CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: March 9, 2016 Budget and Finance Sub-Committee Meeting

TABLE OF CONTENTS

Item	File		Page
1	16-0159	Accept and Expend Grant – Alameda County Waste Management Authority ("StopWaste") – High-Efficiency Toilet and Urinal Incentive Programs - $535,000	1
4	16-0091	Industrial Lease Agreement – Tanforan Industrial Park, LLC – Bus Operator Training Courses - $2,480,304 Initial Annual Base Rent	4
5	16-0043	No Competitive Solicitation Process – Selection of Preferred Contractor – Regents of the University of California – Modern Electronic Health Record System	12

Item 1 **File 16-0159**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the San Francisco Public Utilities Commission (SFPUC) to accept State grant funds of up to $535,000 from the Alameda County Waste Management Authority (StopWaste) agency for the SFPUC to provide incentives to its retail water customers for replacing old, water wasting toilets and urinals with water-saving models. The agreement will expire on May 1, 2019, or when all parties' obligations under the State grant agreement are fully satisfied, whichever comes first.

Key Points

- In 2008, the SFPUC approved a water conservation program to implement water savings of up to 4 million gallons per day (mgd). A key component of this program is to replace higher-volume toilets and urinals with lower-volume models by providing incentives to San Francisco retail customers. The SFPUC's fixture incentive programs include rebates off the purchase cost of water-efficient fixtures that customers buy and install themselves, and direct purchase and installation of fixtures by the SFPUC at no cost to the customer.
- StopWaste has executed a Memorandum of Understanding with the SFPUC to disburse $535,000 in State grant funds to the SFPUC for the SFPUC to provide incentives to customers who replace old toilets and urinals with water-efficient ones.

Fiscal Impact

- The proposed grant requires that the SFPUC contribute matching funds of $384,195. According to Mr. Carlos Jacobo, Budget Director for the SFPUC, the SFPUC's FY 2015-16 budget includes $2,500,000, as previously appropriated by the Board of Supervisors to pay for high-efficiency toilet rebates and installation, which the SFPUC will use as the source of the $384,195 match.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

BACKGROUND

In 2008, the San Francisco Public Utilities Commission (SFPUC) approved a water conservation program to implement water savings of 4 million gallons per day (mgd). A key component of this program is to replace higher-volume toilets and urinals with lower-volume models by providing incentives to San Francisco retail customers.

On behalf of numerous local public agencies, including the SFPUC, the Association of Bay Area Governments (ABAG) applied for and received a Proposition 84 Integrated Regional Water Management Grant from the State of California Department of Water Resources to help fund the implementation of various regional water conservation projects. The grant to ABAG was for $32,178,423 in State funding, of which $5,993,971 is for regional water conservation projects.

ABAG has agreed with the Alameda County Waste Management Authority (StopWaste) to disburse funding from the State grant to Alameda County's StopWaste agency to administer and monitor performance of eligible water conservation projects. In turn, StopWaste has executed a Memorandum of Understanding with the SFPUC to disburse $535,000 in State grant funds to SFPUC for SFPUC to provide incentives to customers who install high-efficiency toilet and urinals.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the SFPUC to accept State grant funds of up to $535,000 from Alameda County's StopWaste agency for the SFPUC to provide incentives to its retail water customers who install high-efficiency toilets and urinals. The agreement will expire on May 1, 2019, or when all parties' obligations under the State grant agreement are fully satisfied, whichever comes first.

Grant funds will be disbursed by StopWaste to the SFPUC through reimbursements for rebates that the SFPUC provides to its retail water customers and contractors who replace water-wasting toilets and urinals with water-efficient models. The SFPUC must incentivize the replacement of at least 1,700 toilets prior to the end of the program in 2019 to receive the full $535,000.

Under the SFPUC's water conservation program, the SFPUC pays rebates ranging from $125 to $500 per toilet to retail water customers, or approximately $600 for toilets that are installed by SFPUC contractors, depending on the type of toilet that is being replaced.

FISCAL IMPACT

The proposed grant requires that the SFPUC contribute matching funds of $384,195. According to Mr. Carlos Jacobo, Budget Director for the SFPUC, the SFPUC's FY 2015-16 budget includes

$2,500,000, as previously appropriated by the Board of Supervisors to pay for high-efficiency toilet rebates, which the SFPUC will use as the source for the $384,195 in required matching funds. Mr. Jacobo states that the $535,000 grant from StopWaste will offset the SFPUC's costs of implementing the high-efficiency toilet program. Table 1 below shows the FY 2015-16 $2,500,000 budget for high-efficiency toilet rebates and installations.

Table 1: FY 2015-16 Budget for SFPUC High-Efficiency Toilet Rebates

Rebate Type	Amount
Retail Water Customers	$1,000,000
SFPUC Contractors	1,500,000
Total	**$2,500,000**

*SFPUC reports that the funds were awarded in FY 2015-16, they will likely be spent in FY 2016-17 to allow time to procure vendors to install the toilets.

According to Mr. Jacobo, the SFPUC anticipates requesting additional funding from the Board of Supervisors to continue the high-efficiency toilet program in FY 2016-17.

RECOMMENDATION

Approve the proposed resolution.

Item 4 File: 16-0091 *Continued from February 24, 2016*	Department: San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objectives

- Resolution authorizing a nine and one-half year lease between the SFMTA and Tanforan Industrial Park, LLC, at 30 Tanforan Avenue in South San Francisco for a bus operator training facility, at an initial annual rent of $2,480,304 with annual 2% increases, and include an option to extend the lease, purchase option and right of first refusal.

Key Points

- To train SFMTA's motor coach, bus and trolley operators, SFMTA currently licenses with (a) the Cow Palace to use its large parking lot, (b) the City of Alameda for its former naval airstrip lot and (c) through the City's Real Estate Department to use the Alemany Farmer's Market, depending on availability. Currently, the SFMTA pays $375,000 annually for licenses and related costs to conduct off-street bus operator driving course trainings and skills testing.

Fiscal Impact

- The owner, at an estimated cost of $12 million, will demolish structures and provide a flat, paved concrete pad, access to standard utilities, associated landscaping and security features.
- The initial annual rent and related costs of $2,529,910 reflects a 575% increase over SFMTA's total $375,000 annual rental training facility and related costs. SFMTA will pay total rent of $25,429,754 over the initial nine year, five month term. SFMTA projects operating expenses of $508,590, such that SFMTA will expend $25,938,344 to rent and operate this new operator training facility over the nine year, five month term.
- SFMTA operating funds would be used to pay for the lease and related operating costs.
- An appraisal on August 28, 2014 found that the value of the land, if vacant and unimproved was $17,489,340. With the leasehold improvements, the appraised value was $28,822,432. If SFMTA leases and then exercises its option to purchase at the earliest date, the SFMTA would pay an estimated total minimum lease and purchase price of $44,468,489.

Policy Consideration

- The SFMTA would spend approximately $25.4 million in rent over a nine year, five month term. If the City of South San Francisco does not extend the existing Development Agreement with the owner, SFMTA will be in the same situation as it is currently, with even fewer lease or purchase options. If SFMTA exercises its option to purchase this site, SFMTA would expend at least $44.5 million with no guarantee that the site could be used as a long term bus operator training facility.

Recommendations

- Amend the proposed resolution to nine years, five months, as stated in the lease, not nine years, six months, as stated in the resolution.
- Approval of the proposed resolution, as amended, is a policy decision for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract or agreement entered into by a department for a period of ten or more years, or requiring anticipated expenditures by the City of $10,000,000 or more, is subject to Board of Supervisors approval.

Administrative Code Section 23.27 states that it is City policy that all leases of real property on behalf of the City as tenant be approved by resolution of the Board of Supervisors.

BACKGROUND

Currently, the San Francisco Municipal Transportation Agency (SFMTA) has approximately 2,500 Muni transit operators.[1] To train SFMTA's motor coach, bus and trolley operators, SFMTA currently has short-term licenses with (a) the Cow Palace to use its large parking lot, (b) the City of Alameda for its former naval airstrip lot and (c) through the City's Real Estate Department to use the Alemany Farmer's Market[2]. The dates and schedules for each of these sites vary, depending on availability. Currently, the SFMTA pays $155,000 annually for these licenses to conduct off-street bus operator driving course trainings and skills testing. In addition, SFMTA estimates incurring approximately $220,000 in 2015 to transport SFMTA bus vehicles to various training locations provide on-site restrooms and security, pay overtime for instructors to conduct Saturday trainings and additional staff time to secure monthly training facilities, or total training facility related expenses of approximately $375,000 annually.

Each new SFMTA bus operator requires 44 days of training for skills and Department of Motor Vehicle (DMV) testing, which includes both classroom and on and off-the-road training. Existing SFMTA operators also require ongoing training to ensure continued safe operations of vehicles, including operator refresher training, requalification for operators returning from long term leaves of absences, line trainer training, accident prevention training, refresher training, collision and incident training and maintenance employee commercial driver license training.

Beginning in 2001, SFMTA began searching for an alternative permanent location to provide bus and trolley operator training, evaluating more than 25 potential sites, which would provide 6-8 acres to accommodate four outdoor, off-street training courses, onsite bus staging area for up to 16 buses and space for modular training classrooms.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the SFMTA to execute an Industrial Lease Agreement with Tanforan Industrial Park, LLC for approximately 7.3 acres at 30 Tanforan Avenue in South San

[1] Transit operators include motor coach, bus, trolley and light rail operators, with cross training an on-going endeavor for SFMTA. Training for light rail vehicle operators does not require a significant amount of space and is conducted within existing SFMTA rail yards, using rail simulators as well as light rail vehicles.

[2] In addition to these sites, in prior years, SFMTA has also used property at the Port of San Francisco, Candlestick, Port of Oakland, San Francisco International Airport, SFMTA facilities and other private properties to conduct bus operator trainings.

Francisco to be used for SFMTA's bus operator training facility for a nine and one-half year term estimated to extend from October 1, 2016 through February 28, 2026, at an initial annual base rent of $2,480,304 with annual 2% rent increases. The subject Industrial Lease Agreement also includes an extension option, a purchase option and a right of first refusal option.

The 30 Tanforan Avenue property is located in South San Francisco, 10.9 miles from 1 South Van Ness, SFMTA headquarters and 5.6 miles from the San Francisco County line, with the San Bruno BART Station and San Bruno Caltrain Station within walking distance from the property.

On January 19, 2016, the SFMTA Board of Directors approved a resolution authorizing the Director of Transportation of the SFMTA to execute the subject agreement and to forward this resolution to the Board of Supervisors for approval.

Current Site and Development Agreement

Currently the 30 Tanforan Avenue site contains seven vacant single-story metal and concrete buildings totaling 147,258 square feet, which were previously used for various industrial uses, including manufacturing, expediting, storage and offices. Under the proposed agreement, the owner, at his sole expense, will demolish the entire 7.3 acre site and provide a flat, paved structural concrete pad, access to standard utilities, associated landscaping and security features, estimated to cost $12 million. In order to complete these leasehold improvements, the owner and the City of South San Francisco negotiated a Development Agreement, which allows the SFMTA bus operator training uses on the property through February 28, 2026. If the Development Agreement is extended, SFMTA would have the option to extend the term of the lease on the same terms and conditions, based on the length of the Development Agreement extension. However, the proposed SFMTA bus operator training use is not consistent with the long-term City of South San Francisco's vision to provide offices at this site, which is within walking distance of both the San Bruno BART Station and the San Bruno Caltrain Station.

Major Lease Provisions

Table 1 below summarizes the major provisions of the proposed agreement.

Table 1: Summary of Proposed Lease Provisions

Premises	317,988 square feet or approximately 7.3 acres at 30 Tanforan Avenue, South San Francisco
Lessor/Owner	Tanforan Industrial Park, LLC
Purpose	SFMTA bus operator training courses, storage of buses and equipment and all other lawful related uses
Term	Nine years, five months from approximately October 1, 2016 through February 28, 2026
Options to Extend	Depends on whether the Development Agreement between the owner and the City of South San Francisco is extended, at sole discretion of SFMTA
Base Rent	Initially $206,692 per month ($0.65 per square foot), or $2,480,304 annually
Rent Adjustment	Two percent per year
Leasehold Improvements	Owner to demolish structures, provide paved concrete pad, utilities, landscaping and security, estimated to cost $12,000,000 at owner's expense
Utilities, Janitorial and Security	Lessor to provide utility connections. SFMTA responsible for cost of all utilities and services.
Purchase Option	SFMTA's right to purchase in years seven through nine based on appraisals
Right of First Refusal	SFMTA's right of first refusal to purchase property throughout term of lease

As noted above, the proposed lease is for a term of nine years and five months, however, the subject resolution states the term is nine years and six months. Therefore, the proposed resolution should be amended to make the term consistent with the subject lease.

Right to Purchase Property

The SFMTA also negotiated (a) a right of first refusal to purchase the property throughout the term of the lease and (b) the right to purchase the subject property in years seven through nine, or in 2023 through 2025, based on a joint appraisal or separate appraisals by the landlord and SFMTA. These appraisals will determine the fair market value based on the highest and best use for the property. If the fair market values of the appraisals differ by more than 10%, a third appraiser could be brought in to conduct a hearing to determine the fair market value, which would be the purchase price. Actual purchase of this site would be subject to Board of Supervisors approval.

Related Agreements

The proposed lease agreement includes Subordination, No disturbance and Attornment Agreement, between SFMTA, the owner and a potential lender, in which SFMTA agrees to allow its interest in the property to be subordinate to a future lender. This would provide the landlord the flexibility to seek financing secured by the property after the lease is executed. In addition, in the event of foreclosure on the property, this Agreement gives the SFMTA the right to continue to occupy the leased premises, obligating the SFMTA to recognize the new owner of the property as landlord, under the same terms and conditions as the proposed lease.

FISCAL IMPACT

Projected Lease and Operating Costs

Based on the initial annual rent of $2,480,304 per year plus two percent annual increases, the proposed nine year and five month lease would cost the SFMTA an estimated total of $25,429,754 for rent, as shown in Table 2 below.

Table 2: Projected Lease Rental and Operating Expenditures

Year	Rent	Operating & Maintenance	Total Annual Costs
1	$2,480,304	$49,606	$2,529,910
2	2,529,910	50,598	2,580,508
3	2,580,508	51,610	2,632,118
4	2,632,118	52,643	2,684,761
5	2,684,761	53,695	2,738,456
6	2,738,456	55,000	2,793,456
7	2,793,456	55,634	2,849,090
8	2,849,090	56,981	2,906,071
9	2,906,071	58,121	2,964,192
5 months	1,235,080	24,702	1,259,782
Total	**$25,429,754**	**$508,590**	**$25,938,344**

The SFMTA will provide two trailers to serve as a break room, restrooms and modular classroom, at an estimated rental cost to the SFMTA of $1,500 per month or $18,000 annually to accommodate up to 55 drivers and support staff for training purposes. In addition to the $25,429,754 cost to rent the property, the SFMTA anticipates operating and maintenance costs of $508,590 over the nine year and five month lease, which includes the cost to rent the trailers, utility, janitorial and related costs, or approximately two percent of the base rent annually. As shown in Table 2 above, over the nine year, five month lease term, the SFMTA will expend an estimated $25,938,344 to rent and operate and maintain this new bus operator training facility.

As noted above, SFMTA currently spends approximately $375,000 annually for short term licenses and related expenses for off-street bus operator training facilities. As shown in Table 2 above, during the first year of the proposed lease, the SFMTA will pay $2,529,910 in rent and operating costs, which is 575% more than the SFMTA currently spends for bus operator training facilities and related costs.

SFMTA operating funds would be used to pay for the lease and related operating and maintenance costs in the SFMTA's FY 2015-16 budget and in subsequent fiscal years, subject to Board of Supervisors appropriation approval.

Appraised Value of Property

An appraisal of 30 Tanforan Avenue in South San Francisco, conducted by David Tattersall, MAI, retained by SFMTA on August 28, 2014 found that the value of the land, if vacant and unimproved was $17,489,340, or $55.00 per square foot. With the leasehold improvements to be completed by the owner, the estimated overall appraised value of the land and improvements was $28,822,432. As shown in Table 2 above, if the SFMTA rents the property for the proposed nine year, five month lease, the SFMTA would pay the owner total rent costs of $25,429,754 over that term, which is only $3,392,678 less than the appraised value including the improvements. However, SFMTA advises that the owner is not willing to currently sell the property.

If the SFMTA exercises the option to purchase at the earliest date, or after year six (allowable from year seven through nine), the SFMTA would potentially pay an estimated total rent of $15,646,057 through year 6 to lease and then an additional estimated price of $28,822,432 to purchase based on the current appraisal, or a total of $44,468,489. However, the purchase price is likely to be significantly higher than $28,822,432, as it would be based on an appraisal of the highest and best use for the property and would be completed approximately six years from now.

POLICY CONSIDERATION

Follow Up SFMTA Response

The proposed resolution was continued at the February 24, 2016 Budget and Finance Committee meeting, pending SFMTA providing responses to questions posed by the Committee. On March 1, 2016, SFMTA responded that in addition to the $155,000 annual license fees that SFMTA currently pays to conduct off-street bus operator training, the SFMTA incurs an additional approximately $220,000 annually, or total training costs of approximately $375,000 annually. These other SFMTA annual costs were required in 2015 to transport SFMTA bus vehicles to various training locations, provide on-site restrooms and security, pay overtime for instructors to conduct Saturday trainings and additional staff time to secure monthly training facilities. During the first year of the proposed new lease SFMTA would pay $2,529,910 for rent and related operating expenses, which is $2,154,910 or 575% more than the $375,000 total incurred by SFMTA in 2015 for training facilities and related expenses.

SFMTA provides regular ongoing training for all Muni operators and has or plans to provide a total of 55 new operator training classes in 2011-2016, as shown in Table 3 below.

Table 3: SFMTA New Operator Training Classes

Calendar Year	Number of Classes
2011	10
2012	6
2013	7
2014	10
2015	13
2016 (planned)	9
Total	55

Based on the 13 new operator training classes provided in 2015, which is slightly more than one per month, the total $2,529,910 rental and related costs in the first year results in average costs of approximately $195,000 per class.

SFMTA advises that one new operator training class was canceled in the Fall of 2015 and that all of the remaining 13 classes in 2015 had to be rescheduled or adjusted to fit the training facilities that were available. When operator training classes must be pushed to Saturdays, the SFMTA estimates that this costs SFMTA approximately $26,000 in overtime for operator trainees and trainers. SFMTA reports that this occurred three times in 2015 and is anticipated to occur at least once in 2016.

SFMTA also reports that two classes in 2014 were smaller than needed because of the training facility's constraints. In addition, SFMTA advises that training classes in 2013 and 2012 were insufficient to keep up with operator attrition, due to training resource constraints, resulting in operator shortages across Muni. SFMTA did not provide specific costs that were incurred due to lack of existing training facilities. SFMTA's memo notes that SFMTA training staff shortages, not lack of facilities, resulted in additional operator overtime costs of $920,000 in 2015, $6.9 million in 2014 and $4.5 million in both 2013 and 2012.

However, SFMTA notes that if SFMTA were to miss just one training class with 30 bus operators, and based on the existing attrition rate of approximately 15 operators per month, SFMTA would have to either miss scheduled Muni service or increase operator overtime. According to SFMTA, if one training class of 30 bus operators cannot be rescheduled, SFMTA estimates it would result in more than $400,000 of monthly overtime or approximately $5,000,000 of additional annual overtime costs to SFMTA.

SFMTA is also concerned that a number of the training facilities that SFMTA has used in the past, such as Pier 96, Candlestick Park and the naval base in Alameda, will no longer be available in the future due to redevelopment.

Policy Decision Rationale

Mr. Jason Gallegos, Real Estate Development Manager at SFMTA advises that based on SFMTA's exhaustive search for properties in San Francisco and the northern Peninsula, the 30 Tanforan Avenue site in South San Francisco is the only industrially-zoned site that is available and large enough to accommodate a SFMTA bus and trolley operator training facility. Mr. Gallegos further advises that if the subject Tanforan property is not leased, SFMTA would have to continue to provide operator training at various sites on a sporadic basis when useable land is available as is the current practice. And as noted above, if SFMTA misses one training class of 30 new bus operators, which cannot be rescheduled, SFMTA could incur additional overtime costs of over $400,000 monthly.

However, if the Board of Supervisors approves the proposed lease, the SFMTA will spend $2,529,910 for rent and related operating expenses in the first year of the new lease, which is 575% more than the $375,000 total incurred by SFMTA in 2015 for training facilities and related expenses. Overall, SFMTA will expend approximately $25.4 million in rent over a nine year, five month term, from SFMTA operating funds. At the end of that period, if the City of South San Francisco does not extend the existing Development Agreement with the owner of the property, to allow a bus operator training facility on this site, the SFMTA will find itself in the same situation as it is currently, with the likelihood that there would be even fewer lease or purchase options at that time. Similarly, if the SFMTA exercises its option to purchase this site from years seven through nine, the SFMTA would expend a minimum of $44.5 million, including the rental cost and cost to purchase the property, with no guarantee that the site could be used as a long term bus operator training facility because the City of South San Francisco may require a different use for the property.

Therefore, approval of the proposed lease continues to be a policy decision for the Board of Supervisors.

RECOMMENDATIONS

1. Amend the proposed resolution to nine years, five months, as stated in the lease, instead of nine years, six months as stated in the resolution.
2. Approval of the proposed resolution, as amended, is a policy decision for the Board of Supervisors.

Item 5 **File 16-0043**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

Ordinance waiving the competitive solicitation process requirement in Section 21.1 of the Administrative Code, for the DPH's future award of a sole source contract for a new electronic health records system for the San Francisco Health Network; ratifying the selection of the Regents of the University of California, by and through the University of California San Francisco (UCSF), as the preferred contractor; and authorizing DPH to enter into negotiations with UCSF to procure a new electronic health records system. If DPH is not able to successfully conclude negotiations with UCSF within six months, authorizing DPH to enter into direct negotiations with Cerner Corporation (Cerner) and/or Epic Systems Corporation (Epic).

Key Points

- The existing SFHN electronic health records system with Cerner was implemented in 1996 and is now outdated. Cerner will cease ongoing support for the existing system by 2019.
- UCSF is a major collaborator with SFHN, sharing many physicians, students, and patients. UCSF could amend their contract with Epic to allow SFHN to access Epic resources through Epic's Community Connect program, thereby enabling DPH's SFHN to obtain these services at a lower cost with an accelerated implementation timeline.

Fiscal Impact

- A contract with UCSF would cost $341,918,891 over nine years for one-time capital costs, ongoing operating costs, and contingencies. Including savings of $160,617,182 from discontinuing existing systems and reduced costs for physician services results in total net new costs of $181,301,709 for this potential contract.

Policy Consideration

- A fully integrated system between DPH and UCSF through the Epic Community Connect program would create operational efficiencies that may not be possible through other vendors. As a result, a competitive Request for Proposal requiring seamline integration of UCSF and SFHN internal systems would inevitably exclude or make it prohibitively expensive and inefficient for most, if not all, vendors outside of UCSF and Epic to respond.

Recommendations

- Amend the proposed ordinance to require that DPH issue a competitive Request for Proposals if DPH is unable to conclude successful negotiations with UCSF within six months, for the pending electronic health record-keeping system contract with UCSF.
- Approval of the proposed ordinance, as amended, is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

Section 21.1 of the City's Administrative Code requires that all City contracts for commodities and/or services be procured through competitive solicitation.

City Charter Section 9.118(b) requires that all contracts entered into by a City department having a term in excess of ten years or requiring anticipated expenditures of $10,000,000 or more be subject to approval by the Board of Supervisors.

BACKGROUND

The Department of Public Health's San Francisco Health Network (SFHN) provides direct health services to thousands of insured and uninsured residents of the San Francisco Bay Area, through its network of service sites across the City.[1] The service sites include all divisions within the Department of Public Health that provide direct services such as the Pricilla Chan and Mark Zuckerberg San Francisco General Hospital, Laguna Honda Hospital, jail health services and community clinics.

Siemens* Healthcare Systems *USA, Inc.

In July 2010, the Board of Supervisors approved a contract between the Department of Public Health (DPH) and Siemens Healthcare Systems USA (Siemens) for a total not-to exceed amount of $33,820,487 for seven years from July 1, 2010 through June 30, 2017 to provide software and technical assistance to upgrade DPH's use of electronic medical records and coordination of care and payments (File 10-0752). This contract included one two-year option to extend the contract through June 30, 2019.

The 2010 contract with Siemens was awarded on a sole source basis, because so much of the DPH's existing information systems were already provided by Siemens, and the possibility of migrating to a competitor was operationally prohibitive. Siemens has been DPH's principal provider of clinical and financial systems for the past 25 years.

The electronic health records system allows nurses and doctors to keep track of a patient's medical treatments, and to coordinate among providers of care, including those not immediately within DPH hospitals, clinics, and health centers. The embedded financial systems allow staff to generate bills, provide basic accounting, and keep track of revenues.

In 2013, the Board of Supervisors approved the first amendment to the Siemens contract to (a) increase the total not-to-exceed amount by $18,474,493 from $33,820,487 to $52,294,980, and (b) include new services related to electronic health records and improving surgical information systems at San Francisco General Hospital (File 13-0514).

[1] Services include primary care, regional emergency and trauma treatment, medical and surgical specialties, diagnostic testing, skilled nursing and rehabilitation, dental care, comprehensive behavioral health and substance abuse treatment services, and jail health services.

In 2015, Cerner Corporation (Cerner) acquired Siemens and formally assumed all responsibilities for the 2010 electronic health records system contract with the Department of Public Health.

Existing Electronic Health Records System is Outdated and in Violation of Federal Requirements

Despite periodic updates, the main existing SFHN electronic health records system was implemented in 1996 and is now outdated. Cerner has already started to limit updates to the existing system. Cerner has also informed DPH that Cerner will only provide limited support for the existing system after 2019. If DPH renews their contract with Cerner, DPH would have the option of replacing the existing SFHN system with Cerner's integrated electronic health record system solution, called Cerner Millennium.

In addition, the current SFHN electronic health records system does not meet federal requirements. As of 2015, Medicare began penalizing hospitals and clinics that were unable to demonstrate meaningful use, which included specific upgrades to electronic health records systems.[2] Mr. Greg Wagner, Chief Financial Offer of the Department of Public Health, estimated that the City will pay $876,000 each year for penalties if SFHN technology is not updated.[3] These penalties could be avoided if the United States Department of Health and Human Services grants the City a hardship waiver.

DPH Hired External Consultants to Evaluate SFHN Information Technology Needs

In 2012, DPH initiated research on alternative options for a modern, secure, and fully-integrated electronic health records system that would meet federal requirements. DPH contracted with Sierra Systems to assess SFHN's information technology system and recommend future technology needs for SFHN. Sierra Systems recommended that SFHN integrate the 61 distinct applications and modules into a unified system, with a single vendor software package that could address all of SFHN's information technology needs.

In 2013, DPH contracted with Kurt Salmon and Associates, through their affiliation with the University of California San Francisco (UCSF), to further assess how existing vendors could address SFHN's needs and goals for a new electronic health records system and to obtain the estimated costs of each vendor. Kurt Salmon and Associates focused their analysis on Epic Systems Corporation (Epic) and Siemens Healthcare Systems (currently Cerner Corporation) as the vendors that could meet the needs of SFHN. Kurt Salmon and Associates estimated that it would cost approximately an additional $266 million for DPH to contract directly with Epic over a ten-year period, $228 million for a direct contract with Siemens, and $193 million for a

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[2] To satisfy the meaningful use requirement, professionals and hospitals must be able to generate a variety of reports ad hoc, use certified technology, and complete electronic checks.

[3] This assumes that stage three meaningful use penalties are levied. The stage three requirements relate to health outcomes. Stage one requirements include data capture and sharing. Stage two requirements include advanced clinical processes.

contract with Epic through UCSF.[4] In 2015, both Epic and Cerner made several presentations to DPH information technology staff to demonstrate the functionality and integration offered through their respective products and provided details on projected costs. DPH concluded that both Epic and Cerner could likely meet the minimum requirements for SFHN.

DPH Opportunity for Accelerated Implementation with UCSF

The Priscilla Chan and Mark Zuckerberg San Francisco General Hospital is one of UCSF's primary teaching hospitals, where medical students train under UCSF Faculty and City staff. UCSF, a major collaborator with SFHN, currently uses Epic electronic health record systems. Epic allows existing clients to share the use of Epic electronic systems with other parties through a program called Community Connect. Therefore, UCSF, an Epic Community Connect host organization, could elect to share its system and technical resources with SFHN, with SFHN designated as a Community Connect satellite site. Through this type of arrangement, DPH would contract directly with UCSF; UCSF would amend its existing contract with Epic to allow SFHN to access Epic resources through UCSF at a lower cost with an accelerated implementation timeline.

In March 2015, UCSF analyzed DPH's current electronic health records system and information technology structure to determine the resources that would be required to customize UCSF's electronic health system to DPH's entire SFHN via Epic's Community Connect structure.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would:

(a) waive the competitive solicitation process requirement in Section 21.1 of the Administrative Code, for the Department of Public Health's future award of a sole source contract with the University of California San Francisco for a new electronic health records system for the San Francisco Health Network;

(b) ratify the selection of the Regents of the University of California, by and through the University of California San Francisco (UCSF), as the preferred contractor; and

(c) authorize the Department of Public Health to enter into negotiations with the Regents of the University of California to procure a new electronic health records system. However, if DPH is not able to obtain sufficient assurances that UCSF will be able to substantially meet the criteria listed in subsection 4.b of the ordinance within six months and if the Director determines to conclude negotiations, this ordinance would authorize DPH to enter into direct negotiations with Cerner Corporation (Cerner) and/or Epic Systems Corporation (Epic).

The DPH award of the contract itself to actually procure a new integrated electronic health records system for the San Francisco Health Network would be subject to future Board of Supervisors approval.

[4] These estimates do not include the costs of the existing system, as those expenditures are captured in a different contract.

DPH Justifications for Sole Source Contract with UCSF

DPH identified four key justifications for requesting that UCSF be selected on a sole source basis without requiring the City's normal competitive process as the preferred contractor for SFHN electronic health record systems:

(a) UCSF physicians and residents have already received considerable training on and have extensive experience with the Epic electronic health records system, which could significantly reduce the training effort required, improve patient care and result in operational efficiencies;

(b) Because many of DPH's patients also receive services at UCSF Medical Center, there is significant overlap between patient data at the two organizations. A shared electronic health records system would allow improved coordination of patient care, which lead to better patient health outcomes and ease access to data for medical and population health research at both organizations;

(c) The technical ability and experience of UCSF to implement and manage Epic's electronic health records systems on the scale required to meet SFHN's needs; and

(d) UCSF, in collaboration with Epic, has systemically refined the design of their electronic health records system to meet the requirements of clinical and non-clinical users who work at UCSF and San Francisco General Hospital. These resources could be extended to SFHN only through a contract with UCSF.

Mandatory Terms of Proposed UCSF Contract with DPH

DPH outlined minimum requirements that the pending new contract with UCSF must include, which are specified in the proposed ordinance.

DPH would require that the pending contract with UCSF include four key components. The first component includes the total costs to be incurred by DPH over the nine-year contract period and the system's demonstrated ability to provide positive or neutral revenue generation. According to Mr. Wagner, the new health records system should enable DPH to provide more detailed and accurate billing, and potentially capture up to an additional 3-5% in annual revenues. The second component concerns clear articulation of the technical functions required by the new electronic health records system to adequately fulfill SFHN needs. The third component requires that the new electronic health records system is regularly updated to remain current with industry standards and comply with federal regulations. Finally, the contract between UCSF and DPH must clearly outline a governance agreement that grants DPH the autonomy and accountability needed to appropriately manage City resources and comply with City mandates.

If the Board of Supervisors approves this ordinance, DPH intends to make significant progress in the negotiation process with UCSF within six months, and to submit the needed legislation for the award of the contract with UCSF for Board of Supervisors approval in FY 2016-17.[5]

FISCAL IMPACT

Actual and projected expenditures from July 1, 2010 through June 30, 2017 under the existing contract for the electronic health records system for San Francisco Health Network (SFHN) between DPH and Cerner Corporation are $52,294,980, as shown in Table 1 below. The Board of Supervisors has previously appropriated General Fund revenues in the DPH annual budget for the existing contract.

Table 1. Actual and Projected Expenditures

Fiscal Year	Total Amount
FY 2010-11	$4,253,880
FY 2011-12	5,742,108
FY 2012-13	6,620,431
FY 2013-14	8,770,067
FY 2014-15	10,782,665
FY 2015-16 (projected)	7,929,578
Subtotal	*$44,098,729*
Projected Expenditures	
FY 2016-17	$8,196,252
Total Actual and Projected Expenditures	**$52,294,980**

Source: Department of Public Health staff.

DPH intends to request Board of Supervisors approval to extend the existing contract with Cerner by two years through June 30, 2019, to allow for sufficient time to transition to the new system through UCSF.

As previously noted, the proposed ordinance would authorize DPH to begin negotiations with UCSF for the purpose of awarding a sole source electronic health records system through Epic's Community Connect program. As shown in Table 2 below, DPH estimates that the contract with UCSF would cost an estimated $341,918,891 over nine years, including $114,627,938 in one-time project capital costs with a contingency fund of $11,460,000, and $196,220,953 in ongoing operating costs with a contingency fund of $19,610,000. DPH anticipates savings of an estimated $160,617,182 from the discontinuation of the existing Cerner systems and reduced growth in the costs for physician services, which would result in a total estimated net cost of $181,301,709 for this contract, as shown in Table 2 below.

[5] The proposed ordinance authorizes the Director of DPH to extend negotiations beyond six months if at the six-month mark, DPH has obtained sufficient assurances that UCSF will be able to substantially meet the criteria listed in subsection 4.b of the ordinance.

Table 2. Projected Net Cost of Potential Contract with University of California San Francisco

Fiscal Year	One-Time Costs		Ongoing Costs		Subtotal	Mean Benefit Estimates*	Net Total Cost
	Project Capital Costs	Contingency	Operating Costs	Contingency			
FY 2016-17	$25,749,265	$2,570,000	$4,178,561	$420,000	$32,917,826	$0	$32,917,826
FY 2017-18	40,499,611	4,050,000	6,390,658	640,000	51,580,269	(5,607,891)	45,972,378
FY 2018-19	26,462,621	2,650,000	16,831,431	1,680,000	47,624,052	(10,268,711)	37,355,341
FY 2019-20	7,173,021	720,000	25,017,084	2,500,000	35,410,105	(24,123,430)	11,286,675
FY 2020-21	5,760,368	580,000	27,129,235	2,710,000	36,179,603	(24,123,430)	12,056,173
FY 2021-22	3,651,017	370,000	27,799,190	2,780,000	34,600,207	(24,123,430)	10,476,778
FY 2022-23	1,745,000	170,000	28,647,154	2,860,000	33,422,154	(24,123,430)	9,298,724
FY 2023-24	1,745,000	170,000	29,611,434	2,960,000	34,486,434	(24,123,430)	10,363,004
FY 2024-25	1,842,035	180,000	30,616,206	3,060,000	35,698,241	(24,123,430)	11,574,810
Total Costs	**$114,627,938**	**$11,460,000**	**$196,220,953**	**$19,610,000**	**$341,918,891**	**($160,617,182)**	**$181,301,709**

Source: Department of Public Health staff.

*The mean benefits include estimated savings from discontinuing existing systems (decommission savings) and reduced growth in costs for physician services under the UCSF Affiliation Agreement for physician and other services at San Francisco General Hospital. These estimates correspond to the City's Five-Year Financial forecast.

DPH anticipates using various funding sources to pay for the pending contract with UCSF, as shown in Table 3 below.

Table 3. Proposed Funding Sources of UCSF Contract

Funding Source	Total Amount
DPH FY 2016-18 Base Budget	$82,322,508
Prior Year Unspent Balance	9,800,000
Prior Year Revenue Transfers-In	32,000,000
Project Fund Reappropriations	11,000,000
DPH Reappropriations, Savings, and Philanthropy	46,179,202
Total	**$181,301,710**

Source: Department of Public Health staff.

POLICY CONSIDERATION

DPH seeks to negotiate a sole source contract with UCSF for a new electronic health records system through Epic's Community Connect program with projected DPH net additional expenditures of approximately $181.3 million over a nine-year period. Benefits and challenges surrounding this decision include the following:

Benefits of UCSF Sole Source Contract

A fully integrated system between DPH and UCSF through the Epic Community Connect program would create operational efficiencies that may not be possible through other vendors. UCSF is a major partner of SFHN, sharing many physicians, students, and patients. San Francisco

Health Network and UCSF medical professionals would only need to use one system, instead of being trained to use multiple systems as they are now. Using UCSF as a vendor would also boost research capacity as the new health records system would centralize and create access to data previously unavailable to researchers.

If UCSF is not the selected vendor, DPH would need an external consultant to guide the implementation process and ensure that the UCSF and DPH systems are seamlessly integrated. UCSF has experience implementing Epic's electronic health records system at major sites including Parnassus, Mount Zion, Mission Bay, Children's Hospital Oakland, and UCSF Benioff Children's Physician Group. DPH would require that UCSF apply their implementation expertise with SFHN through the pending contract. As a result, implementation would also be quicker, easier, and less costly as many of the UCSF staff are already trained on the Epic system.

If DPH is unable to make significant progress in negotiations with UCSF within six months, whether due to price issues or other concerns, DPH would reserve the right to end negotiations with UCSF and solicit the services of Epic or Siemens on a sole source basis.

Benefits of Competitive Selection Process

A competitive Request for Proposals (RFP) process would ensure that all eligible vendors are able to apply and would strengthen the City's ability to secure the lowest and most qualified price for the needed services.

UCSF issued a Request for Information to multiple vendors to evaluate their options for a new electronic health records system but did not complete an RFP process. UCSF hired Epic in 2010 through a sole source contract because UCSF viewed Epic as the preferred vendor based on site visits and presentations. UCSF was also under a tight timeline to qualify for Medicare Meaningful Use funds. As a result, if the proposed ordinance is approved to waive competitive bidding requirements, Epic would not have undergone any competitive selection process at any stage[6].

The Budget and Legislative Analyst recommends that the proposed ordinance be amended to require that DPH issue a competitive RFP if DPH is unable to obtain sufficient assurances that UCSF will be able to substantially meet the criteria listed in subsection 4.b of the proposed ordinance within six months. This will provide incentive for both UCSF and Epic to propose fair prices for the pending contract with UCSF, and will also ensure that DPH remains on track to implement a new electronic health records system by 2019, before the expiration of the existing system.

Challenges to a Competitive Selection Process for these Services

It should also be noted that if DPH were to issue an RFP for an electronic health records system, the evaluation criteria would likely include the ability of vendors to seamlessly connect UCSF and SFHN's electronic health records systems. An RFP presented in such a manner could exclude or make it prohibitively expensive and inefficient for most, if not all, vendors outside of UCSF and Epic to respond to such a RFP.

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[6] Mr. Wagner notes that Epic was selected as the health records systems vendor based on a competitive RFP process at the University of California- San Diego and the University of California-Davis medical centers.

In addition, according to Mr. Wagner, UCSF, as a government entity, does not typically bid on contracts to provide information technology systems and services of this nature to other government agencies, and it is unclear to what extent UCSF would be able to participate in a standard competitive RFP process.

RECOMMENDATIONS

1. Amend the proposed ordinance to require that DPH issue a competitive Request for Proposals if DPH is unable to conclude successful negotiations with UCSF within six months, for the pending electronic health records system contract with UCSF.
2. Approval of the proposed ordinance, as amended, is a policy matter for the Board of Supervisors.