CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: November 15, 2018 Budget and Finance Committee Meeting

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Item 6 File 18-1049	Department: Department of Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively approve the second amendment to the grant agreement between the Department of Homelessness and Supportive Housing and the nonprofit Community Housing Partnership to provide operations and services at the Civic Center Hotel Navigation Center, extending the grant agreement term by three years and six months for a total term of July 1, 2015 through December 31, 2021, and increasing the grant amount by $12,135,386 from $9,556,451 to $21,691,837.

Key Points

- The Civic Center Hotel was originally part of the Human Services Agency's master lease program, which leased Single Room Occupancy (SRO) units and provided services to formerly homeless residents. The Human Services Agency entered into the grant agreement with Community Housing Partnership in 2015 to lease and manage the Civic Center Hotel, providing housing and services to formerly homeless adults in the County Adult Assistance Program (CAAP). In 2016 the hotel's vacant units were converted to a Navigation Center providing temporary emergency housing and services. Of the hotel's 150 units, 53 units are SRO units and 97 units are Navigation Center units. The existing SRO units will be converted to Navigation Center units when they are vacated.
- The Department of Homelessness and Supportive Housing assumed management of the grant agreement with Community Housing Partnership in 2016. The Board of Supervisors adopted a resolution in June 2018 to extend the operation of the Civic Center Navigation Center through December 31, 2021. The SRO building is eventually slated for redevelopment into affordable housing.
- The existing grant agreement expired on June 30, 2018, and the proposed second amendment to the grant agreement is retroactive to July 1, 2018. According to the Department, the amendment was delayed due to the Department's vacant positions on its contracts team, which was not fully staffed until May 2018; delays in negotiations with Community Housing Partnership; and the time for Board of Supervisor approval to extend the Navigation Center at the City Center Hotel beyond two years, which is the limit for navigation centers at one site

Fiscal Impact

- Grant agreement expenditures through FY 2017-18 were $8,925,413. The proposed second amendment provides for expenditures of $11,873,883, including a 10 percent contingency, from July 1, 2018 through December 31, 2021.

Recommendations

- Amend the resolution to reduce the grant agreement not-to-exceed amount by $892,542 from $21,691,837 to $20,799,295.
- 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

The Human Services Agency entered into a grant agreement in 2015 with the nonprofit Community Housing Partnership for the Community Housing (CHP) to compensate CHP for leasing and property management for the Single Room Occupancy (SRO) hotel located at 20 12th Street, known as the Civic Center Hotel, and providing support services to residents. The grant agreement was for a term of three years from July 1, 2015 through June 30, 2018 in a not to exceed amount of $7,324,593[1].

In 2016 the Mayor announced plans to use the hotel's vacant units as a Navigation Center. In May 2016 the Department of Homelessness and Supportive Housing amended the grant agreement to increase the amount by $2,231,858, for a total amount of $9,556,451, to add navigation center emergency services to the grant agreement and to account for an increase in operating expenses. The 93-bed Civic Center Navigation Center opened as a path to housing site in June 2016. The SRO building is eventually slated for redevelopment into affordable housing. The Navigation Center placements are used as residential, temporary, non-rent placements of homeless individuals who are referred by agencies and programs approved by the Department of Homelessness and Supportive Housing.

The building has 150 residential units. This includes approximately 57 SRO units for the existing tenants that pre-dated the Navigation Center agreement as well as sleeping accommodations for approximately 93 adults each night. As permanent residents move out, Community Housing Partnership converts residential units to temporary placement Navigation Center units. The Department of Homelessness and Supportive Housing has been working with CHP to maximize the number of temporary placements with the goal of maximizing the Navigation Center capacity. As of October 2018 the number of placements available for Navigation Center use is 93.

In 2016 the Board of Supervisors established the Department of Homelessness and Supportive Housing to serve as the City's lead agency with respect to the provision and coordination of homeless services. The Department of Homelessness and Supportive Housing assumed management of the agreement with Community Housing Partnership.

In March 2018 the Board of Supervisors adopted Ordinance No. 29-18, which declares there to be a shelter crisis in San Francisco and authorizes streamlined procedures for procuring services for the Department of Homelessness and Supportive Housing. Specifically, the Department of

[1] Information on the selection process used by the Human Services Agency to award the grant to CHP is not known as it was not conveyed to the Department of Homelessness and Supportive Housing when responsibility for managing the agreement was transferred.

Homelessness and Supportive Housing may enter into contracts, including grant agreements, without adhering to the Administrative Code provisions regarding competitive bidding and other requirements for construction work, procurement, and personal services relating to identified shelter crisis sites. As an existing City Navigation Center, the Civic Center Hotel, located at 20 12th Street, qualifies as a shelter crisis site. Subsequently, on June 5, 2018 the Board of Supervisors passed Resolution 18-0522 to extend the operation of the Civic Center Navigation Center through December 21, 2021.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve the second amendment to the grant agreement between the City and County of San Francisco and Community Housing Partnership to provide Navigation Center operations and services at the Civic Center Hotel Navigation Center, extending the grant agreement term by three years and six months for a total term of July 1, 2015 through December 31, 2021, and increasing the grant amount by $12,135,386 from $9,556,451 to $21,691,837. There are no changes to the scope of services.

The second amendment to the grant agreement is retroactive to July 1, 2018. According to Ms. Gigi Whitley, Deputy Director for Administration and Finance of the Department of Homelessness and Supportive Housing, the amendment was delayed due to the Department's vacant positions on its contracts team, which was not fully staffed until May 2018; delays in negotiations with Community Housing Partnership; and the time for Board of Supervisor approval to extend the Navigation Center at the City Center Hotel beyond two years, which is the limit for navigation centers at one site.

Changes to the grant agreement are outlined in Table 1 below.

Table 1: Original Grant Agreement and Grant Amendments

Agreement	Term	Not to Exceed Amount
Original	July 1, 2015 - June 30, 2018	$7,324,593
First Amendment	July 1, 2015 - June 30, 2018	$9,556,451
Proposed Amendment	July 1, 2015 – December 31, 2021	$21,691,837

The Civic Center Hotel was originally part of the Human Services Agency's master lease program, which leased Single Room Occupancy (SRO) units and provided services to formerly homeless residents. Responsibility for the master lease program was transferred from the Human Services Agency to the Department of Homelessness and Supportive Services when the Department was created in 2016. Under the master lease program, the Department of Homelessness and Supportive Housing subsidizes the rents of the SRO hotel residents from various funding sources, including federal grants. SRO hotel residents pay a portion of the rent based on their income. The Civic Center Hotel currently consists of 57 SRO units for longer term residents and 93 temporary emergency housing units serving as the Navigation Center. As noted above, as the SRO units become vacant, the units are converted to Navigation Center units.

Single Room Occupancy

The grant agreement covers CHP's costs for leasing and property management of approximately 57 SRO residential units, and providing support services to formerly homeless individuals who were clients of County Adult Assistance Program (CAAP) at the time of referral. The goal of these services is to empower tenants to become self-sufficient and retain their housing or move to other appropriate housing. Support services include staff outreach to tenants; tenant intake and assessment for needed services; case management; benefits advocacy and assistance; referrals to services within the community; mediation with property management; tenant conflict resolution; support groups, social events, and organized tenant activities; wellness checks; and monthly community meetings.

Temporary Emergency Housing

The temporary units are used to provide emergency accommodations and case management services for placements of Navigation Center program clients in coordination with the Human Services Agency and various other City departments. Emergency services include the provision of safe and clean emergency sleeping accommodations for up to 93 homeless adults each night, 24-hour access seven days a week, on site security, janitorial services, a pet friendly environment, access to food, showers, and laundry facilities. Support services include intake and assessment, development of a case plan, wellness checks, coordination and scheduling, and case conferencing.

FISCAL IMPACT

Total grant agreement expenditures are projected to be $20,799,295, as shown in Table 2 below, which are $892,542 less than grant agreement not-to-exceed amount of $21,691,837, as shown in Table 2 below.

Table 3: Actual Annual Expenditures and Proposed Annual Budget

Fiscal Year	Expenditures
2015-16	$ 1,850,555
2016-17	4,013,580
2017-18	3,061,278
Actual Expenditures to date	**8,925,413**
Proposed Budget FY 18-19	3,084,126
Proposed Budget FY 19-20	3,084,125
Proposed Budget FY 20-21	3,084,125
Proposed Budget FY 21 (6 months)	1,542,063
Total Proposed FY 2018-21	**10,794,439**
10% Contingency	1,079,444
Total Proposed Increase	11,873,883
Total Proposed Not to Exceed Amount	**20,799,295**

Funding for the grant agreement is the General Fund.

Because actual and projected grant agreement expenditures are less than the grant agreement not-to-exceed amount, the proposed resolution should be amended to reduce the grant agreement amount by $892,542 from $21,691,837, which is the amount in the proposed resolution, to $20,799,295.

Changes in Annual Expenditures

The proposed annual budget in FY 2018-19 of $3,084,126 per year is less than the actual expenditures of $4,013,580 in FY 2016-17. According to Ms. Whitley, Community Housing Partnership received one-time funding in FY 2016-17 to build out a Navigation Center at the Civic Center Hotel. This funding paid for one-time building renovations and did not become part of the provider's ongoing operating budget.

As part of the FY 2018-20 budget process, the Board of Supervisors approved a 2.5 percent Cost of Doing Business (CODB) increase for nonprofit contracts in FY 2018-19 and in FY 2019-20. The FY 2018-19 budget in the proposed second amendment includes the 2.5 percent Cost of Doing Business increase. Because the FY 2019-20 Cost of Doing Business increase for nonprofit contractors has not yet been accounted for in the Department of Homelessness and Supportive Housing budget, the FY 2019-20 budget in the proposed second amendment does not include the 2.5 percent increase, but is accounted for in the grant agreement's contingency.

RECOMMENDATIONS

1. Amend the resolution to reduce the grant agreement not-to-exceed amount by $892,542 from $21,691,837 to $20,799,295.

2. Approve the resolution as amended.

Item 7 File 18-1050	Department: Department of Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively approve the second amendment to the grant agreement between the Department of Homelessness and Supportive Housing and the nonprofit Episcopal Community Services to provide housing and support services at five master lease hotels, extending the grant agreement term by two years for a total term from July 1, 2014 through June 30, 2020, and increasing the grant amount by $16,707,139 from $26,229,391 to $42,936,530.

Key Points

- The Human Services Agency entered into the original grant agreement with Episcopal Community Services in 2014 to provide housing and support services at five master lease hotels, now referred to as Housing First Hotels. Under the grant agreement, Episcopal Community services provides housing and services to formerly homeless individuals who are clients of County Adult Assistance Programs (CAAP) at the time of referral. The Housing First Hotel program was transferred from the Human Services Agency to the Department of Homelessness and Supportive Housing when the new department was created in 2016.
- According to the Department, the grant agreement is retroactive to July 1, 2018 due to vacant positions in the Department's contracts team; delays waiting for Episcopal Community Services to sign; and delays while staff reconciled the information from the prior department records and financial information from FAMIS

Fiscal Impact

- Grant agreement expenditures through FY 2017-18 are $25,719,929 and budgeted expenditures under the proposed second amendment are $14,644,608 for a total agreement amount of $40,364,537. The increase of $14,644,608 in the grant agreement is to cover (i) Cost of Doing Business adjustments and (ii) the costs of the two year extension from July 1, 2018 through June 30, 2020.

Policy Consideration

- The Human Services Agency submitted a resolution to approve the first amendment to the grant agreement to the Board of Supervisors in 2015, which was never calendared. Therefore, the first amendment to the grant agreement with Episcopal Community Services needs to be approved retroactively.

Recommendations

- Amend the proposed resolution to reduce the grant agreement not-to-exceed amount by $2,571,993 from $42,936,530 to $40,364,537.
- Amend the proposed resolution to retroactively approve the first amendment to the grant agreement.
- 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

The Human Services Agency entered into a grant agreement with the nonprofit Episcopal Community Services in 2014 for Episcopal Community Services to provide housing and support services at the following five Master Lease Hotels, now referred to as Housing First Hotels (File 12-0602).[1]

Table 1: Housing First Hotels

Housing First Hotel	Address	# SRO units
Alder Hotel	175 6th Street	116
Crosby on O'Farrell Hotel	516 O'Farrell Street	124
Elm Hotel	364 Eddy Street	80
Hillsdale Hotel	51 6th Street	75
Mentone Hotel	387 Ellis Street	68
Total		**463**

The original grant agreement was for a term of four years from July 1, 2014 through June 30, 2018 in a not to exceed amount of $23,661,400.

The grant agreement covered the leasing and property management of residential units in private Single Room Occupancy (SRO) buildings to provide housing and support services to formerly homeless individuals who are clients of County Adult Assistance Programs (CAAP) at the time of referral. The dual goals of these services are to maintain a safe, supportive, and stable environment and to empower tenants to become self-sufficient and to remain stably housed.

Support services include staff outreach to tenants; tenant intake and assessment for needed services; case management; benefits advocacy and assistance; referrals to services within the community; mediation with property management; tenant conflict resolution; support groups, social events, and organized tenant activities; wellness checks; and monthly community meetings.

The Housing First Hotel program, including management of the grant agreement with Episcopal Family Services, was transferred from the Human Services Agency to the Department of

[1] The original resolution (File 12-0602) was approved by the Board of Supervisors during the FY 2012-13 budget process. In accordance with the resolution, Episcopal Community Services was to provide housing and services for 23 programs at multiple sites over five years, for total amounts of $76,016,410. Of the 23 programs totaling $76,016,410, the Human Services Agency entered into a four-year grant agreement from 2014 to 2018 with Episcopal Community Services for the five hotels for $23,661,400.

Homelessness and Supportive Housing when the new department was created in 2016. Under this program, the Department of Homelessness and Supportive Housing subsidizes the rents of the SRO hotel residents from the General Fund. SRO hotel residents pay a portion of the rent, based on their income.

The Department of Homelessness and Supportive Housing entered into the first amendment to the grant agreement with Episcopal Community Services in March 2017 to increase the grant agreement amount by $2,567,951 from $23,661,400 to $26,229,391 to provide for a Cost of Doing Business adjustment and account for rent increases at Alder Hotel and operating increases to the hotels' operating expenses.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve the second amendment to the grant agreement between the Department of Homelessness and Supportive Housing and Episcopal Community Services to provide lease, supportive housing property management, and support services, extending the grant agreement term by two years from July 1, 2014 through June 30, 2020, and increasing the grant amount by $16,707,139 from $26,229,391 to $42,936,530. The grant agreement amounts are outlined in Table 2, below.

According to Ms. Gigi Whitley, Deputy Director for Administration and Finance of the Department of Homelessness and Supportive Housing, the second amendment to the grant agreement is retroactive to July 1, 2018 due to vacant positions in the Department's contracts team, which was not fully staffed until May 2018; delays waiting for Episcopal Community Services to sign; and delays while staff reconciled the information from the prior department records and financial information from FAMIS.

Table 2: Original Grant Agreement and Grant Amendments

Agreement	Term	Not to Exceed Amount
Original	July 1, 2014 - June 30, 2018	$23,661,400
First Amendment	July 1, 2014 - June 30, 2018	$26,229,391
Proposed Amendment	July 1, 2014 - June 30, 2020	$42,936,530

There are no changes to the scope of services. The additional funds account for a Cost of Doing Business adjustment, additional contract years, and ongoing and one-time add-backs. The ongoing add-back is in the amount of $144,568 allocated to Episcopal Community Services to cover property management operating shortfalls from rising utilities and maintenance costs. The increase was approved by the Board of Supervisors as part of the FY 2017-18 budget process and was part of a package of funding enhancements proposed by the Mayor for permanent supportive housing grantees. The one-time add-back is in the amount of $245,500 allocated from the FY 2017-18 budget for capital improvements and repairs including carpet replacement.

FISCAL IMPACT

Total expenditures to date at all five Housing First Hotels are $25,719,929. Total amended additional expenditures of $14,644,608 increase the total agreement cost to $40,364,537. Actual annual expenditures are outlined in Table 3 along with the proposed annual budgets to be funded by the Department of Homelessness and Supportive Housing. Sources of funding in addition to grant monies included tenant rent and building capital funds. The funding source for the grant amendment is entirely the General Fund.

Table 3: Actual Annual Expenditures and Proposed Annual Budget

Fiscal Year	Expenditures
2014-15	$ 5,540,672
2015-16	6,134,205
2016-17	6,894,802
2017-18	7,150,250
Actual Expenditures to date	**25,719,929**
Proposed Budget FY 2018-19	6,721,564
Proposed Budget FY 2019-20	6,591,716
Total Proposed FY 2018-20	**13,313,280**
10% Contingency	1,331,328
Total Proposed Change	14,644,608
Total Proposed Not to Exceed Amount	**40,364,537**

The proposed resolution should be amended to reduce the grant agreement amount by $2,571,993 from $42,936,530, which is the amount in the proposed resolution, to $40,364,537, which is the amount actually needed for the grant agreement with Episcopal Community Services, including the increase under the proposed second amendment.

The proposed annual budgets in FY 2018-19 and FY 2019-20 are less than the actual annual expenditures for both FY 2016-17 and FY 2017-18 because Episcopal Community Services received one-time funding in both years for capital improvements through the Board of Supervisors' add-back process. This add-back funding was not continued by the Board in FY 2018-19 and FY 2019-20. The FY 2016-17 one-time funds paid for electrical and elevator repairs and new security cameras for each hotel. The FY 2017-18 one-time funds paid for elevator repairs, bathroom renovations, new carpeting, and pest control improvements.

As part of the FY 2018-20 budget process, the Board of Supervisors approved a 2.5 percent Cost of Doing Business (CODB) increase for nonprofit contracts in FY 2018-19 and in FY 2019-20. The FY 2018-19 budget in the proposed second amendment includes the 2.5 percent Cost of Doing Business increase. Because the FY 2019-20 Cost of Doing Business increase for nonprofit contractors has not yet been accounted for in the Department of Homelessness and Supportive Housing budget, the FY 2019-20 budget in the proposed second amendment does not include the 2.5 percent increase, but is accounted for in the grant agreement's contingency.

POLICY CONSIDERATION

The Human Services Agency submitted a resolution to the Board of Supervisors to approve the first amendment to the grant agreement with Episcopal Community Services in 2015, but the resolution was never calendared at the Board of Supervisors and was determined to be inactive and filed in January 2016 (File 15-0668).[2] Information on the status of the grant agreements that were to be approved by File 15-0668 was not conveyed to the Department of Homelessness and Supportive Housing when responsibility for managing the grant agreements was transferred from the Human Services Agency to the Department of Homelessness and Supportive Housing. The Department of Homelessness and Supportive Housing enacted the first amendment to the grant agreement with Episcopal Community Services in March 2017, which now requires retroactive approval by the Board of Supervisors.

According to Ms. Gigi Whitley, Deputy Director for Administration and Finance at the Department of Homelessness and Supportive Housing, the Department has put in place internal controls to better track contract spending thresholds.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the grant agreement not-to-exceed amount by $2,571,993 from $42,936,530 to $40,364,537.
2. Amend the proposed resolution to retroactively approve the first amendment to the grant agreement.
3. Approve the resolution as amended.

[2] The proposed first amendment to the grant agreement with Episcopal Community Services that was submitted to the Board of Supervisors as part of File 15-066 increased the agreement amount from $23,661,400 to $72,301,574, and extended the agreement to June 2024.

Item 8 **File 18-0989**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves Modification No. 1 to the contract between San Francisco International Airport (Airport) and ThyssenKrupp Elevator Corporation for maintenance service of escalators and moving walks, extending the term of the contract through June 30, 2019, and increasing the not-to-exceed amount by $2,500,000 from $17,000,000 to $19,500,000.

Key Points

- In July 2013, Airport staff conducted a Request for Proposals (RFP) for a vendor to perform service on approximately 133 escalators and 43 moving walks. ThyssenKrupp was selected as the highest scoring responsive and responsible proposer. In December 2013, the Board of Supervisors approved a contract with ThyssenKrupp for a term of five years and an amount not to exceed $17,000,000.
- The contract with ThyssenKrupp expires December 31, 2018. The Airport is currently developing an RFP for a new vendor to begin July 1, 2019. The Airport and ThyssenKrupp agreed to extend the contract until the new vendor is in place.
- The proposed resolution would approve Modification No. 1 to the Airport's contract with ThyssenKrupp, extending the contract through June 30, 2018 and increasing the not-to-exceed amount to $19,500,000.

Fiscal Impact

- Contract expenditures in the five years from January 2014 to December 2018 are approximately $16.5 million. Annual contract expenditures increased from $2.4 million in FY 2014-15 to $4.2 million in FY 2017-18. According to the Airport, annual costs have been increasing because escalators and moving walks in the International Terminal are reaching the end of their useful lives, resulting in more breakdowns.
- Expenditures in the six-months from July 2018 to December 2018 are estimated to be $2.6 million. The six-month contract extension estimates approximately $400,000 per month in contract expenditures, or $2.4 million over six months, allowing for a contingency of 4.4 percent (approximately $100,000). Funding is available in the Airport's FY 2018-19 operating budget.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

In July 2013, San Francisco International Airport (Airport) staff issued a Request for Proposals (RFP) for a contract to service approximately 133 escalators and 43 moving walks. Three proposals were received, and a panel scored the proposals as shown in Table 1 below.

Table 1: Proposers and Scores from RFP

Proposer	Score
ThyssenKrupp Elevator Corporation	292.96
Kone Inc.	264.00
Schindler Elevator Corporation	260.28

ThyssenKrupp was deemed the highest scoring responsive and responsible proposer. On December 17, 2013, the Board of Supervisors approved a contract with ThyssenKrupp for a term of five years and an amount not to exceed $17,000,000 (File 13-1055, Resolution 451-13).

The contract expires December 31, 2018. The Airport is currently developing an RFP for a new contract to begin July 1, 2019, which would align the contract with the fiscal year. The Airport has negotiated a contract amendment with ThyssenKrupp to continue escalator service through June 30, 2019. On October 2, 2018, the Airport Commission approved the contract amendment.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 1 to the Airport's escalator and electric walk maintenance service contract with ThyssenKrupp, extending the term of the contract through June 30, 2019, and increasing the not-to-exceed amount by $2,500,000 from $17,000,000 to $19,500,000. According to Mr. Timothy Hatfield, Airport Mechanical Maintenance Manager, the additional $2,500,000 will be sufficient to extend the contract through June 30, 2019.

Modification No. 1 would not make any other changes to the contract. The scope of services includes maintenance, repair, testing, and on-call emergency services for approximately 133 escalators and 43 electric walks in the Airport.

The original five-year contract between the Airport and ThyssenKrupp did not provide for an option to extend. As noted above, the Airport is requesting to extend the contract by six months to allow for an RFP process to select a new contractor as of July 1, 2019. According to Mr. Hatfield, the Airport did not issue an RFP at an earlier date in order to select a new contractor to begin at the termination of the existing contract with ThyssenKrupp on December

31, 2018 because Airport staff wanted to align the new contract with the fiscal year. Aligning the contract with the fiscal year makes contract administration more manageable for the Airport staff.

FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount of the contract by $2,500,000. According to Mr. Hatfield, the Airport has spent or encumbered $16,525,459 of the original $17,000,000 amount. The annual amounts spent are show in Table 2 below.

Table 2: Annual Amounts Spent by Airport

Year	Amount
FY 2013-14 (January-June 2014)	$1,176,839
FY 2014-15	2,407,422
FY 2015-16	2,877,678
FY 2016-17	3,256,871
FY 2017-18	4,241,181
FY 2018-19 (July – December 2018)	2,565,467
Total	**$16,525,459**

*Totals may not add due to rounding

According to Mr. Hatfield, annual costs have been increasing because escalators and moving walks in the International Terminal are reaching the end of their useful lives, resulting in more breakdowns. Many of the parts are no longer produced and have to be replaced with custom-made parts. The Airport has also had an overall increase in passenger traffic, causing additional wear and tear. Additional overtime costs have been needed to repair broken units as quickly as possible.

According to Mr. Hatfield, the $2,500,000 increase in the contract is expected to be sufficient to cover expenses through June 30, 2019. Anticipated invoices total $399,000 per month, comprised of $340,000 for labor and $59,000 for parts. A contingency of approximately 4.4 percent is included for unanticipated costs. According to Mr. Hatfield, funding is available in the FY 2018-19 operating budget.

RECOMMENDATION

Approve the proposed resolution.

Item 9 **File 18-0891**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the third modification of the property lease between the Airport and American Airlines for the recapture by the Airport of land at Plot 40, the location of the SuperBay Hangar, to accommodate the demand for the Airport's SuperBay Hangar Fire Suppression System Replacement Project. The modification would (1) reduce the portion of land at Plot 40 by 0.40 acres; (2) extend the term by four years and eight months, from November 1, 2018 through June 30, 2023; and (3) increase the annual rent by $1,454,475.21 from $4,621,912.79 to $6,076,388 (retroactive to November 1, 2018).

Key Points

- American Airlines and United Airlines lease the SuperBay Hanger on Plot 40 at the San Francisco International Airport (Airport) which is currently used by the airlines for aircraft maintenance, and aircraft and employee parking. In October 2013, the Board of Supervisors approved a lease between the Airport and American Airlines from November 1, 2013 through October 31, 2016 with two one-year options extending the lease through October 31, 2018.
- In 2016, the Airport began to implement the SuperBay Hangar Fire Suppression System Replacement Project. The $91 million project will replace the antiquated fire suppression system with a new hybrid high expansion foam and fire sprinkler system. In February 2018, the Board of Supervisors approved the second modification of the property lease for the recapture by the Airport of land at Plot 40 to accommodate the demand for the Airport's construction contractors' parking at the Airport.

Fiscal Impact

- The proposed third modification of the property lease between the Airport and American Airlines for the recapture of 0.40 acres and extension of the end date to June 30, 2023 would increase the annual rent by 1,454,475.21 from $4,621,912.79 to $6,076,388. The Airport based the rent amount on the appraisal commissioned by the Airport by David Tattersall and Company in April 2017.
- The third modification for the American Airlines lease is retroactive to November 1, 2018 because of a delay due to negotiations with American Airlines.
- The estimated total revenue through June 30, 2023 for the third modification is $29,980,693

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease with anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

City Administrative Code Section 2A.173 allows the Airport to enter into leases with airlines for use of Airport property without competitive bidding if the original lease term is 50 years or less.

BACKGROUND

American Airlines and United Airlines lease the SuperBay Hanger on Plot 40 at the San Francisco International Airport (Airport), which is currently used by the airlines for aircraft maintenance, and aircraft and employee parking. In October 2013, the Board of Supervisors approved a new lease between the Airport and American Airlines for a term of three years from November 1, 2013 through October 31, 2016 with two one-year options extending the lease through October 31, 2018 (File 13-0777).

In August 2016, the Airport began initial discussions with American Airlines on the lease extension. In February 2017, the City's Department of Real Estate contracted with David Tattersol & Co. to prepare an appraisal of fair market value. The appraisal process involved (1) an inspection of the subject site, improvements and neighborhood; (2) a determination of highest and best use; (3) research on trends of land uses in the area; and (4) research on comparable land sales, land and maintenance facility leases and industrial leases. The Airport sent the term sheet based on this appraisal to American Airlines in September 2017.

The Airport's SuperBay Hangar Fire Suppression System Replacement Project

In 2016, the Airport began to implement the SuperBay Hangar Fire Suppression System Replacement Project. The $91 million project will replace the antiquated fire suppression system with a new hybrid high expansion foam and fire sprinkler system. This project includes demolition of all the deluge piping, installation of new foam generators in the main bay spaces as well as wet sprinklers, and installation of new fire sprinklers in all core spaces. The project is expected to be completed in FY 2019-20.

In February 2018, the Board of Supervisors approved the second modification of the property lease between the Airport and American Airlines for the recapture by the Airport of land at Plot 40, the location of the SuperBay Hangar, to accommodate the demand for the Airport's construction contractors' parking at the Airport (File 18-0009). The second modification (1) reduced the portion of land at Plot 40 used for American Airline's employee parking by approximately 1.19 acres, from approximately 6.18 acres to approximately 4.99 acres; and (2) reduced the annual rent by $120,470.88 from $4,742,383.67 to $4,621,912.79 (retroactive to January 2017) with no change to the length of term.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third modification of the property lease between the Airport and American Airlines for the recapture by the Airport of land at Plot 40, the location of the SuperBay Hangar, to accommodate the demand for the Airport's SuperBay Hangar Fire Suppression System Replacement Project. Terms and conditions of the proposed third modification include the following:

1) Reduce the portion of land at Plot 40 used for American Airline's employee parking by approximately (i) 0.23 acres, from approximately 4.99 acres to approximately 4.76 acres; and (ii) 0.17 acres of American's Aircraft parking area, from 17.4 acres to 17.23 acres, for a total reduction of 0.40 acres;
2) Extend the term by four years and eight months, from November 1, 2018 through June 30, 2023; and
3) Increase the annual rent by $1,454,475.21 from $4,621,912.79 to $6,076,388 (retroactive to November 1, 2018).

The key provisions of the third modification to the lease are shown in Table 1 below.

Table 1: Key Provisions of Property Lease

Extended Lease Term	November 1, 2018 through June 30, 2023 (retroactive)
Change to Lease Premises	4.76 acres reduced from 4.99 acres for employee vehicle parking; 17.23 acres reduced from 17.4 acres for American's Aircraft parking
First Year Rent	$6,076,388
Annual Rent Increase	Based on CPI

Extension of Lease Term

The original lease between the Airport and American Airlines expired on October 31, 2018. Administrative Code Section 2A.173 allows the Airport to extend the lease under the proposed third modification for an additional four years and eight months without competitively soliciting for a new tenant for the SuperBay Hangar at Plot 40.

Changes to Lease Premises

As noted above, the second modification to the lease between the Airport and American Airlines reduced the reduced the portion of the lease premises used for American Airline's employee parking by approximately 1.19 acres, from approximately 6.18 acres to approximately 4.99 acres in order to accommodate the Fire Suppression System Replacement Project. The proposed third modification to the lease further reduces the lease premises by 0.4 acres, including (i) 0.23 acres in the American Airline's employee parking lot (a reduction from

4.99 acres to 4.76 acres); and (ii) 0.17 acres of American Airline's aircraft parking area from 17.4 acres to 17.23 acres.

FISCAL IMPACT

The proposed third modification of the property lease between the Airport and American Airlines for the recapture of 0.40 acres and extension of the end date to June 30, 2023 would increase the annual rent by 1,454,475.21 from $4,621,912.79 to $6,076,388 (retroactive to November 1, 2018).

The Airport based the rent amount on the appraisal commissioned by the Airport by David Tattersall and Company in April 2017. David Tattersall and Company determined that fair market rent of the property was $6,135,000 per year or $58,612 per year more than the $6,076,388 in the proposed lease. According to Ms. Diane Artz, Senior Property Manager at the Airport, the appraised rent value did not include the 0.40 acre reduction in property, which was not known at the time.

According to Ms. Artz, the third modification for the American Airlines lease is retroactive to November 1, 2018 because of a delay due to negotiations with American Airlines. American Airlines had not expected such an increase in rent before they received the term sheet in September 2017. Other proposals were considered, but the Airport determined that the recent appraisal was reflective of fair market value.

Table 2 below shows the estimated amount of revenue to the Airport as a result of the new annual rent over the new term of the American Airlines lease through June 2023.

Table 2. Estimated Total Revenue for third modification of American Airlines Lease*

Nov 1 2018 through Oct 31, 2019	$6,076,388
Nov 1 2019 through Oct 31, 2020	6,258,680
Nov 1 2020 through Oct 31, 2021	6,446,440
Nov 1 2021 through Oct 31, 2022	6,639,833
Nov 1 2022 through June 30, 2023 (8 months)	4,559,352
Total	**$29,980,693**

*Assumes a CPI of 3 percent

RECOMMENDATION

Approve the proposed resolution.

Item 10 **File 18-0646** *Continued from November 1, 2018*	**Department:** Department of Environment (DOE)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance amends the Environment Code to (1) require audits every three years of large refuse generators for compliance with refuse separation requirements; and (2) establish enforcement measures applicable to large refuse generators found noncompliant.

Key Points

- In June 2009, the Board of Supervisors added the "Mandatory Recycling and Composting Ordinance" to the Environment Code, requiring all persons in San Francisco to separate recyclables, compostables, and landfilled trash in recycling and composting programs.
- In 2002, the Board of Supervisors approved a resolution adopting a goal of zero waste and authorized the Commission on the Environment to adopt a timeline for achieving zero waste. The Commission directed the Department of Environment to develop policies and programs to achieve zero waste, including increasing producer and consumer responsibility in order to achieve the zero waste goal.
- The Department of Environment found that approximately 80 percent of recyclable or compostable material is currently being recovered from San Francisco properties.

Fiscal Impact

- The proposed ordinance could result in a fiscal impact to City departments if any of the City facilities that meet the definition of large refuse generator fail their compliance audit and are required to engage a zero waste facilitator for two years at the expense of the affected department(s). According to the Department of Environment, each large refuse generator that is required to engage a zero waste facilitator may need one to two full time staff, at a rate of approximately $20 per hour in direct salary plus an additional $20 for benefits and overhead, or approximately $40 per hour per staff person. The Department of Environment expects that five City-operated large refuse generators may fail their compliance audit, resulting in a total cost to the City of approximately $416,000 to $832,000 per year.
- City departments could potentially realize savings on refuse costs if the use of zero waste facilitators resulted in reduced waste disposal. According to information provided by the Department of the Environment, the San Francisco Municipal Transportation Agency increased waste recovery at three maintenance yards from 29 percent to 42 percent after contracting with a zero waste facilitator, and reduced their annual disposal costs by $116,418.

Recommendation

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

MANDATE STATEMENT

Charter Section 2.105 requires all legislative acts to be by ordinance subject to an affirmative vote by the Board of Supervisors.

BACKGROUND

In June 2009, the Board of Supervisors approved an amendment to the Environment Code that added Chapter 19, Sections 1901 through 1912, entitled "Mandatory Recycling and Composting Ordinance" that requires all persons in San Francisco to separate recyclables, compostables, and landfilled trash in recycling and composting programs (File No. 08-1404; Ord. No. 100-09).

In 2002, the Board of Supervisors approved a resolution adopting a goal of zero waste and authorized the Commission on the Environment to adopt a timeline for achieving zero waste. The Commission adopted a timeline in 2003 and directed the Department of Environment to develop policies and programs to achieve zero waste, including increasing producer and consumer responsibility in order to achieve the zero waste goal (Resolution No. 002-03). According to Mr. Charles Sheehan, Chief Policy and Public Affairs Officer for the Department of Environment, the Department of Environment has found that approximately 80 percent of recyclable or compostable material is currently being recovered from San Francisco properties.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance amends the Environment Code to (1) require audits every three years of large refuse generators for compliance with refuse separation requirements; and (2) establish enforcement measures applicable to large refuse generators found noncompliant.

A compliance audit entails a thorough visual inspection of the contents of refuse collection containers that results in a finding of the approximate percentage of contaminants or materials not appropriate for that type of container (i.e., recyclables, compostables, or trash).

Large refuse generators are defined as commercial property refuse account holders or City-owned and operated facilities, that have roll-off compactor service or generate 40 cubic yards or more of uncompacted refuse per week. There are 15 City-owned and operated facilities that meet the definition of "large refuse generator," listed below.

City-Operated Large Refuse Generators

Primary Department	Departments Occupying Building	Name of Facility	Address
Public Health		Laguna Honda Hospital	375 Laguna Honda Blvd
Public Health		SF General Hospital	1001 Potrero Ave
Port		Fisherman's Wharf	Foot of Leavenworth
Port		South Beach Harbor	Pier 40 - 44
Real Estate	Sheriff, Police, District Attorney, Superior Court, Adult Probation	Hall of Justice	850 Bryant
Real Estate	Controller, Public Works, Board of Supervisors, Mayor, Assessor Recorder, Treasurer/Tax Collector, etc.	City Hall	1 Dr. Carlton B. Goodlett
Real Estate	SFMTA, Human Resources, 311, Technology, MOHCD, MOEWD	1 South Van Ness	1 South Van Ness Ave
Library		Main Library	100 Larkin St
SFMTA		Woods Maintenance Yard	1095 Indiana
SFMTA		Green Maintenance Yard	2200 San Jose
SFMTA		Flynn Maintenance Yard	1940 Harrison St
SFMTA		Potrero Maintenance Yard	2500 Mariposa
SFMTA		MME Maintenance Yard	601 25th Street
SFPUC		Northshore Pumping Station	140 Bay
SFPUC		SFPUC Headquarters	525 Golden Gate Ave

Source: Department of Environment

If any of the City-owned and operated facilities fail their compliance audit, City departments would be required to engage for two years a "zero waste facilitator", which is a person who manages refuse materials within a given property, including material sorting and transfer.

FISCAL IMPACT

The proposed ordinance could result in a fiscal impact to City departments if any of the City facilities that meet the definition of large refuse generator fail their compliance audit and are required to engage a zero waste facilitator for two years at the expense of the affected department(s). However, City departments could potentially realize savings on refuse costs if the use of zero waste facilitators resulted in reduced waste disposal.

Potential Cost of Zero Waste Facilitators

According to the Department of Environment, each large refuse generator that is required to engage a zero waste facilitator may need one to two full time staff, at a rate of approximately $20 per hour in direct salary plus 100 percent for benefits and overhead, or approximately $40 per hour per staff person. The Department of Environment expects that five City-operated large refuse generators may fail their compliance audit, resulting in a total cost to the City of approximately $416,000 to $832,000 per year, as shown in the table below.

Estimated Annual Cost to the City of Zero Waste Facilitators

Cost per Zero Waste Facilitator Staff		
Hourly wage	$20	
Benefits and overhead	20	
Hourly total	40	
Annual Hours	x 2080	
Annual total (2,080 hours)	$83,200	
Estimated Cost per Facility		**Cost for Five Facilities**
1 staff	$83,200	$416,000
2 staff	$166,400	$832,000

At this time, it is not known which facilities and which departments would need to engage zero waste facilitators. Affected departments would need to include funding for zero waste facilitators in their future annual budgets, subject to Board of Supervisors appropriation approval.

Potential Disposal Cost Savings from Zero Waste Facilitators

According to information provided by the Department of the Environment, in 2016 the San Francisco Municipal Transportation Agency (SFMTA) hired Green Streets, a zero waste facilitator, for three of their maintenance yards. Before hiring the zero waste facilitator, the overall waste recovery rate at the three yards was 29 percent. In 2017, following engagement of the zero waste facilitator, the overall recovery rate increased to 42 percent and SFMTA reduced their annual disposal costs at the three yards by $116,418.

RECOMMENDATION

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