FY19-20	6/30/2010	3/16/2020	ZSFGH	$0	$516,760	$0	$516,760
FY19-20	6/30/2011	3/16/2020	ZSFGH	0	438,146	0	438,146
		Subtotal		*$0*	*$954,906*	*$0*	*$954,906*
FY20-21	6/30/2012	4/20/2021	ZSFGH	$0	$25,386	$0	$25,386
		Subtotal		*$0*	*$25,386*	*$0*	*$25,386*
FY21-22	6/30/2008	9/30/2021	ZSFGH	$0	$16,250	$0	$16,250
FY21-22	6/30/2015	5/31/2022	ZSFGH	641,197			641,197
		Grand Total		**$16,199,401**	**$4,654,717**	**$39,789**	**$20,893,907**

Source: DPH

[11] There were no settlements in FY 2014-15.

[12] This is the Fiscal Year in which the revenues realized were generated.

[13] The Medicare Notice of Payment Reimbursement (NPR) is the date that DPH was notified by Centers for Medicare & Medicaid Services that they would be reimbursed the amount shown.

[14] Medicare and Medi-Cal revenues received by DPH because of Toyon's audit work and paid to Toyon on a fee-for-service basis.

[15] Medicare and Medi-Cal revenues received by DPH because of Toyon's work in preparing and filing appeals and paid to Toyon on a fee-for-service basis.

[16] This is the Medicare and Medi-Cal revenues received by DPH because of Toyon's work in preparing and filing appeals, paid to Toyon on contingency basis as a percentage of revenues realized (percentage is either 15 percent if services were delivered by DPH on or after April 1, 2014 or 20 percent if services were delivered prior to April 1, 2014).

Item 4 File 22-0921	Department: Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively approve an emergency contract between the Department of Public Health (DPH) and Tryfacta, Inc. for temporary staffing services, for a term of six months, from June 17, 2022 through December 17, 2022, for an amount not to exceed $3,500,000, and authorize DPH to extend the term or increase the amount not to exceed 10 years or $10,000,000.

Key Points

- In March 2022, the Centers for Medicare and Medicaid (CMS) notified DPH that Laguna Honda Hospital was in noncompliance with the Medicare program's nursing home participation requirements and that payments from CMS would be terminated. DPH is working to correct all deficiencies identified by CMS and a consultant, with the goal to apply for recertification by November 13, 2022 and avert closure of the hospital. DPH identified the need for dietician services to ensure that food meets regulatory requirements, especially as the kitchen is being remodeled. In June 2022, DPH issued a solicitation for as-needed staffing, with an immediate need for dietician positions. Tryfacta was the lone respondent that included dietician positions and was awarded an emergency contract.
- The contract scope is for Tryfacta to provide seven full-time equivalent (FTE) Dietician positions and two FTE Dietetic Technician positions for the Laguna Honda kitchen, with optional staffing for various other healthcare worker classifications.

Fiscal Impact

- The Tryfacta emergency contract has an amount not to exceed $3,500,000. However, based on actual expenditures to date, and to provide a buffer for unexpected expenditures, the Budget and Legislative Analyst recommends reducing the not-to-exceed amount of the contract to $1,000,000 to provide sufficient expenditure authority.

Policy Consideration

- The proposed resolution allows DPH to extend the term or increase the amount not to exceed 10 years or $10,000,000. This expands the scope beyond the emergency pertaining to Laguna Honda certification.

Recommendations

- Amend the proposed resolution to: (1) remove the provisions that allow DPH to extend the term and/or increase the amount of the agreement up to 10 years or $10,000,000; and (2) reduce the not to exceed amount from $3,500,000 to $1,000,000.
- Approve the resolution as amended.

MANDATE STATEMENT

Administrative Code Section 21.15 states that emergency contacts to procure commodities or services that are more than $100,000 are subject to Board of Supervisors approval. If the emergency permits, the Department must also secure written approval from the Mayor or Mayor's designee, or the president of the board or commission concerned. If the emergency does not permit approval of the emergency determination by the Board of Supervisors before work begins, the Department head must submit a resolution approving the emergency determination to the Board of Supervisors as soon as possible. The Department shall attempt to obtain at least three bids for emergency purchases.

BACKGROUND

Laguna Honda

In July 2021, the Department of Public Health (DPH) reported two non-fatal drug overdoses at Laguna Honda Hospital. Following this report, the Centers for Medicare and Medicaid (CMS) conducted several surveys of the hospital from October 2021 through March 2022 and identified deficiencies. In March 2022, CMS notified DPH that Laguna Honda Hospital was in noncompliance with the Medicare program's nursing home participation requirements and that payments from CMS would be terminated. At the time, Laguna Honda housed approximately 700 patients, the vast majority of whom were Medicare or Medicaid recipients and stood to lose approximately $550,000 per day in reimbursements. CMS and the California Department of Public Health (CDPH) set a closure date for the hospital of September 13, 2022, with the possibility to extend two months through November 13, 2022, and ordered the transfer of all patients by the closure date. On May 2, 2022, Health Director Grant Colfax declared an emergency over the impending closure and recertification effort, which was signed by Health Commission President Dan Bernal.

DPH is working in parallel paths to both implement the closure plan and to recertify Laguna Honda Hospital. From April through August 2022, DPH transferred 57 patients out of Laguna Honda to other facilities, nine of whom passed away shortly after transfer. In August 2022, CMS and CDPH agreed to pause the closure plan and patient transfers through November 13, 2022 and continue federal funding through then. DPH has assembled an incident command team to address and correct the deficiencies identified by CMS with plans to apply for recertification before the closure plan pause expires on November 13. By applying for recertification, DPH hopes to ensure ongoing federal funding and avert closure of Laguna Honda.

As part of the recertification effort, DPH has engaged Health Management Associates (HMA) to conduct mock surveys to identify all potential deficiencies for DPH to address before applying for recertification (File 22-0920, pending retroactive approval by the Board of Supervisors). HMA identified 39 deficiencies, including food handling. In addition, the kitchen floor tiles have cracked many times, which creates an environment for bacterial infections. DPH is renovating the floor to bring it up to current health codes and identified the need for dietician services to ensure that the food meets regulatory requirements. This need is exacerbated by existing staffing vacancies within the Dietician classification.

Vendor Selection

In April 2022, DPH issued an emergency solicitation under Administrative Code Section 21.15 for three tasks related to the Laguna Honda recertification effort, including as-needed staffing. In June 2022, DPH issued a further solicitation to specify an immediate staffing need for dietician positions. Tryfacta, Inc. which had existing DPH contracts for as-needed staffing, was the lone respondent that included dietician positions and was awarded an emergency contract.

Although the agreement is less than $10 million, Administrative Code 21.15 requires Board of Supervisors' approval for emergency agreements that exceed $100,000. Such approvals must be obtained prior to executing the contract or "as soon thereafter as it is possible to do so." According to DPH staff, the Department did not bring this agreement to the Board of Supervisors in July 2022 because staff are responding to the Laguna Honda funding emergency.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve an emergency contract between DPH and Tryfacta for temporary staffing services, for a term of six months, from June 17, 2022 through December 17, 2022, for an amount not to exceed $3,500,000, and authorize DPH to extend the term or increase the amount not to exceed 10 years or $10,000,000.

The contract scope is for Tryfacta to provide seven full-time equivalent (FTE) Dietician positions and two FTE Dietetic Technician positions for the Laguna Honda kitchen. Optional tasks include staffing for Registered Nurse, Licensed Practical Nurse, Certified Nursing Assistant, Certified Medical Assistant, Nurse Practitioner, Pharmacy Technician, Pharmacist, Patient Care Assistant, Social Worker, Phlebotomist, Respiratory Therapist, Physical Therapist, Activity Therapist, and Physician positions. Although it was not included within the base staffing plan, DPH anticipated the need for five FTE Social Worker positions, as well as the possible need for Respiratory Therapist and Phlebotomist positions.

FISCAL IMPACT

The Tryfacta emergency contract has an amount not to exceed $3,500,000. At the time the contract was drafted, DPH anticipated the need for Dietician, Dietetic Technician, and Social Worker positions, as well as the possible need for Respiratory Therapist and Phlebotomist positions. The originally projected contract expenditures are shown in Exhibit 1 below.

Exhibit 1: Originally Projected Contract Expenditures

Position	Hourly Rate[1]	Estimated Hours	Total Cost
Dietician	$125	6,216	$777,000
Dietetic Technician	85	1,776	150,960
Social Worker	70	7,860	550,200
Respiratory Therapist	125	3,144	393,000
Phlebotomist	80	1,572	125,760
Total		**20,568**	**$1,996,920**

Source: DPH

As shown above, DPH has identified a need for approximately $2 million in contract positions for the next six months. Costs will be paid for by the Laguna Honda Hospital Enterprise Fund and the City's General Fund.

Not to Exceed Amount

According to Rob Longhitano, DPH Office of Contract Management and Compliance Director, the not-to-exceed amount of $3,500,000 also accounts for unknown staffing needs, delays in the kitchen project that may require additional dietician hours, and an originally anticipated 13-month contract through June 2023.

According to Lily Conover, Laguna Honda Chief Financial Officer, Tryfacta has been unable to deliver desired staffing levels and actual expenditures for the period of July 1 through September 2 total $203,915. Assuming the rate of expenditures continue, projected expenditures over the six-month contract term would total $611,745. Therefore, the Budget and Legislative Analyst recommends reducing the not-to-exceed amount of the contract to $1,000,000 to provide sufficient expenditure authority and provide a buffer for unexpected expenditures.

POLICY CONSIDERATION

Board of Supervisors Approval

As noted above, the proposed resolution includes a provision that allows the Department to amend the contract to increase the not to exceed amount up to $10 million and extend the term up to 10 years without further review and approval by the Board of Supervisors. We recommend removing that provision from the resolution to ensure ongoing Board review of emergency contract work at Laguna Honda. As shown above, the contract contains a 12 percent contingency to fund unexpected changes to the contract, consistent with Health Commission policy. Moreover, because this provision expands the scope of the contract beyond the immediate emergency pertaining to Laguna Honda Hospital's certification, the Budget and Legislative Analyst recommends amending the resolution to remove this provision.

[1] The hourly rate includes all direct and indirect costs associated with the work, as well as Tryfacta's profit.

RECOMMENDATIONS

1. Amend the resolution to remove the provisions that allow the Department to extend the term and/or increase the amount of the agreement up to ten (10) years or $10,000,000.
2. Amend the resolution to reduce the not to exceed amount from $3,500,000 to $1,000,000 million.
3. Approve the resolution, as amended.

Item 5 **File 22-0922**	**Department:** Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively approve the first amendment to the emergency contract between the City and Health Services Advisory Group, Inc. (HSAG). The agreement has a not to exceed amount of $6,989,564 and a term from May 9, 2022 to December 31, 2022.

Key Points

- Laguna Honda Hospital is seeking reinstatement of its Medicare/Medicaid program certification from the Federal Centers for Medicare and Medicaid Services (CMS) this fall. To assist with that effort, the City entered into the original agreement with HSAG with a not to exceed amount of $1,778,247. The contract was procured under Administrative Code 21.15, which allows for contracts to be without a competitive solicitation process. Staff selected Health Services Advisory Group (HSAG) because of the firm's experience as the federally-assigned CMS Quality Improvement Organization for California.
- Under the original agreement, HSAG surveyed deficiencies, conducted an environmental scan of clinical practices, participated in quality improvement meetings, began developing trainings for DPH staff to align practices with CMS standards, and conducted initial reviews of care planning and delivery.
- DPH amended the contract on June 21, 2022 to increase the not to exceed amount from $1,778,247 to $6,989,564 and expand the scope of services to prepare for the CMS recertification survey.

Fiscal Impact

- Contract costs are based on staff time, which totals approximately 15,550 hours. Billing rates range from $159 to $400 per hour. Total costs are $6,989,564, which will be paid for by the General Fund and Laguna Honda enterprise revenues.

Policy Consideration

- The proposed resolution allows the Department to increase the agreement's not to exceed amount up to $10 million and the term up to 10 years without further Board of Supervisors' approval.

Recommendations

1. Amend the resolution to remove the provisions that allow the Department to extend the term and/or increase the amount of the agreement up to 10 years or $10,000,000.
2. Approve the proposed resolution, as amended.

MANDATE STATEMENT

Administrative Code Section 21.15 provides for the Board of Supervisors to declare an emergency when it becomes immediately necessary to procure commodities or services to make repairs, safeguard lives or property, or respond to the breakdown of any plant equipment, structure, street, or public work. Emergency Contracts in excess of $100,000 require Board of Supervisors approval.

BACKGROUND

The Laguna Honda Hospital is seeking reinstatement of its Medicare/Medicaid program certification from the Federal Centers for Medicare and Medicaid Services (CMS) this fall. In preparation for the recertification process, the Department of Public Health (DPH) entered into three emergency contracts with health care consulting firms. DPH staff anticipate additional contracts in the months to come. The three contracts now under consideration by the Board of Supervisors for retroactive approval are summarized below:

1. Tryfacta, Inc. to provide temporary staffing services for an amount not to exceed $3,500,000 and a term from June 17, 2022 to December 17, 2022 (File 22-0921);
2. Health Management Associates, Inc. to perform survey readiness assessments, mock CMS audit surveys of Laguna Honda Hospital, and an assessment of Laguna Honda Hospital for an amount not to exceed $3,782,365 and a term from May 9, 2022 to June 30, 2023 (File. 22-0920); and
3. Health Services Advisory Group, Inc. (HSAG) to provide in-depth evaluation, targeted improvements, and staff training to all hospital units to prepare them for the CMS recertification audit. On May 9, this contract was awarded for a total not to exceed amount of $1,778,247 for a term from May 9, 2022 to December 31, 2022. On June 15, 2022, DPH executed the First Amendment to this contract, increasing the total not to exceed amount by $5,211,317, from $1,778,247 to $6,989,564, with no change to the contract term. (This File 22-0922)

Contractor Selection Process

The contracts were procured under Administrative Code 21.15, which allows for contracts to be entered in the "expeditious manner necessary in order to respond to the emergency" and as such, there was no competitive solicitation process. According to DPH staff, Administrative Code 21.15 was utilized due allow contractors to immediately assist with the recertification efforts, which was declared an emergency by the Director of Health and the Health Commission.

Administrative Code 21.15 requires departments to attempt to obtain at least three bids for purchases. DPH did not obtain three bids in this case. Staff selected Health Services Advisory Group (HSAG) because of the firm's experience as the federally assigned CMS Quality Improvement Organization for California. In this role, HSAG was assigned to Laguna Honda Hospital by CMS to assist the facility when Laguna Honda Hospital was a participating facility in the Medicare program. When the hospital was removed from the Medicare program in April 2022, the resources from HSAG were no longer available to the Department, and this current agreement represents a direct contract with HSAG and DPH.

Agreement History

The City entered into the original agreement with HSAG on May 25, 2022 with a not to exceed amount of $1,778,247 and a term through December 31, 2022. Although the agreement is less than $10 million, Administrative Code 21.15 requires Board of Supervisors' approval for emergency agreements that exceed $100,000. Such approvals must be obtained prior to executing the contract or "as soon thereafter as it is possible to do so." DPH amended the contract on June 21, 2022 to increase the not to exceed amount from $1,778,247 to $6,989,564 and modify the scope of services. DPH did not bring this agreement to the Board of Supervisors in July 2022 because Department contracting personnel are responding to the recertification emergency.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve the first amendment to the emergency contract between the City and Health Services Advisory Group, Inc. (HSAG). The proposed resolution allows the Department to increase the agreement's not to exceed amount up to $10 million and the term up to 10 years without further Board of Supervisors' approval.

The contract provides for the City to have the option to terminate the contract agreement at any time for convenience and without cause.

Scope of Services

Under the original agreement, HSAG surveyed deficiencies, conducted an environmental scan of clinical practices, participated in quality improvement meetings with DPH recertification staff, began developing trainings for DPH staff to align practices with CMS standards, and conducted initial reviews of care planning and delivery.

The first amendment expands HSAG's scope of services to include:

1. Ongoing technical assistance to lead hospital staff in pertinent committees and meetings, including but not limited to resident council, Quality Assurance and Performance Improvement, and Infection Prevention;
2. Continuing to develop resources, curriculum and conducting instructional sessions to hospital staff, for example creating a weekly "Teach-Back" document for managers to validate staff knowledge regarding the topic of focus for the week;
3. Continuing focused reviews of care plan development, medication management, and patient chart review to address gaps identified in survey findings;
4. Creating strategies to prepare hospital units for survey readiness to support the Medicare certification process. Collecting and maintaining the accompanying documentation to provide evidence of compliance during the recertification process;

5. Providing unit-based rounding (13 units across three nursing shifts daily with 70 data points of review per unit), staff interviews, and documentation review to identify system vulnerabilities and present mitigation strategies;
6. Continuing participation in Executive team meetings to support the coordinated efforts and preparation for CMS re-application; and
7. Advising the Laguna Honda Hospital CEO on daily operations in accordance with state and federal guidelines.

Mock Survey

To prepare for recertification with CMS, DPH is undertaking mock surveys to simulate the pending CMS recertification review expected in November 2022. The first mock survey by DPH and Health Management Associates was completed in two phases in June and July 2022 and found that Laguna Honda Hospital would not pass a CMS certification survey.[1] HSAG is helping the Hospital take corrective actions to address each deficiency identified in the mock survey. A second mock survey will occur in the Fall after the corrective actions from the first Mock Survey have been implemented.

Reporting Requirements

According to Baljeet Sangha, the Laguna Honda Hospital CMS Recertification Co-Incident Commander, HSAG provides daily email reports to hospital unit directors for review and coaching on the results of in-person rounding observations. HSAG updates a weekly dashboard created with non-compliant findings and implements “strike force team” interventions for severe findings. HSAG also has ad-hoc as well as standing biweekly meetings with hospital leadership to review current activities and plans of correction.

HSAG also provides to DPH weekly rounding audit reports and updates on mock survey results.

FISCAL IMPACT

Exhibit 1 below summarizes the budget for the original emergency contract between DPH and Health Services Advisory Group, Inc. (HSAG), as well as the first amendment to the contract. As shown below, the Amendment would add $5.2 million to the existing contract, expanding the scope of work to provide more specialized consulting services for the Laguna Honda Hospital recertification effort.

[1] Laguna Honda Hospital Mock Survey #1 Summary of Findings & Corrective Actions, July 19, 2022, San Francisco Health Network, available here: https://sf.gov/sites/default/files/2022-07/Mock%20Survey%20Summary%20-%207.19.22.pdf

Exhibit 1: Health Services Advisory Group Estimated Budget, May 9, 2022-December 31, 2022

	Original Contract Amount	Amendment No. 1 *(pending retroactive approval)*	Total
One Week Preparation for on-site visit (one time only)	$32,500	0	$32,500
Quality Improvement Specialists (eight staff)	$1,160,250	$1,823,250	$2,983,500
Nursing Home Administrator and Assistant Nursing Home Administrator Consultant	0	$1,468,800	$1,468,800
Infection Preventionist	0	$188,500	$188,500
Discharge Transfer Coach	0	$468,000	$468,000
Senior Data Scientist	$44,000	$22,000	$66,000
Project Coordinator	$56,763	$12,720	$69,483
Travel (Hotel, Airfare, Transportation, and Per Diem)[a]	$294,209	$669,691	$963,900
Total Estimated Budget	$1,587,722	$4,652,961	$6,240,683
Contingency (12%)	$190,525	$558,356	$748,881
Total Not to Exceed Amount	$1,778,247	$5,211,317	$6,989,564

Source: DPH

Notes: The Contractor invoices the City once a month and is compensated only for actual services delivered.

[a] HSAG staff are based outside of San Francisco (Phoenix, AZ, Fort Meyer, FL and Santa Ana, CA) and regularly fly into SFO for week-long onsite visits to Laguna Honda Hospital. Travel costs include flights, ground transportation, hotels, and meals.

Contract costs are based on staff time, which totals approximately 15,550 hours. Billing rates range between $159 and $400 per hour. According to Baljeet Sangha, the Laguna Honda Hospital CMS Recertification Co-Incident Commander, there are an average of six HSAG staff onsite weekly. As the CMS survey date approaches, more staff will be onsite to provide additional hands-on assistance. HSAG staff also have administrative tasks performed off-site, such as medical record chart reviews, care plan reviews, coaching, and Committee meetings with virtual attendance.

The maximum contingency amount allowable under the amended contract is $748,881 or 12 percent of total expenditures.

Actual Spending

According to DPH staff, from May 9 through August 31, 2022, HSAG has invoiced the City for a total of 7,254 project hours, or $2,576,862. With the first amendment, 8,295 hours or $4,412,702 remain for the project.

Funding Source

According to DPH staff, the contract is funded by the Laguna Honda Hospital Enterprise Fund and the City's General Fund.

POLICY CONSIDERATION

Board of Supervisors Approval

As noted above, the proposed resolution includes a provision that allows the Department to amend the contract to increase the not to exceed amount up to $10 million and extend the term up to 10 years without further review and approval by the Board of Supervisors. We recommend removing that provision from the resolution in order to ensure ongoing Board review of emergency contract work at Laguna Honda. As shown above, the contract contains a 12 percent contingency to fund unexpected changes to the contract, consistent with Health Commission policy.

RECOMMENDATIONS

1. Amend the resolution to remove the provisions that allow the Department to extend the term and/or increase the amount of the agreement up to 10 years or $10,000,000.
2. Approve the proposed resolution, as amended.

Item 6 **File 22-0923**	**Department:** Public Utilities Commission (PUC), Office of Contract Administration (OCA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Modification No. 2 to the San Francisco Public Utilities Commission's (SFPUC) biosolids and grit hauling contract with Denali Water Solutions LLC (Denali), increasing the not-to-exceed amount by $10,200,000, for a total not to exceed $18,800,000, and exercising the four-year option to extend through September 2026.

Key Points

- SFPUC's Oceanside and Southeast wastewater treatment plants produce approximately 60,000 tons of biosolids (nutrient rich solids produced during treatment) and 4,000 tons of grit (sand removed from wastewater before treatment) each year. Biosolids are transported to compost facilities for use as fertilizer and grit is transported to landfill. In April 2019, the Office of Contract Administration (OCA) issued a Request for Proposals (RFP) on behalf of SFPUC for biosolid and grit hauling services. Denali was deemed the lowest cost responsive and responsible proposer and was awarded a contract for three years with an option to extend up to four more years. The contract expires September 30, 2022, and OCA, SFPUC, and Denali have agreed to exercise the extension option. Other contract terms would not change under the proposed modification.

Fiscal Impact

- The proposed Modification No. 2 would increase the not-to-exceed amount of the contract by $10,200,000, for a total not to exceed $18,800,000.
- SFPUC anticipates that contract expenditures will increase 40% in FY 2022-23 due to increased biosolids production and longer hauling routes to a new facility. The Budget and Legislative Analyst has reviewed annual load reports and finds the projections to be reasonable.

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 San Francisco Public Utilities Commission's (SFPUC) Oceanside and Southeast wastewater treatment plants produce approximately 60,000 tons of biosolids (nutrient rich solids produced during treatment) and 4,000 tons of grit (sand removed from wastewater before treatment) each year. Biosolids are transported to four locations for use as fertilizer, and grit is transported to landfill. In April 2019, the Office of Contract Administration (OCA) issued a Request for Proposals (RFP) on behalf of SFPUC for biosolid and grit hauling services. The SFPUC received three proposals, which were evaluated on a low-bid basis, as shown in Exhibit 1 below.

Exhibit 1: Proposers and Bids from RFP

Proposer	Bid Amount[1]
Denali Water Solutions	$585.77
S&S Trucking	627.69
Recology	938.91

Source: OCA

Denali Water Solutions (Denali) was deemed the lowest cost responsive and responsible proposer and was awarded a contract. In September 2019, OCA executed a contract with Denali for a term of three years, from October 2019 through September 2022, for an amount not to exceed $8,700,000, with an option to extend through September 2026. In April 2022, OCA executed Modification No. 1 to the contract, reducing the not-to-exceed amount to $8,600,000.[2] The contract expires September 30, 2022, and OCA, SFPUC, and Denali have agreed to exercise the option to extend the contract four years.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 2 to SFPUC's biosolids and grit hauling contract with Denali, increasing the not-to-exceed amount by $10,200,000, for a total not to exceed $18,800,000, and exercising the four-year option to extend through September 2026. Other contract terms would not change.

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[1] The bid amount is a weighted aggregate total that uses costs per load and per mile for various hauling scenarios. Rates vary by day of the week, haul size, and mileage, among other factors. Contract costs are adjusted annually based on the prevailing wage for commercial drivers and diesel fuel prices.

[2] According to Evan Magante, OCA Senior Purchaser, the reduction was due to a total expenditure authorization of $9.7 million over four biosolids hauling contracts that was approved by the Civil Service Commission. One of the other contracts required an increase, so the Denali contract was reduced to stay within the total authorization.

Performance Monitoring

The contractor is required respond within six hours to hauling requests, produce monthly reports of loads hauled from the City to end locations, document reasons of underweight loads, and document emergency and ad-hoc services. SFPUC staff are satisfied by Denali's performance and provided an overview of the contractor's performance to our office.

FISCAL IMPACT

The proposed Modification No. 2 would increase the not-to-exceed amount of the contract by $10,200,000, for a total not to exceed $18,800,000. Actual and projected expenditures are shown in Exhibit 2 below.

Exhibit 2: Actual and Projected Contract Expenditures

Fiscal Year	Amount
FY 2019-20 (Actual, 9 Months)	$1,612,493
FY 2020-21 (Actual)	1,715,239
FY 2021-22 (Actual)	1,947,691
FY 2022-23 (Projected)	2,726,415
FY 2023-24 (Projected)	3,089,029
FY 2024-25 (Projected)	3,297,398
FY 2025-26 (Projected)	3,455,904
FY 2026-27 (Projected, 3 Months)	889,895
Total	**$18,734,064**

Source: SFPUC

According to Ryan Batjiaka, SFPUC Wastewater Enterprise Senior Environmental Specialist, contract expenditures slowed in FY 2020-21 because biosolids production at the Southeast Treatment Plant declined by approximately 20 percent due to the COVID-19 pandemic and lack of commuters to the downtown core. SFPUC staff project that biosolids production will return to pre-pandemic levels in FY 2022-23 and projections for future contract years also account for population growth in future years. Additionally, Denali will begin hauling loads to a new facility in Merced County, which will have higher costs due to the distance. The Budget and Legislative Analyst has reviewed annual load reports and projected usage and finds the projection to be reasonable. Actual expenditures in future years will depend on biosolids production and the SFPUC's hauling needs. Contract expenditures are funded by SFPUC's Wastewater Enterprise operating budget.

RECOMMENDATION

Approve the proposed resolution.

Item 8 **File 22-0845**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 4 to the Terminal 2 Newsstands, Coffee, and Specialty Stores Lease between San Francisco International Airport (Airport) as landlord and World Duty Free Group North America, LLP (WDFG) as tenant.

Key Points

- Following a competitive bid process, in September 2010, the Board of Supervisors approved a lease with Host International, Inc. (File 10-1002). In November 2012, the Airport Commission approved the reassignment of the lease to WDFG, which acquired Host International, Inc.
- The lease has five locations, including one sublease to Starbucks. In March 2020, in response to the pandemic, Starbucks closed and did not reopen before the sublease expired on April 30, 2021. The Board approved an extension to the lease with WDFG through June 30, 2023 (Amendment No. 3, File 21-0342), however WDFG has not been able to find a coffee operator to take over the former Starbucks' space. The proposed Amendment No. 4 would remove the coffee premises from the lease, reducing the premises by 865 square feet or approximately 20 percent of the original premises.
- Under the lease, the tenants typically pay the greater of the required Minimum Annual Guaranteed (MAG) rent or a percentage rent, which is based on sales. MAG was suspended in June 2020 due to the pandemic and Airport tenants are currently paying percentage rent and other fees required by their leases.

Fiscal Impact

- Once MAG rent is reinstated, the impact of the removal of the 865 square foot premises would result in a reduction in the MAG amount of $302,625, from $1,546,364 to $1,243,738.
- In addition to rent payments, the Airport will receive reduced tenant infrastructure fee payments, amounting to $2.29 per square foot or $1,981 per year.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that (1) any lease of real property for ten or more years, including options to renew, (2) have anticipated revenues to the City of $1,000,000, or (3) the modification, amendment or termination of these leases is subject to Board of Supervisors approval.

BACKGROUND

In 2010, the Airport issued a Request for Proposals (RFP) to award a Newsstands, Coffee, and Specialty Stores lease for five retail locations in Terminal 2. The Airport received four proposals, and a scoring panel determined that Host International, Inc. was the highest scoring responsive and responsible proposer.

In September 2010, the Board of Supervisors approved a lease with Host International, Inc. for a term of 10 years and initial Minimal Annual Guaranteed (MAG) rent of $1,126,000 (File 10-1002). In November 2012, the Airport Commission approved the reassignment of the lease to World Duty Free Group North America, LLC (WDFG), which acquired Host International, Inc.

The lease has five locations. WDFG operates two newsstands (Sunset News and SF News Express) and two specialty stores (M Fredric and Kiehl's). They subleased the fifth location to a subsidiary which was a coffee shop (Starbucks). In March 2020, in response to the pandemic, Starbucks closed due to the severe decline in enplanements, and did not reopen before the sublease expired on April 30, 2021. WDFG participated in the COVID-19 Emergency Rent Relief Program which waived certain MAG rent in March 2020 and percentage rent in April 2020 and May 2020 and fees between April 2020 and December 2020 (Amendment No. 2, File 20-1278).

The Board approved an extension to the lease with WDFG, and thus the respective retail locations, through June 30, 2023 (Amendment No. 3, File 21-0342), however WDFG was not able to find a coffee operator to take over the former Starbucks' space. City and tenant now want to modify the lease through Amendment No. 4 to remove the former Starbucks location from the premises.

A history of the amendments to the lease is reflected in Exhibit 1, below.

Exhibit 1. Amendments to Airport Lease No. 10-0232, Terminal 2 Newsstands, Coffee, and Specialty Lease

Amendment No.	Board Of Supervisors Approval Date	Summary of Modification
Amendment No. 1	12/6/11	Revised the definition of "lease year" to clarify that the first lease year was an eight-month period rather than a 20-month period (File 15-0965)
Amendment No. 2	1/5/21	Incorporated the COVID-19 Emergency Relief Program for Airport Concession Operations (File 20-1278)
Amendment No. 3	5/11/21	Extended the lease term by two years and two months through June 2023, with no change to the MAG rent (File 21-0342).
Amendment No. 4	*Pending*	Removes 865 square feet of premises from lease, reducing facilities from five to four, resulting in a reduction in MAG amount of $302,626.

Source: Lease documents

On June 21, 2022, the Airport Commission approved Amendment No. 4 to the lease.

Rent

Under the lease, the tenants typically pay the greater of the required MAG rent or a percentage rent, which is based on sales. Airport concession leases contain a provision that suspends MAG rent when enplanements drop below 80 percent from the reference year for three consecutive months. The reference year is the year prior to the year when the lease was awarded, which is 2010 for WDFG. Currently, tenants are only paying percentage rent on gross revenues. MAG rent will be reinstated once enplanements recover to at least 80 percent of the reference year for two consecutive months.

Exhibit 2 below shows the rent that WDFG has paid to the Airport since MAG rent was suspended in June 2020, for all five retail locations, including the former Starbucks premise. In addition to rent payments, the original lease included an initial promotional charge of $4,420 ($1 per square foot), as well as tenant infrastructure fee payments of $10,122 ($2.29 per square foot) per year.

Exhibit 2. Rent paid by Tenant, June 2020 - August 2022

Period	Total
June 2020 – Dec 2020	$141,595
Jan 2021 – Dec 2021	$572,852
Jan 2022 – August 2022	$582,453
Total	**$1,296,900**

Source: Airport

As shown above, WDFG paid $572,852 in 2021 and $582,453 in the first eight months of 2022. In calendar year 2019, the last full year before the pandemic, WDFG paid $1,796,800 in percentage rent.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 4 to the Terminal 2 Newsstands, Coffee, and Specialty Stores Lease between San Francisco International Airport (Airport) as landlord and World Duty Free Group North America, LLP (WDFG) as tenant, to reduce the total leased premises by 865 square feet, from 4,420 square feet to approximately 3,555 square feet, or approximately 20 percent of the original premises. This would result in a reduction in the Minimum Annual Guaranteed (MAG) amount of $302,625, from $1,546,363 to $1,243,738.[1]

If Amendment No. 4 is approved, the Airport would issue a request for proposals for a new tenant to operate a coffee café in Starbucks' former 865 square foot space. The lease would be subject to Board approval if the expected revenues exceed $1 million or the term exceeds 10 years.

The original lease between the Airport and WDFG would be amended to reflect a change in the premises' total square footage, and the number of retail spaces from five to four, with the four other premises on the lease remaining the same:

- Space A: 409 square feet, SFO News Express
- Space B: 1,974 square feet, Sunset News
- Space D: 563 square feet, Kiehl's
- Space E: 609 square feet, M. Fredric

FISCAL IMPACT

The current MAG rent of $1,546,363 is based on the original MAG rent of $1,126,000 adjusted annually by the regional Consumer Price Index (CPI). Once MAG rent is reinstated, the impact of the proposed removal of the 865 square foot premises would result in a reduction in the MAG

[1] Calculated based on the lease agreement's MAG rent amount of $349.86 per square foot.

amount of $302,625, from $1,546,364 to $1,243,738. The contribution towards MAG rent of each retail store under the WDFG lease is shown in Exhibit 3, below:

Exhibit 3. Airport-WDFG Lease Agreement Amendment No. 4 Impact on Total MAG Rent

Retail Name	Space	Square Feet	2022 MAG Rent Amount
SFO News Express	A	409	$143,091
Sunset News	B	1,974	$690,616
Starbucks	C	865	$302,625
Kiehl's	D	563	$196,969
M. Fredric	E	609	$213,062
Total		**4,420**	**$1,546,364**

Source: Airport
Note: Total does not sum due to rounding.

In addition to rent payments, the Airport will receive a reduction in tenant infrastructure fee payments of $2.29 per square foot or $1,981 per year.

RECOMMENDATION

Approve the proposed resolution.

Item 9 **File 22-0844**	**Department:** Port Commission (Port)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease between the Port of San Francisco (Port) as landlord and Aardvark Storage Unlimited, Inc. (Aardvark), dba American Storage, as tenant, for approximately 279,740 square feet of paved land, with initial monthly rent of $99,961, for a term of five years, with a one-year option to extend.

Key Points

- Aardvark Storage Unlimited, Inc. (Aardvark), dba American Storage, has operated a storage facility on Port of San Francisco (Port) property at Seawall Lot 344 since 1998. In April 2012, the Board of Supervisors approved a lease with Aardvark comprising approximately 274,163 square feet of vacant paved land, for a five-year term with a five-year option to extend (File 12-0260). The lease has been on holdover status since it expired in June 2022. The Port negotiated a new lease with Aardvark, which was approved by the Port Commission in June 2022.
- Aardvark pays $0.30 per square foot monthly, which is below the Port's minimum parameter rent of $0.45 per square foot, as approved by the Port Commission. The proposed lease includes a three-year ramp up to the parameter rent.

Fiscal Impact

- Over the initial five-year term of the lease, the Port would receive $7,183,878 in total rent.

Policy Consideration

- The Port also owns approximately 7.025 acres of vacant property in proximity to the premises, and with the Port's Real Estate Division not fully staffed, the Port is concerned that the premises would remain vacant if Aardvark is not retained. Therefore, Port staff believes that the proposed rent incentives are appropriate for this lease.
- Like the 2012 lease it is replacing, the proposed lease on Port land with Aardvark was not competitively bid. According to Port staff, a competitive solicitation in this case would be impractical due to the limited uses of the premises, the large amount of vacant land nearby, and the desire to retain a stable tenant in good standing. Administrative Code Section 23.33 states that leases of City-owned property with rent of at least $2,500 per month should be awarded through a competitive solicitation unless it would be impractical or impossible.

Recommendation

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

MANDATE STATEMENT

City Charter Section 9.118(c) states that (1) any lease of real property for ten or more years, including options to renew, or having anticipated revenues to the City of $1,000,000, or (2) the modification, amendment, or termination of these leases is subject to Board of Supervisors approval.

According to City Administrative Code Section 23.33, leases of City property with rent of at least $2,500 per month should be awarded through a competitive solicitation unless such competitive solicitation is impractical or impossible. The terms "impractical" and "impossible" are not defined in the Administrative Code. Administrative Code Section 23.33 also specifies that any leases of City-owned property awarded without a competitive solicitation shall have rent equal to fair market value or more.

BACKGROUND

Aardvark Storage Unlimited, Inc. (Aardvark), dba American Storage, has operated a storage facility on Port of San Francisco (Port) property at Seawall Lot 344 (directly south of Islais Creek) since 1998. In April 2012, the Board of Supervisors approved a lease with Aardvark that consolidated three leases into one, comprising approximately 274,163 square feet of vacant paved land, for a five-year term with a five-year option to extend (File 12-0260). The lease, which had been extended, expired on April 30, 2022 and is currently in holdover status. Aardvark pays $82,249 per month in rent, or approximately $0.30 per square foot.

According to Port staff, Aardvark is a tenant in good standing and Port staff is focused on retaining tenants while market conditions are unstable. According to Kimberley Beal, Port Assistant Deputy Director for Real Estate and Development, Port staff are concerned about revenue loss and a potentially prolonged vacancy of the site should Aardvark leave. The Port negotiated a new lease with Aardvark, which was approved by the Port Commission in June 2022.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a lease between the Port as landlord and Aardvark as tenant for approximately 279,740 square feet[1] of vacant paved land, for a term of five years commencing upon Board of Supervisors approval, with initial monthly rent of $99,961, and a one-year option to extend.

In holdover from the expired lease, Aardvark pays $0.30 per square foot monthly, which is below the Port's minimum parameter rent of $0.45 per square foot, as approved by the Port Commission in July 2019.[2] Aardvark has also recently hired two additional security guards to

[1] The previous lease stated that the size of the premises is 274,163 square feet. However, after surveying the land, the Port has determined that the size of the premises is 279,740 square feet.

[2] Each fiscal year, the Port Commission approves a Rental Rate Schedule for various types of commercial space. The rates are based on commercial data, Port leasing data, and a third-party consultant review. The FY 2019-20 Rental Rate Schedule set the monthly rents for paved land at $0.45-$0.50 per square foot. According to Assistant Deputy

prevent break-ins, incurring approximately $150,000 per year in additional costs. To avoid an immediate 50 percent rent increase, which according to Port staff would create a hardship for the tenant, the Port and Aardvark have negotiated an initial rent equal to 80 percent of the parameter rent in Year 1 ($0.36 per square foot), 90 percent in Year 2 ($0.405 per square foot), and 100 percent in Year 3 ($0.45 per square foot), with three percent annual rent increases in Years 4 and 5. This ramp-up structure is similar to a leasing incentive for shed space leases approved by the Port Commission in April 2021.[3] Approximately 2,760 square feet (approximately one percent of the premises) is non-exclusive to Aardvark, containing a railway and right-of-way owned by the Port. Because multiple parties use this space, Aardvark would pay 25 percent of the rental rate for the non-exclusive space. The key terms of the lease are shown in Exhibit 1 below.

Exhibit 1: Key Terms of Proposed Lease

Premises	Approximately 279,740 square feet
Term	5 Years
Options to Extend	One 1-year option
Initial Rent	$99,961 per month ($1,199,534 per year)
Rent Adjustment	12.5% in Year 2, 11% in Year 3, 3% in Years 4 and 5
Security Deposit	$264,896
Demolition Period	50% rent reduction for up to 3 months for demolition prior to lease termination
Maintenance and Repair	Responsibility of tenant
Utilities	Responsibility of tenant

Source: Proposed lease

FISCAL IMPACT

Under the proposed lease, the Port would receive $99,961 in initial monthly rent, or $1,199,534 in initial annual rent. The rent would be increased by 12.5 percent in Year 2, 11 percent in Year 3, and three percent annually in Years 4 and 5. Over the initial five-year term of the lease, the Port would receive $7,183,878 in total rent. Annual rents paid by Aardvark are shown in Exhibit 2 below.

Director Beal, the Port Commission did not set a Rental Rate Schedule in FY 2020-21 or FY 2021-22 due to the COVID-19 pandemic and its impact on commercial real estate.

[3] According to Assistant Deputy Director Beal, by agreeing to ramp up rent to parameter rates over three years, Aardvark would forfeit a five percent discount available to tenants renting at least 43,560 square feet for a term of at least three years.

Exhibit 2: Annual Rents Paid by Aardvark

Year	Monthly Rent	Annual Rent
Year 1	$99,961	$1,199,534
Year 2	112,456	1,349,468
Year 3	124,953	1,499,435
Year 4	128,839	1,546,067
Year 5	132,448	1,589,375[4]
Total		**$7,183,878**

Source: Proposed lease. Totals may not add due to rounding.

If the one-year option to extend the lease is exercised, the rent would be set at the then-current parameter rate for paved land. Aardvark would not receive the five percent discount typically afforded to large tenants.

Under the FY 2019-20 Rental Rate Schedule, 6.5 percent of rent revenue from the Southern Waterfront is set aside for the Southern Waterfront Benefits and Beautification Fund. This amounts to approximately $466,952 over the initial five-year term.

POLICY CONSIDERATION

Fair Market Rent

As mentioned above, the initial monthly rent in the proposed lease of $0.36 per square foot is less than the minimum parameter rent of $0.45 per square foot in the most recent Rental Rate Schedule. According to Port staff, Aardvark had requested initial rent of $0.31 per square foot due to poor market conditions, and the final rental rate was agreed through negotiations. The Port Commission has recently approved a similar, three-year ramp-up structure for shed space leases as an incentive to retain tenants. The Port also owns approximately 7.025 acres of vacant property in proximity to the premises, and with the Port's Real Estate Division not fully staffed, the Port is concerned that the premises would remain vacant if Aardvark is not retained. Therefore, Port staff believes that the proposed rent incentives are appropriate for this lease.

No Competitive Solicitation

Like the 2012 lease it is replacing, the proposed lease on Port land with Aardvark was not competitively bid.

Administrative Code Section 23.33 states that leases of City-owned property with rent of at least $2,500 per month should be awarded through a competitive solicitation unless it would be impractical or impossible, but does not define the terms "impractical" and "impossible." In the resolution setting the Port's FY 2019-20 Rental Rate Schedule, the Port Commission, "finds that competitively bidding the real property agreements covered by the… rental rate schedules approved by this Resolution is impractical" and therefore established uniform rates for leases or

[4] Should Aardvark opt to vacate the lease at the end of the five-year term, the annual rent in Year 5 would be $1,390,704, utilizing the 50 percent rent reduction for three months.

licenses for special events, office, warehouse space, or unimproved land. However, as noted above, the proposed lease is less than the Rental Rate Schedule.

According to Port staff, a competitive solicitation in this case would be impractical due to the limited uses of the premises, the large amount of vacant land nearby, and the desire to retain a stable tenant in good standing. The Port's Tenant in Good Standing Policy states that tenants in good standing may receive consideration for lease amendments, additional term, change in leasehold size, assignments or sublets, and/or requests for additional agreements on Port property.

RECOMMENDATION

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

Item 10 **File 22-0791**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize a second amendment extending SFPUC's contract with Brown and Caldwell for design and engineering services for the Southeast Plant Biosolids Digester Facilities Project. The amendment would increase the not-to-exceed amount by $55,000,000 from $153,500,000 to $208,500,000 and extend the contract term from December 2025 to July 2029.

Key Points

- The Southeast Plant Biosolids Digester Facilities Project (BDFP) is a replacement of portions of the Southeast Water Pollution Control Plant. When the subject agreement was awarded in 2013, the BDFP was estimated to cost $1.2 billion and to be completed by August 2023. Due to higher than expected construction bids, SFPUC now estimates the project will cost $2.373 billion and that construction will be completed in mid-2028.
- SFPUC made changes to the project scope and paused construction bid procurement to reassess its project delivery approach and obtain third party estimates of construction costs. The Construction Manager/General Contractor leadership was replaced in 2021.
- In 2013, the Board approved an $80 million agreement with Brown and Caldwell for design and engineering services for the project, which was amended in 2017 to increase the amount to $153.5 million, reflecting additional design and engineering services to support SFPUC's selection of Construction Manager/General Contractor as the project delivery method.
- Project design changes in 2019 and 2021 required revising design drawings and construction specifications, which extended the design phase of the contract and require additional engineering support during construction. As a result, the funds remaining in the contract budget are not enough to cover the Brown and Caldwell team's services through the end of the now-extended project timeline.

Fiscal Impact

- Total proposed new spending is $60 million, which includes $5 million on remaining contract authority plus the proposed $55 million increase in the contract's not-to-exceed amount. Costs will be funded by Wastewater revenue bonds.

Policy Consideration

- At the beginning of our office's review of the proposed contract extension, SFPUC had completed one performance monitoring report for this contract, in 2016. In response to our questions, SFPUC subsequently completed and shared performance monitoring evaluations through FY 2021-22, which did not identify any major performance deficiencies.

Recommendations

- Amend the proposed resolution to memorialize a request that future annual contract performance monitoring reports be included in the legislative file for this item.
- Approve the 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

Biosolids Digester Facilities Project

The Southeast Plant Biosolids Digester Facilities Project (BDFP) is a replacement of portions of the Southeast Water Pollution Control Plant (SEP) at 750 Phelps Street, which processes 80 percent of the City's wastewater and stormwater. The BDFP focuses on the replacement of the aging digesters and solids handling facilities that process the solid waste into biosolids for beneficial use on land applications (such as fertilizer).

The SEP's current digesters were built in the early 1950s using technology from the 1940s. According to the RFP for the subject contract, replacement with modern technologies will improve efficiency and address costs and risks associated with this aging infrastructure. Project goals also include reducing impacts on neighboring communities, such as by containing odors within the grounds of the facility, as well as producing higher quality biosolids and maximizing use of gas byproducts as a renewable fuel source.

Project Status

When the project agreement was awarded in 2013, the BDFP was estimated to cost $1.2 billion and to be completed by August 2023. SFPUC now estimates the project will cost $2.373 billion and that construction will be completed in mid-2028.

Despite SFPUC's efforts to control costs through the selection of the Construction Manager/General Contractor delivery model, construction contract bids came in higher than expected. The current estimated project cost encompasses a third-party estimate of remaining construction, construction spending to date, anticipated market conditions, and schedule impacts. Exhibit 1 below shows the change in the project budget since 2013.

Exhibit 1: Biosolids Digester Facilities Project Budget

Phase	2013 Budget	2022 Budget	Change
Project Management	141,830,000	57,532,251	(84,297,749)
Pre-Planning	4,500,000	0	(4,500,000)
Planning	46,550,000	41,407,040	(5,142,960)
Environmental Review	25,000,000	4,707,361	(20,292,639)
Right of Way	1,690,000	500,000	(1,190,000)
Design	78,250,000	156,876,762	78,626,762
Bid & Award	8,000,000	0	(8,000,000)
Construction Management	94,910,000	197,957,926	103,047,926
Construction	781,580,000	1,913,633,952	1,132,053,952
Closeout	4,000,000	0	(4,000,000)
Total	**1,186,310,000**	**2,372,615,292**	**1,186,305,292**

Source: SFPUC

In 2019, construction estimates at the 95% design phase came in at a higher cost and longer timeline than expected, according to a June 2022 SFPUC memo to the SFPUC Commission. These estimates reflected greater costs of removing contaminated soil than originally projected, as well as higher quantities of electrical wiring, plumbing, piping, and concrete, according to the 2019 Project Change Authorization Request form. Other factors included lower worker productivity due to the simultaneous presence of multiple contracting crews, as well as increased labor and materials costs, which had escalated prior to the onset of the pandemic.

In an effort to limit overall project costs, in 2019 SFPUC made several changes to the project scope, including revisions to the odor control strategy,[1] the removal of two maintenance buildings from the project, the addition of a new steam generation facility, the removal of an energy recovery facility and instead selling biogas byproducts for vehicle fuel rather than converting the energy for heat and power.

Construction bids continued to exceed SFPUC and the general contractor's initial estimates after the project redesign. SFPUC paused construction bid procurement for three months in March 2021[2] to reassess its project delivery approach and obtain third party estimates of construction costs, which were completed by the M. Lee Corporation in October 2021. In July 2021, SFPUC also obtained SFPUC Commission approval to renegotiate and possibly reduce the scope of work of general contractor MWH Constructors and Webcor Builders Joint Venture. This renegotiation

[1] SFPUC is maintaining its commitment to prevent foul odors from emanating into the adjacent residential neighborhood. The new odor control design encapsulates equipment containing the odors at the source, resulting in a much smaller volume of air requiring odor control treatment. According to SFPUC's BDFP project manager, Carolyn Chiu, the new odor control strategy is less costly than the original design but just as effective at preventing odors outside of the facility.

[2] SFPUC lifted the bid suspension in June 2021 but limited bidding to only the digester facilities, which were in a critical stage of construction (i.e., excavation and foundation work), according to SFPUC.

resulted in a new project leadership team at the joint venture and improved collaboration with SFPUC staff as they continue with the CM/GC delivery approach, according to an October 12, 2021 presentation to the SFPUC Commission.

Construction notice to proceed was issued in August of 2019. Currently, the construction of the large digester tanks is under way, with concrete placement for the foundation completed in June of 2022 and digester walls currently under construction, according to SFPUC staff. Crews previously completed site preparation and multiple types of below-groundwork, including shoring, excavation, earthwork, and pile foundation work. The status of related facilities varies; construction is under way for three additional buildings and procurement remains ongoing for other major biosolids facilities. SFPUC projects that construction will be completed in 2028, with facility startup and project closeout completed in 2029.

The current BDFP cost, and schedule is included in the Wastewater Capital Budget and 10-Year Capital and Financial Plans for FYs 2022-23 through 2031-32, adopted by the Public Utilities Commission in February 2022. Consistent with the adopted 10-Year Capital Plans, the Public Utilities Commission approved two contract amendments in June 2022. These amendments include a $498.1 million increase (from $1.3 billion to $1.8 billion) to the project's Construction Manager/General Contractor agreement (WW-647R) with MWH Constructors and Webcor Builders Joint Venture and a $55 million increase to the project's Planning and Engineering Services agreement (CS-235) with Brown and Caldwell. The Brown and Caldwell contract amendment requires Board of Supervisors' approval and is the subject of the proposed resolution.

Procurement Process

On April 1, 2013, SFPUC issued a Request for Proposals (RFP) to provide planning and engineering services for the Southeast Plant Biosolids Digester Facilities Project (BDFP), for an amount not to exceed $80,000,000. The RFP sought proposals to provide services in two phases, together making up a project term of up to 10 years:

1) Planning and preliminary engineering services.
2) Services as needed during the project's detailed design, environmental review, bid and award, construction, and construction closeout.[3]

One team, led by the environmental engineering firm Brown and Caldwell, responded to the solicitation. SFPUC had identified a six-member review panel but did not utilize it or score the Brown and Caldwell team's proposal, because the team exceeded the solicitation's minimum qualifications and no other firms submitted proposals, according to SFPUC staff.

[3] According to the RFP, the firm's precise role during this second phase would be determined based on its performance during the first phase and the delivery methods selected by SFPUC. At the time of the solicitation, SFPUC had not selected project delivery methods and stated it was likely the project would utilize alternative delivery methods such as Design-Build or Construction Management/General Contractor.

Agreement History

On May 28, 2013, SFPUC authorized an agreement with Brown and Caldwell for design and engineering services, with a not-to-exceed amount of $80,000,000 and a term of 10 years. The Board of Supervisors approved the contract on July 16, 2013 (File 13-0589).

In October of 2016, the project team completed Phase 1 of the project (planning and preliminary engineering).

In 2017, SFPUC amended the original contract to increase the not-to-exceed amount from $80,000,000 to $153,500,000 and extend the contract term by two years and five months through December 31, 2025, for a total contract term of 12 and one half years. This change reflected a need for additional design and engineering services from Brown and Caldwell to support SFPUC's selection of Construction Manager/General Contractor as the preferred delivery method, according to SFPUC. The Board of Supervisors approved the contract amendment on May 9, 2017 (File 17-0344).

Proposed Second Amendment

Project design changes in 2019 and 2021 required revising design drawings and construction specifications, which extended the design phase of the contract and required additional services from the Brown and Caldwell team, according to SFPUC. As a result, the funds remaining in the contract budget are not enough to cover the Brown and Caldwell team's services through the end of the now-extended project timeline.

The proposed amendment would extend the contract and increase its not-to-exceed amount to cover the Brown and Caldwell team's services for the remainder of the project through construction completion. It would not change the team's scope of services.

Performance Monitoring

The existing contract allows for evaluation of contractor performance. SFPUC assigned an overall rating of "Excellent," the highest of four ratings, in evaluations for Fiscal Years 2015-16[4], 2016-17, 2017-18, 2019-20, 2020-21 and 2021-22. SFPUC assigned an overall rating of "Good," the second-best rating, for Fiscal Year 2018-19. SFPUC did not complete performance monitoring reports for prior years of this contract.

As discussed below, SFPUC completed its evaluations for Fiscal Years 2016-17-2021-22 in August and September of 2022, during our office's review of this proposed contract extension. It plans to complete a performance monitoring evaluation annually going forward.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize a second amendment extending SFPUC's contract with Brown and Caldwell for design and engineering services for the Southeast Plant Biosolids Digester

[4] This evaluation covered the period from Sept. 21, 2015 through Sept. 20, 2016.

Facilities Project, in order to cover Brown and Caldwell's services over the course of an extended project timeline. The amendment would increase the not-to-exceed amount by $55,000,000 from $153,500,000 to $208,500,000 and extend the contract term by three and half years through July 28, 2029, for a total contract term of 16 years.

The additional $55,000,000 would cover the Engineering Support During Construction task, including updating design documents to reflect changes to construction plans, responding to requests for information related to design drawings, reviewing construction submittals, and additional tasks associated with document preparation and facility start-up.

Community Benefits

In the 2013 agreement, Brown and Caldwell committed to providing $1,000,000 in community benefits comprising a mix of direct financial contributions and volunteer hours in the areas of workforce development, economic development, education, environmental justice, and social innovation services. It increased this commitment to a total of $1,725,000 as part of the 2017 contract amendment.

The company has met its initial commitment to provide $1,000,000 in community benefits, according to SFPUC staff. As of July 30, 2022, it had delivered 78 percent of its updated commitment to provide $1,725,000 in benefits and is on pace to meet this commitment during the contract term.

Subcontractors

Exhibit 2 below shows the list of subcontractors in the entire contract from the original RFP through the proposed amendment.

Exhibit 2: Subcontractors

Firm	Scope of Work	Local Business Enterprise
AEW Engineering	Hazardous Materials	Yes
Alfred Williams Consultancy, LLP	Community Relations/Public Affairs	Yes
BAYCAT	Videography/Graphics/Social Media	Yes
Geotechnical Consultants, Inc./ ENGEO, Inc.	Geotechnical	Yes
Gestalt Graphics	Desktop Publishing	Yes
Hydroconsult Engineers, Inc.	Water Resources Engineering	Yes
Meridian Surveying Engineering, Inc.	Surveying	Yes
Omni Digital Imaging, LLC	Reproduction Services	Yes
Saylor Consulting, Inc.	Cost Estimating	Yes
SRT Consultants	Civil Engineering	Yes
STRUCTUS, Inc.	Structural Engineering	Yes
Vibro-Acoustic Consultants	Acoustical Engineering/Noise Analysis	Yes
Butterfly Sunrise*	Videography	Yes
CHS Consulting*	Railroad Right- of-Way Assistance	Yes
InkeDesign*	Specialty Graphics (facility signage & on fountain)	Yes
MEI Architects*	Interior Architecture Design	Yes
Pacific Engineering*	Field Services- Potholing	Yes
GTC	Geotechnical engineering	Yes
Ron Alexander	Biosolids reuse market assessment	No
AMEC	Hazardous Materials	No
The Baylis Group	Alternatives Analysis	No
Black & Veatch	Facility planning, predesign, design, engineering support during construction, training	No
CH2M Hill	Facility planning, predesign, design, engineering support during construction, training	No
Cordoba	Traffic analysis	No
DegenKolb	Specialty seismic engineering	No
Grubbs	Architectural Rendering	No
Hood	Landscape Architecture	No

Source: Appendix B to 2017 Agreement; 2022 Memo from Contract Monitoring Division; and SFPUC staff.

Note: Firms marked with "*" were added after contract award.

As of March 2022, Local Business Enterprise (LBE) participation in this contract stood at 15.93%, exceeding Brown and Caldwell's commitment of 14.12%, according to a May 24, 2022 memorandum from SFPUC to the Contract Monitoring Division of the Office of the City Administrator. However, due to changes in project scope, eight of the 14 subcontractor firms included in Brown and Caldwell's commitment will not reach their anticipated participation rate. To meet its overall LBE participation commitment, Brown and Caldwell increased the participation of three other participating LBE firms and added five additional LBE firms to the project, as noted above in Exhibit 2. If the proposed amendment is approved, Brown and Caldwell projects an overall LBE participation rate for this contract equal to its commitment of 14.12%.

FISCAL IMPACT

As of July 2022, actual spending on the current $153 million contract is $148 million, leaving approximately $5 million unspent. As shown below in Exhibit 3, total proposed new spending is $60 million, which includes the remaining $5 million plus the proposed $55 million increase in the contract's not-to-exceed amount.

Sources and Uses

Approximately $1.3 billion in project costs are funded by federal and state sources, with the remaining $1.1 billion funded by wastewater revenue bonds, which are the source of funds for the proposed contract extension. Exhibit 3 below shows estimated uses of funds in the proposed contract amendment.

Exhibit 3: Estimated Uses of Funds During CS-235 Engineering Support During Construction

Use	Total Cost (in $ millions)
Engineering Support During Construction Staff Support	10.90
Submittal Review	15.60
Request for Information (RFIs)	4.30
Construction Change Order Assistance (Design Change)	4.20
Specialized Construction Observation	1.30
Building Information Management (BIM) updates, As-Build Record Documents, Closeout Documents	3.30
Distributed Control System (DCS) support	5.20
Operations and Maintenance Training & Documentation, Operational Strategy	2.40
Facility Start-Up and Commissioning Support	5.30
Other Technical Services and Direct Costs	7.50
Total	**60.00**

Source: SFPUC

Costs for the tasks noted in Exhibit 3 above are based on the estimated hours for each task and the billing rates for Brown and Caldwell and their subcontractors, which range from $77 to $289 per hour, as of May 2022. Under the existing agreement, billing rates escalate each year based on regional inflation.

Impact on Ratepayers

The impact of this contract amendment on wastewater rates paid by households is approximately $0.75 per month assuming previously authorized revenue bond financing of the $55 million amendment, according to SFPUC. These costs are part of the $2.4 billion digester replacement project, which is the largest component of SFPUC's Wastewater $6.13 billion 10-Year Capital Improvement Program, adopted in February of 2022, and funded by wastewater revenue bonds, wastewater revenues, and capacity fees. In June 2022, the Board of Supervisors approved the issuance of Wastewater debt and appropriated $375,532,448 in proceeds for the Biosolids Digester Project (Files 22-0500 & 22-0501).

The Wastewater Capital Improvement Program assumes no sewer rate increases in FY 2022-23. The estimated monthly increase noted above has been included in the projected rated increases of the 10-year Financial Plan adopted by the Commission in February 2022: six percent rate increases yearly from FY 2023-24 to FY 2029-30, and five percent rate increases in FY 2030-31 & FY 2031-32. These increases are subject to revision following a 2023 cost of service study, according to SFPUC. Rates cover operating, capital, and debt service costs for the Wastewater Enterprise.

POLICY CONSIDERATION

Performance Monitoring

The existing contract allows for evaluation of contractor performance and references performance evaluation requirements in SFPUC's Infrastructure Division Procedures Manual. This manual requires performance evaluations be completed on an annual basis and at the end of the agreement, using a Consultant Performance Evaluation Form, for agreements greater than $500,000. These requirements are intended to help SFPUC assess performance, provide feedback, and review its management of these contracts, according to the manual.

At the beginning of our office's review of the proposed contract extension, SFPUC had completed one performance monitoring report for this contract, in 2016, prior to the first contract amendment. (According to SFPUC, staff had also routinely assessed the consulting team's performance on an informal basis). In response to our questions, SFPUC subsequently completed and shared performance monitoring evaluations for Fiscal Years 2016-17 to 2021-22. SFPUC plans to complete a performance monitoring evaluation annually going forward.

RECOMMENDATIONS

1. Amend the proposed resolution to memorialize a request that future annual contract performance monitoring reports be included in the legislative file for this item.
2. Approve the resolution, as amended.

Item 12 File 22-0931	Department: City Attorney's Office (CAT), Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the Fifth Amendment to the lease between SFII 1390 Market St., LLC as landlord and the City Attorney's Office as tenant for approximately 75,137 square feet at 1390 Market Street, extending the term by 10 years through December 2032, with one five-year option to extend through December 2037, for initial annual rent of $4,959,042, with three percent annual increases, and continuing the use of a portion of the premises for childcare services.

Key Points

- The City Attorney's Office has leased office space at 1390 Market Street since the 1980s. The current lease was approved by the Board of Supervisors in 2000 and has been amended four times to extend the term, increase the premises, and increase the rent amount. The lease expires December 31, 2022, and the Real Estate Division (RED) has negotiated a lease amendment with the landlord to extend the term 10 years through December 2032.
- Under the proposed Fifth Amendment, the City Attorney's Office would relocate their existing space on the 10th floor to the 4th floor, expanding the premises to 75,137 square feet. The landlord would provide renovations to the new and existing 4th floor spaces and four months of rent abatement, together an approximately $2 million contribution. An appraisal conducted by the Dore Group and an appraisal review conducted by Colliers International have affirmed that the initial annual rental rate of $66 per square foot is fair market rent.
- At the recommendation of the Budget & Legislative Analyst, the Board of Supervisors requested the Real Estate Division complete an analysis of fiscal feasibility of relocating City tenants at 1390 Market Street to City owned space. As of this writing, the report has been drafted but is not yet final. The Director of Property provided our office with an overview of the draft analysis, which found that continuing the City's leases at 1390 Market Street was less expensive than purchasing a site in the Civic Center area.

Fiscal Impact

- Under the proposed Fifth Amendment, the City Attorney's Office would pay initial annual rent of $66 per square foot with three percent annual increases. Over the 10-year term of the lease extension, the City Attorney's Office would pay $55,196,845 in total rent. Costs would be funded by the General Fund.
- Beginning in Year 2 of the lease extension, the City Attorney's Office would pay a portion of the increase to the operating expenses of the commercial portion of the building over the new base year (2023).

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. A third-party appraisal is required for leases in which the rent exceeds $45 per square foot per year, and an appraisal review is required for leases in which the rent exceeds $60 per square foot.

BACKGROUND

The City Attorney's Office has leased office space at 1390 Market Street since the 1980s. In May 2000, the Board of Supervisors approved the City Attorney Office's current lease at 1390 Market Street, for approximately 62,814 square feet of office space, for a term of seven years, from January 2001 through December 2007, with one five-year option to extend through December 2012 (File 00-0851). In June 2006, the City Attorney's Office executed the First Amendment to the lease, which set the parameters for relocating to new space within the building, at the request of the landlord, and reduced the rent for the option term. In May 2007, the Board of Supervisors approved the Second Amendment to the lease, exercising the five-year option to extend the lease through December 2012, and increasing the leased space to 68,783 square feet (File 07-0506). In May 2012, the Board of Supervisors approved the Third Amendment to the lease, extending the term by five years through December 2017, granting the City two additional five-year terms to extend through December 2027, and expanding the leased space to 69,402 square feet (File 12-0280). In June 2017, the Board of Supervisors approved the Fourth Amendment to the lease, exercising the first five-year option to extend through December 2022. The leased premises include approximately 1,737 square feet of space used for infant and toddler care services.

The lease expires December 31, 2022. The Real Estate Division (RED) has negotiated a lease amendment to extend for an additional 10 years through December 2032, and to relocate office space from the 10th floor to the 4th floor, expanding the premises to approximately 75,137 square feet.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Fifth Amendment to the lease between SFII 1390 Market St., LLC as landlord and the City Attorney's Office as tenant for approximately 75,137 square feet of office space at 1390 Market Street, extending the term by 10 years through December 2032, with one five-year option to extend through December 2037, for initial annual rent of $4,959,042, with three percent annual increases, and continuing the use of a portion for childcare services. The proposed resolution would also allow the Director of Property to enter into immaterial amendments to the lease or the day care license.

Under the proposed Fifth Amendment, the City Attorney's Office would relocate leased space from the 10th floor to the 4th floor, expanding the leased premises from approximately 69,402 to 75,137 square feet. According to Andrico Penick, Director of Real Estate, the move is mutually beneficial in that it allows the City Attorney's Office to consolidate its office space from the 4th through 7th floors while allowing the landlord to market the more attractive 10th floor space to a new tenant. The landlord would build out the 4th floor space to the City Attorney's Office specifications and refurbish the existing 4th floor space with new paint and carpeting at the landlord's expense. According to Director Penick, the cost of the improvements and four months of rent abatement is valued at approximately $2 million. This contribution is provided to the City Attorney's Office in exchange for the stability of a 10-year lease term, which is five years longer than the five-year option included in the existing lease. Director Penick anticipates that the 4th floor improvements will be complete by mid-January 2023.[1]

The proposed Fifth Amendment would have an initial annual rent of $66 per square foot ($5.50 per square foot per month), with three percent annual increases thereafter. This is a reduction of $3.99 per square foot from the current rental rate of $69.99 per square foot. An appraisal conducted by the Dore Group and an appraisal review conducted by Colliers International have affirmed that the annual rental rate of $66 per square foot is fair market rent. Starting in the second year of the lease extension, the City Attorney's Office would resume paying a share of the increase of the building's commercial operating expenses over the new 2023 base year, which includes property taxes, insurance, maintenance, repairs, utilities, waste disposal, janitorial services, and security. With the expanded premises, the City Attorney's Office's share of the increase of the building's operating expenses would increase from 31.75 percent to 34.74 percent.

The key terms of the proposed Fifth Amendment are shown in Exhibit 1 below.

Exhibit 1: Key Terms of Proposed Lease Amendment

Premises	75,137 square feet
Initial Annual Rent	$4,959,042 ($66 per square foot)
Rent Adjustment	3% annual increase
Term	10 years (January 2023 – December 2032)
Options to Extend	One 5-year option (through December 2037)
Building Expenses	City pays proportional share (34.74%) starting year 2 of the lease, of the increase over the base year (expenses include property taxes, insurance, maintenance, repairs, utilities, waste disposal, janitorial services, and security)
Rent Abatement	4 months abated (value of $1,653,014)
Tenant Improvements	New carpeting and painting on 4th floor Existing Premises, relocation of servers and City's furniture, fixtures and equipment including files and personal property on 10th floor, buildout of the new 4th Floor Expansion Space to City specifications, paid by landlord (valued at approximately $350,000)
Option to Purchase	City has right of first refusal if the Landlord offers the Office Condominium up for sale. This right does not apply if the Landlord offers its entire Portfolio consisting of 4 condominiums up for sale.

Source: Proposed Lease

[1] If the 4th floor improvements are not complete by the lease commencement date, the City Attorney's Office would pay the proposed rate of $5.50 per square foot per month for the current leased premises of 69,402 square feet.

Under the proposed Fifth Amendment, the City Attorney's Office would continue to lease approximately 1,737 square feet on the ground floor for use as a childcare facility. The space was previously used by Marin Day Schools but closed due to lack of enrollment because of the COVID-19 pandemic and shelter-in-place order. According to Director Penick, the City Attorney's Office and RED plan to issue a Request for Proposals (RFP) by the end of 2022 to select a new operator for the childcare facility as well as the closed childcare facility in City Hall. The childcare facility was previously rented to Marin Day Schools for the nominal rate of $1 per year, and the proposed resolution requires that the City will continue to rent the space at $1 per year to a childcare provider.

Rent vs. Buy

The proposed Fifth Amendment would also provide the City with the first right to purchase if the landlord were to sell the office condominium.

At the recommendation of the Budget & Legislative Analyst, File 20-1394, a resolution approving a lease at 1390 Market Street for the Department of Children, Youth, & Their Families (DCYF), was amended to request the Real Estate Division provide an analysis on the fiscal feasibility of moving the City tenants (DCYF and CAT) at 1390 Market Street into existing City-owned office space or purchasing and/or developing new City-owned office space, to allow for termination of the City's leases in that building. As of this writing, the report has been drafted but is not yet final. The Director of Property provided our office with an overview of the draft analysis, which found that continuing the City's leases at 1390 Market Street was less expensive than purchasing a site in the Civic Center area, after accounting for market conditions, moving costs, tenant improvements, and debt service on a building purchase. A final version of the report is expected to be released prior to the September 21, 2022 Budget & Finance meeting.

FISCAL IMPACT

Under the proposed Fifth Amendment, the City Attorney's Office would pay initial annual rent of $4,959,042 ($66 per square foot), with four months of rent abated, and three percent annual increases. Over the initial 10-year term, the total rent paid would be $55,196,845 and are paid by the General Fund. Annual rents are shown in Exhibit 2 below.

Exhibit 2: Annual Rent under Proposed Lease Amendment

Year	Rent per Square Foot	Annual Rent
Year 1	$66.00	$3,306,028[2]
Year 2	67.98	5,107,813
Year 3	70.02	5,261,048
Year 4	72.12	5,418,879
Year 5	74.28	5,581,445
Year 6	76.51	5,748,889
Year 7	78.81	5,921,355
Year 8	81.17	6,098,996
Year 9	83.61	6,281,966
Year 10	86.12	6,470,425
Total		**$55,196,845**

If the five-year option to extend is exercised, the rent for the extension term after year 10 would be adjusted to 95 percent of the then-prevailing fair market rent.

As mentioned above, beginning in Year 2 of the lease extension, the City Attorney's Office would pay a portion of the increase to the operating expenses of the commercial portion of the building over the new base year (2023). As the 2023 operating expenses for the building are currently unknown, future increases cannot be projected at this time. In 2022, the City Attorney's Office pays $291,030 in annual operating expenses.

RECOMMENDATION

Approve the proposed resolution.

[2] Year 1 includes four months of rent abatement.