

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

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292  
FAX (415) 252-0461

November 30, 2018

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** December 6, 2018 Budget and Finance Committee Meeting

**TABLE OF CONTENTS**

<b>Item</b>	<b>File</b>	<b>Page</b>
1	18-1089 Real Property Lease Extension - 1700-1740-17th Street and 1415-16th Street - \$256,281 Monthly Base Rent.....	1
2	18-1136 Contract Amendment - Kennedy/Jenks Consultants - Engineering Design and Services - \$22,000,000.....	5
3	18-1074 Agreement Amendment - Health RIGHT 360 - Behavioral Health Fiscal Intermediary Services - Not to Exceed \$79,058,563 .....	11
4	18-1075 Agreement Amendment - Progress Foundation - Behavioral Health Services - Not to Exceed \$94,523,518.....	14
5	18-1073 Contract Amendment - Toyon Associates, Inc. - Not to Exceed \$10,051,977 .....	17
6	18-1134 Agreement Amendment - Cross Country Staffing, Inc. - Department of Public Health Registry Services - Not to Exceed \$24,652,390.....	23

**TABLE OF CONTENTS (continued)**

Item	File		Page
9, 10, 11, 12, 13 & 14	18-1064	Lease Agreement - Bun Mee, LLC - Terminal 1 Food and Beverage Concession - \$365,000 Minimum Annual Guarantee	
	18-1065	Lease Agreement - SSP America, Inc. - Terminal 1 Food and Beverage Concession - \$365,000 Minimum Annual Guarantee	
	18-1066	Lease Agreement - Amy’s Kitchen Restaurant Operation Company, LLC - Terminal 1 Food and Beverage Concession - \$475,000 Minimum Annual Guarantee	
	18-1067	Lease Agreement - Paradies Lagardere @ SFO 2018 (F&B), LLC - Terminal 1 Food and Beverage Concession - \$600,000 Minimum Annual Guarantee	
	18-1068	Lease Agreement - Tastes On The Fly San Francisco, LLC - Terminal 1 Food and Beverage Concession - \$310,000 Minimum Annual Guarantee	
	18-1069	Lease Agreement - Soaring Food Group, LLC - Terminal 1 Food and Beverage Concession - \$385,000 Minimum Annual Guarantee] .....	26
16 & 17	18-1160	Ground Lease Amendment - Market Heights 2, LP - 211-291 Putnam Street - \$15,000 Annual Base Rent	
	18-1161	Jurisdictional Transfer of City Property - Real Estate Division - Mayor’s Office of Housing and Community Development - 211-291 Putnam Street - \$0.....	31
18	18-1109	Increase of Power Enterprise Commercial Paper Program - Not to Exceed \$250,000,000.....	35
19	18-1043	Administrative Code - Citywide Project Labor Agreement - Public Work or Improvement Projects .....	42

<p><b>Item 1</b> <b>File 18-1089</b></p>	<p><b>Departments:</b> Police Real Estate Division</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p>	
<ul style="list-style-type: none"> <li>The proposed resolution retroactively approves the first amendment to the existing lease between the City and 1415 16<sup>th</sup> Street Associates, LLC, for the property located at 1700-1740 17<sup>th</sup> Street and 1415 16<sup>th</sup> Street for the Police Department’s Tactical Company, extending the term by 10 years to November 2028 and increasing the rent to \$3,075,375 in the first year.</li> </ul>	
<p style="text-align: center;"><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>The original lease approved by the Board of Supervisors in October 2008 was for 10 years from November 3, 2008 through November 2, 2018 with an option to extend the lease by 10 years. Under the terms of the original lease, rent would be adjusted to market rate for comparable properties in the South of Market, including Showplace Square/ Potrero Hill.</li> </ul>	
<p style="text-align: center;"><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>An appraisal prepared by Colliers International determined that the annual fair market rent for the subject property is \$59.00 per square foot, or \$3,075,375, as of November 26, 2018. The valuation is based on six comparable leases for space in the South of Market/Showplace Square area.</li> <li>Total lease costs over the 10-year extension period are estimated to range from \$36,918,494 to \$41,925,732, depending on annual Consumer Price Index (CPI) adjustments.</li> </ul>	
<p style="text-align: center;"><b>Policy Consideration</b></p>	
<ul style="list-style-type: none"> <li>The City’s Capital Plan addresses the capital needs of existing public safety programs in City-owned property but does not address the long-term needs of public safety programs in leased properties. According to the Budget and Legislative Analyst’s April 2017 <i>Performance Audit of the City’s Real Estate Division</i>, the City does not have a sufficient process to reduce the high costs to the City of leasing private property in San Francisco’s real estate market.</li> </ul>	
<p style="text-align: center;"><b>Recommendation</b></p>	
<ul style="list-style-type: none"> <li>Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of \$1 million or more is subject to Board of Supervisors approval.

City Administrative Code section 23.27 states that a lease in which the City is the tenant and the lease amount is more than \$45 per square foot per year, the Director of Property shall obtain an appraisal for the market rent of the lease.

**BACKGROUND**

In October 2008, the Board of Supervisors authorized a lease agreement between 1415 16<sup>th</sup> Street Associates as landlord and the City as tenant to lease approximately 52,125 square feet of office and warehouse space located at 1700-1740 17<sup>th</sup> Street and 1415 16<sup>th</sup> Street for the Police Department's Tactical Company (File No. 08-1167; Resolution No. 453-08).

The term of the original lease was ten years, from November 3, 2008 through November 2, 2018, with one option to extend by an additional ten years. Base rent for the original lease was \$33.00 per square foot, or \$1,720,125 per year, increasing annually by \$0.75 per square foot, to annual base rent of \$2,071,969, or \$39.75 per square foot in year 10 of the lease. The City paid for utilities and custodial services.

According to the Budget and Legislative Analyst's report to the October 10, 2008 Budget and Finance Committee, tenant improvement expenses for 1700-1740 17<sup>th</sup> Street and 1415 16<sup>th</sup> Street were \$3,814,196, of which the City paid \$1,989,821 and the landlord paid \$1,824,375.

The original lease terms required the City to give notice of its intent to exercise the option to extend at least 270 days (nine months) prior to the expiration of the initial term. According to Mr. Josh Keene, Special Projects/Transaction Manager in the Real Estate Division, the City notified the landlord of its intention to exercise the option to extend in late January 2018. Under the terms of the original lease, rent would be adjusted to market rate for comparable properties in the South of Market, including Showplace Square and Potrero Hill, at the commencement of the extended term. Under the terms of the lease, the City could dispute the proposed base rent rate and enter into rate negotiations, or obtain an independent rate estimate from an appraiser.

Under the original lease terms, the City has right of first refusal to purchase the property if it is offered for sale. According to Mr. Keene, the property owner has not offered the building for sale during the lease term.

According to Capt. Alexa O'Brien, Captain of Administration for the Police Department, there have been no major changes to the use of the space by the Tactical Company since the original lease commenced in 2008.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution retroactively approves the first amendment to the existing lease between the City and 1415 16<sup>th</sup> Street Associates, LLC, for the property located at 1700-1740 17<sup>th</sup> Street and 1415 16<sup>th</sup> Street for the Police Department's Tactical Company. The proposed first amendment extends the term by ten years, from November 3, 2018 to November 2, 2028, with annual base rent of \$3,075,375, or \$59.00 per square foot.

The original lease expired on November 2, 2018, so the lease is currently in month-to-month holdover status until the proposed lease extension is approved. According to Mr. Keene, the City and Landlord agreed to have the 10-year extension commence when the previous term expired rather than add approximately 6 weeks of term through the holdover period.

**FISCAL IMPACT**

According to a lease appraisal report, prepared for the Real Estate Division by Colliers International, the annual fair market rent for the subject property is \$59.00 per square foot, or \$3,075,375, as of November 26, 2018. The valuation is based on six comparable leases for space in the South of Market/Showplace Square area with an adjusted lease rate range from \$48.75 to \$60.95 per square foot, with a median of \$58.33 per square foot and an average of \$56.53 per square foot.

The annual base rent in the first year of the proposed lease extension is \$3,075,375. Funding for lease costs is included in the Police Department's FY 2018-19 budget, as previously approved by the Board of Supervisors.

Annual increases to the base rent would be based on the San Francisco Bay Area Consumer Price Index (CPI) with adjustments being no less than 2 percent and no greater than 5 percent per year. The City will continue to pay for utilities and custodial services, which are estimated to cost approximately \$5.43 per square foot. The landlord will pay for HVAC improvements estimated to cost \$28,750. The City is responsible for paying for any additional improvements.

As shown in Table 1 below, total rent and operating costs to the City over the 10-year extension period would range \$36,918,494 to \$41,925,732.

**Table 1: Costs of 10-Year Lease Extension**

Lease Year	Base Rent		Custodial Services <sup>c</sup>	Utilities <sup>d</sup>	Total Lease Cost	
	Minimum <sup>a</sup>	Maximum <sup>b</sup>			Minimum <sup>a</sup>	Maximum <sup>b</sup>
Year 1	\$3,075,375	\$3,075,375	\$125,701	\$157,274	\$3,358,350	\$3,358,350
Year 2	3,136,883	3,229,144	129,472	161,992	3,428,347	3,520,608
Year 3	3,199,620	3,390,601	133,356	166,852	3,499,829	3,690,810
Year 4	3,263,613	3,560,131	137,357	171,858	3,572,827	3,869,346
Year 5	3,328,885	3,738,138	141,478	177,013	3,647,376	4,056,629
Year 6	3,395,463	3,925,044	145,722	182,324	3,723,509	4,253,090
Year 7	3,463,372	4,121,297	150,094	187,794	3,801,259	4,459,184
Year 8	3,532,639	4,327,361	154,597	193,427	3,880,663	4,675,386
Year 9	3,603,292	4,543,730	159,235	199,230	3,961,757	4,902,194
Year 10	3,675,358	4,770,916	164,012	205,207	4,044,577	5,140,135
<b>Total</b>	<b>\$33,674,498</b>	<b>\$38,681,736</b>	<b>\$1,441,023</b>	<b>\$1,802,972</b>	<b>\$36,918,494</b>	<b>\$41,925,732</b>

<sup>a</sup> Based on 2 percent per year increase.

<sup>b</sup> Based on 3 percent per year increase.

<sup>c</sup> Based on prior year actual custodial service costs of \$122,040, increased by 3 percent.

<sup>d</sup> Based on prior year actual utility (electrical, gas, and water) costs of \$152,693, increased by 3 percent.

## POLICY CONSIDERATION

The City's costs for the proposed lease over the next 10 years are at least \$37 million. The proposed lease extension does not provide an option for the City to terminate the lease during the extended 10-year term if other options to locate the Police Department's Tactical Company become available.

According to Mr. Keene, the Real Estate Division considers leasing options at the time that a lease is to be renewed. Considerations include the operational requirements of the City department, the availability of alternative space, and the costs of relocating.

The City's Capital Plan addresses the capital needs of existing public safety programs in City-owned property but does not address the long-term needs of public safety programs in leased properties. According to the Budget and Legislative Analyst's April 2017 *Performance Audit of the City's Real Estate Division*, the City does not have a sufficient process to reduce the high costs to the City of leasing private property in San Francisco's real estate market; we continue to recommend that the City's Real Estate Division and Capital Planning Committee work together on setting criteria and priorities on planning alternatives to housing essential City functions in leased space.

## RECOMMENDATION

Approve the proposed resolution.

<b>Item 2</b> <b>File 18-1136</b>	<b>Department:</b> Public Utilities Commission (PUC)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would authorize SFPUC General Manager to execute Amendment No. 5 to the Agreement with Kennedy/Jenks for continued engineering design services to the for the Regional Groundwater Storage and Recovery Project Phase 2 and San Francisco Groundwater Supply Project. The amendment would increase the agreement by \$3,500,000 to a total amount not to exceed \$22,000,000 and extend the term by three years through December 2022, for total agreement duration of 15 years.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Regional Groundwater Storage and Recovery Project Phase 2 and San Francisco Groundwater Supply Project Phase 2 are part of the SFPUC's \$4.8 billion Water System Improvement Program (WSIP). Kennedy/Jenks was selected to provide engineering services to these projects through a competitive request for qualifications. The agreement between SFPUC and Kennedy/Jenks has been amended four times.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• In February 2018, the SFPUC allocated supplemental funding of \$3,500,000 in the 10-Year Water Enterprise Capital Improvement Program (CIP) for both the Regional Groundwater Storage and Recovery Project (allocated through the WSIP) and the San Francisco Groundwater Project. Of the additional \$3,500,000, \$500,000 would be allocated to the San Francisco Groundwater Supply Project and \$3,000,000 to the Regional Groundwater Storage and Recovery Project.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• Although the agreement with Kenney/Jenks has been extended from the original 7 years to the proposed 15 years, and the agreement amount has been increased from the original amount of \$9 million to the proposed amount of \$22 million, SFPUC considers that issuing a Request for Proposals/Request for Qualifications to competitively select new engineering firms for projects that are near completion is not practical or efficient.</li> <li>• According to SFPUC, several major factors contributed to the delays on both the Regional Groundwater Storage and Recovery Project and the San Francisco Groundwater Supply Project. First, both the design and construction of multiple well stations were complicated by addition of groundwater treatment and water quality monitoring station upgrades. The second major factor is related to startup, commissioning and testing of the well stations. The third major factor is related to the retirement of key in-house resources. Furthermore, acquisition of two proposed well sites that were identified in the original project did not materialize. In addition, there were issues related to acquisition of permanent right of way easements for access and utilities with BART, coordination with PG&amp;E, and reduction in water demand resulting from the last drought.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 9.118(b) states that any agreement entered into by a department, board or commission that requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

**BACKGROUND**

The San Francisco Public Utilities Commission's (SFPUC) s Water System Improvement Program (WSIP) is a multi-year capital program to repair, replace, and seismically upgrade the Hetch Hetchy water system's aging pipelines, tunnels, pumps, tanks, reservoirs, and dams. Current total estimated costs for all WSIP projects are \$4.79 billion.

On October 9, 2007, as the result of a competitive request for qualifications process, SFPUC awarded Agreement No. CS-789.C to Kennedy/Jenks Consultants (Kennedy/Jenks) to provide as-needed engineering design services to the WSIP-funded Harry Tracy Water Treatment Plant Long-Term Improvements Project, the San Francisco Groundwater Supply Project, and the Regional Groundwater Storage and Recovery Project.

- Harry Tracy Water Treatment Plant Long-Term Improvements Project: This project increased the treatment plant sustainable capacity and provided seismic reliability following a major seismic event. This project was completed in 2014.
- San Francisco Groundwater Supply Project: This project includes all facilities required to produce and deliver groundwater from the Westside Basin in San Francisco to the existing Sunset and Sutro reservoirs. The first phase included four new groundwater well stations. The second phase includes improvements of two irrigation well stations in Golden Gate Park, which would be converted to potable use when recycled water is available to replace irrigation needs. This project is forecast to be completed by March 2021.
- Regional Groundwater Storage and Recovery Project: The original scope of the project includes the construction of up to 16 groundwater wells and well stations to be used as a regional dry-year water supply. Phase 1 includes the construction of 13 well stations, and the original scope of Phase 2 includes the construction of 2 additional well stations in the San Bruno area. The modified scope of Phase 2 (approved in April 2018) includes the construction of up to three test wells. The groundwater production wells will be connected to three wholesale customer water systems on the Upper Peninsula (the Cities of Daly City and San Bruno, and California Water Service Company) and to the SFPUC transmission system. Disinfection will be required for all wells and treatment is included at some of the well stations to meet water quality standards. This project is scheduled to be completed by December 2021.

The agreement between SFPUC and Kennedy/Jenks has been amended four times. The original agreement between SFPUC and Kennedy/Jenks was for a not-to-exceed amount of \$9,000,000 with a term of seven years, from December of 2007 through December of 2014. Because the agreement did not exceed the \$10,000,000 and ten-year thresholds established in City Charter Section 9.118(b), it was not subject to approval by the Board of Supervisors. In October 2009



the Board of Supervisors approved Amendment No. 1 to this agreement for an additional \$4,800,000, increasing the not-to-exceed amount to \$13,800,000 and extending the agreement term by two years through December 2016 for a total contract duration of nine years (File 09-1068). In October 2011, the Board of Supervisors approved Amendment No. 2 to this agreement for an additional \$2,700,000, increasing the not-to-exceed amount to \$16,500,000 with no change in the agreement duration (File 11-0872). Amendment No. 3 revised the task orders but did not change the agreement amount or term.

In September 2016, the Board of Supervisors approved Amendment No. 4 to this agreement for an additional \$2,000,000 to a total amount not to exceed \$18,500,000 and extended the term by three years through December 2019, for a total agreement duration of 12 years (File 16-0926). Amendment No. 4 was for continued engineering design services to the Regional Groundwater Storage and Recovery Project and the San Francisco Groundwater Supply Project. As of November 28, 2018, SFPUC has paid Kennedy/Jenks \$17,162,791.

Table 1 below summarizes the four amendments to the agreement.

**Table 1: Summary of Amendments to Agreement between SFPUC and Kennedy/Jenks**

	Year	Increased Amount	Total Not-To-Exceed Amount	Increased Duration (Years)	Total Duration (Years)
Original Agreement	2007		\$9,000,000		7
Amendment No. 1	2009	\$4,800,000	13,800,000	2	9
Amendment No. 2	2011	2,700,000	16,500,000	0	9
Amendment No. 3	2012	-	-	0	9
Amendment No. 4	2016	2,000,000	18,500,000	3	12

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize SFPUC General Manager to execute Amendment No. 5 to the Agreement with Kennedy/Jenks for continued engineering design services to the for the Regional Groundwater Storage and Recovery Project Phase 2 and San Francisco Groundwater Supply Project. The amendment would increase the agreement by \$3,500,000 to a total amount not to exceed \$22,000,000 and extend the term by three years through December 2022, for a total agreement duration of 15 years.

The amendment has been requested for:

- San Francisco Groundwater Supply Project Phase 2: Additional engineering services to coordinate project controls during construction for the start-up and testing of Phase 2.
- Regional Groundwater Storage and Recovery Project Phase 2: Specialized engineering design services and extended contract duration to allow for the implementation of the revised Phase 2 scope of work.

**FISCAL IMPACT**

In February 2018, the SFPUC allocated supplemental funding in the 10-Year Water Enterprise Capital Improvement Program (CIP) for both the Regional Groundwater Storage and Recovery Project (allocated through the WSIP) and the San Francisco Groundwater Project. The funds for the proposed amendment were included in these budgets which were approved by the Board of Supervisors in during the annual budget review. Of the additional \$3,500,000, \$500,000 would be allocated to the San Francisco Groundwater Supply Project and \$3,000,000 to the Regional Groundwater Storage and Recovery Project.

Table 2 below summarizes the breakdown of the requested additional \$3,500,000 under the proposed resolution.

**Table 2: Summary of Additional Funding Uses**

<i>San Francisco Groundwater Supply Project</i>	
Operation and Maintenance	\$50,000
Control Strategy*	50,000
<u>Water Quality &amp; Operations Support Evaluation</u>	<u>400,000</u>
<b>San Francisco Groundwater Subtotal</b>	<b>500,000</b>
<i>Regional Groundwater Storage and Recovery Project</i>	
Operation and Maintenance	195,000
Control Strategy	360,000
Startup and operational support	225,000
Engineering support during design and construction	1,700,000
<u>Water Quality &amp; Operations Support Evaluation</u>	<u>450,000</u>
<b>Regional Groundwater Subtotal</b>	<b>2,930,000</b>
<b>San Francisco and Regional Groundwater SUBTOTAL</b>	<b>3,430,000</b>
<u>Contingency (2%)</u>	<u>70,000</u>
<b>TOTAL</b>	<b>\$3,500,000</b>

\*Modifications to the control strategy for operation and monitoring of the Regional Groundwater Storage and Recovery (Regional) and San Francisco Groundwater Systems (San Francisco) include changes to the process controls and programmable logic controller at the individual Regional well sites. It also includes the installation and programming of a new programmable logic controller to communicate to each Regional well station and to pass necessary information to and from the San Francisco Master control located at the Lake Merced Well Station.

**POLICY CONSIDERATION**

SFPUC selected Kennedy/Jenks to provide engineering services to the WSIP through a Request for Qualifications in 2007. The original agreement was for seven years to approximately December 2014. The agreement has been extended two times through December 2019, and approval of the proposed resolution would extend the agreement three times through December 2022, resulting in an agreement of 15 years or 8 years more than anticipated in the original Request for Qualifications. The increase in the agreement term to December 2022 and the agreement amount to \$22 million is due to project delays. According to Mr. Dan Wade, WSIP Director at the SFPUC, issuing a Request for Proposals/Request for Qualifications to

competitively select new engineering firms for projects that are near completion is not practical or efficient.

### **Regional Groundwater Storage and Recovery Project Phase 2 and San Francisco Groundwater Supply Project**

When the Board of Supervisors approved Amendment No. 4 to the agreement between SFPUC and Kennedy/Jenks, SFPUC reported that that the agreement extension and amount were sufficient to complete Phase 2 of the Regional Groundwater Storage and Recovery Project and the San Francisco Groundwater Supply Project and that no further agreement extensions would be needed.<sup>1</sup> SFPUC is now requesting an additional \$2.9 million to complete the Regional Groundwater Storage and Recovery Project and \$500,000 to complete the San Francisco Groundwater Supply Project and an additional three-year agreement extension through December 2022.

According to Mr. Wade, several major factors contributed to the delays on both the Regional Groundwater Storage and Recovery Project and the San Francisco Groundwater Supply Project. The first major factor is that both the design and construction of multiple well stations were complicated by addition of groundwater treatment and water quality monitoring station upgrades that were requested during construction of multiple well stations that were required to meet new Water Quality Division and future anticipated regulatory requirements, which proved to be significantly more complicated than originally anticipated and needed to be designed and constructed in such a way that would satisfy operational requirements and constraints. The second major factor is related to startup, commissioning and testing of the well stations that has proven to be significantly more challenging than initially anticipated, partially due to this is the first time the SFPUC has incorporated the operation and maintenance of groundwater wells into the regional and local water systems. The startup and commissioning phase has been extended for many months due to fine tuning, checking, testing and re-testing of not only the new systems, but also the newly integrated system of the existing and new systems combined. The third major factor is related to key in-house resources that have retired over the last two years that had knowledge and expertise in groundwater systems design and operation. Mobilizing replacement resources with the necessary background and experience has been a major challenge and caused some delay. Furthermore, the project has required substantial additional ongoing support from consultants, including Kennedy Jenks, that have the experience and expertise to provide specialized engineering support for integration of the new groundwater wells into the existing regional and local water systems.

Additional causes of delay and increased cost on one or both projects summarized below:

- Acquisition of two proposed well sites that were identified in the original project scope located in Golden Gate National Cemetery did not materialize. National cemeteries are owned and managed by the US Department of Veterans Affairs (VA). As the land owner and manager, the VA denied access and development of the well locations on their property without unacceptable concessions from the SFPUC. VA's denial became necessary to search for new potential well site locations which took

---

<sup>1</sup> Budget and Legislative Analyst's report to the September 21, 2016 Budget and Finance Committee

- more than a year to identify these sites. This required additional funding, resources, and significant extension of time to identify and construct the three test wells that are now part of Phase 2 of the Regional Groundwater Storage and Recovery Project. The additional cost for this delay could not be anticipated when Amendment 4 was executed as we were not able to identify the new sites until 2017.
- There were significant delays in acquisition of permanent right of way easements for access and utilities with BART for two well station facilities that are part of the Regional Groundwater wells. Due to backlog with BART, response from BART took much longer than anticipated. Furthermore, a recent re-development plan in the City of South San Francisco adjacent to one of the well sites resulted a delay until the plan is finalized, which could not be anticipated since we only learned about the development plan this year.
  - Coordination with PG&E contributes to delays of both projects. During construction, PG&E representatives took longer to respond to requests for coordination and services due to resource constraints, largely due to the need to address power services to locations impacted by fires in California the last two years. This delay was not factored in Amendment No. 4 approved by the Board of Supervisors in 2016 since the fires that affected the projects occurred after 2016.
  - The reduction in water demand resulting from the last drought prompted the need to perform additional water quality and operations support evaluations to meet water quality standards. The reduction in water demand took place in 2016/2017, which is after Board of Supervisors approval of Amendment No. 4.
  - Besides staff shortages caused by turnover and retirement, the SFPUC requested that Kennedy/Jenks perform some of the specialized engineering services which SFPUC do not have the expertise to perform in-house such as geotechnical investigations; control strategy design; and preparation of standard operating procedures, startup, and testing plans for groundwater wells.

### **Budget and Legislative Analyst's Recommendations**

Because continued engineering services by Kennedy/Jenks are necessary to complete the Regional Groundwater Storage and Recovery Project Phase 2 and San Francisco Groundwater Supply Project, the Budget and Legislative Analyst recommends approval of the proposed resolution.

### **RECOMMENDATION**

Approve the proposed resolution.

<b>Item 3</b> <b>File 18-1074</b>	<b>Department:</b> Department of Public Health (DPH)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p>The proposed resolution approves Amendment No. 3 to the contract between Health RIGHT 360 and the Department of Public Health (DPH) for behavioral health fiscal intermediary services, to (1) increase the agreement not-to-exceed amount by \$16,260,767 from \$62,797,796 to \$79,058,563, and (2) extend the term by five years from December 31, 2018, for a total agreement term of January 1, 2014, through December 31, 2023.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In January 2014, DPH entered into a contract with Health RIGHT 360 to provide fiscal intermediary services to DPH health service contractors providing behavioral health and other services that are not able to directly receive payments for services from third party payers, such as Medi-Cal, Medicare, and private insurance companies.</li> <li>• DPH selected Health RIGHT 360 following issuance of a Request for Qualifications in June 2013.</li> <li>• The original contract was for one year from January 1, 2014 through December 31, 2014 for a total contract amount of \$9,700,495. DPH entered into two amendments to the contract that: (1) extended the contract term to June 30, 2016 and increased the contract amount to \$33,876,971; and (2) extended the contract term to December 31, 2018 and increased the contract amount to \$62,797,796.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Sources of funds for the proposed contract amendment include City General Funds and State and Federal grants.</li> <li>• Actual expenditures on the contract from January 1, 2014 through December 31, 2018 total \$42,835,113.</li> <li>• Based on an annual average cost-of-doing-business adjustment of approximately 2.4 percent (subject to future Board of Supervisors approval) and a 12 percent contingency, expenditures over the five-year extension period from January 1, 2019 to December 31, 2023 are projected to total \$36,223,450, for a total contract amount of \$79,058,563, which is \$16,260,767 more than the current not-to-exceed amount of \$62,797,796.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## 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

On January 1, 2014, the Department of Public Health (DPH) entered into a contract with Health RIGHT 360 to provide fiscal intermediary services on a fee-for-service basis to DPH health service contractors that are not able to directly receive payments for services from third party payers, such as Medi-Cal, Medicare, and private insurance companies. Under the contract, Health RIGHT 360 serves as the fiscal intermediary to several community-based organizations providing behavioral health and other services to DPH, including Family Mosaic Project, Drug Court, Project Homeless Connect, and other programs.

DPH selected Health RIGHT 360 following issuance of a Request for Qualifications (RFQ) in June 2013. The RFQ specified that the contract would have an original term of five years from January 1, 2014 through December 31, 2018, with five annual options to extend the term through December 2023 for a total of 10 years.

The original contract was for one year from January 1, 2014 through December 31, 2014 for a total contract amount of \$9,700,495. The Board of Supervisors approved the first amendment to the contract in August 2014, extending the term from January 1, 2014 through December 31, 2018, and increased the contract not-to-exceed amount by \$53,097,301, from \$9,700,495 to \$62,797,796 (File No. 14-0748; Res. No. 304-14).

DPH entered into two separate amendments to the contract: (1) the first amendment extended the contract term to June 30, 2016 and increased the contract amount to \$33,876,971; and (2) the second amendment extended the contract term to December 31, 2018 and increased the contract amount to \$62,797,796.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves Amendment No. 3 to the contract between Health RIGHT 360 and the Department of Public Health for behavioral health fiscal intermediary services, to (1) increase the agreement not-to-exceed amount by \$16,260,767 from \$62,797,796 to \$79,058,563, and (2) extend the term by five years from December 31, 2018, for a total agreement term of January 1, 2014, through December 31, 2023.

## FISCAL IMPACT

Sources of funds for the proposed contract amendment include City General Funds and State and Federal grants.

Actual expenditures on the contract from January 1, 2014 through December 31, 2018 total \$42,835,113. Based on an annual average cost-of-doing-business adjustment of approximately 2.4 percent<sup>1</sup> and a 12 percent contingency, expenditures over the five-year extension period from January 1, 2019 to December 31, 2023 are projected to total \$36,223,450, for a total contract amount of \$79,058,563, which is \$16,260,767 more than the current not-to-exceed amount, as shown in Table 1 below.

**Table 1: Actual and Projected Expenditures – January 1, 2014 to December 31, 2023**

<b>Contract Term</b>	<b>Actual Expenditures</b>	<b>Projected Expenditures</b>	<b>Total</b>
2014	\$9,318,891		\$9,318,891
2015	8,763,714		8,763,714
2016	8,140,466		8,140,466
2017	8,814,027		8,814,027
2018	7,798,016		7,798,016
2019		\$6,169,301	6,169,301
2020		6,315,387	6,315,387
2021		6,464,932	6,464,932
2022		6,618,018	6,618,018
2023		6,774,730	6,774,730
<b>Subtotal</b>	<b>\$42,835,113</b>	<b>\$32,342,366</b>	<b>\$75,177,479</b>
<b>Contingency (12%)</b>		<b>3,881,084</b>	<b>3,881,084</b>
<b>Total</b>	<b>\$42,835,113</b>	<b>\$36,223,450</b>	<b>\$79,058,563</b>
<b>Less Current Not-to-Exceed Amount</b>			<b>(62,797,796)</b>
<b>New Total Increased Amount</b>			<b>\$16,260,767</b>

According to Ms. Michelle Ruggels, Director of the DPH Business Office, the contract expenditures decreased in FY 2017-18 and FY 2018-19 due to civil service conversions of contracted staff services. In the FY 2016-17 budget, there were three DPH initiatives approved by the Mayor and Board of Supervisors to create civil service positions to perform certain services that were previously performed by contract employees. The services proposed for conversion were selected because they were closely aligned with the duties performed by civil service employees. The majority of these positions were in Substance Use-funded programs such as the Behavioral Health Access Center and Drug Court programs.

## RECOMMENDATION

Approve the proposed resolution.

<sup>1</sup> Annual Cost of Doing Business increases to contracts with nonprofit organizations are subject to Board of Supervisors approval in the City's annual budget.

<b>Item 4</b> <b>File 18-1075</b>	<b>Department:</b> Department of Public Health (DPH)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p>The proposed resolution approves Amendment No. 1 to the contract between the Progress Foundation and the Department of Public Health (DPH), for behavioral health services, to (1) increase the agreement not-to-exceed amount by \$84,877,827 from \$9,645,691 to \$94,523,518 and (2) extend the term by four years from December 31, 2018, for a total agreement term of July 1, 2018, through December 31, 2022.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In July 2018, DPH entered into a contract with the Progress Foundation for residential and outpatient behavioral health services for adults. The original contract is for a term of six months, from July 1, 2018 through December 31, 2018 in the amount of \$9,645,691.</li> <li>• DPH selected the Progress Foundation following issuance of Requests for Proposals for mental health residential treatment programs in October 2017, and mental health outpatient programs for adults/older adults in August 2017.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Sources of funds for the proposed contract amendment include City General Funds and State and Federal grants.</li> <li>• Actual expenditures on the contract since July 1, 2018 total \$4,446,715. DPH projects additional expenditures of \$4,811,401 by December 31, 2018, and a total of \$17,973,059 in expenditures in FY 2018-19.</li> <li>• Based on an annual average cost-of-doing-business adjustment of approximately 2.4 percent (subject to future Board of Supervisors approval) and a 12 percent contingency, expenditures over the 4.5-year contract period from July 1, 2018 to December 31, 2022 are projected to total \$94,523,518, which is \$84,877,827 more than the current not-to-exceed amount of \$9,645,691.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	



**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 2018, the Department of Public Health (DPH) entered into a contract with the Progress Foundation for residential and outpatient behavioral health services for adults. The original contract is for a term of six months, from July 1, 2018 through December 31, 2018 in the not-to-exceed amount of \$9,645,691, which is below the \$10 million threshold that requires Board of Supervisors approval.

DPH selected the Progress Foundation following issuance of two Requests for Proposals (RFPs) for: (1) mental health residential treatment programs in October 2017; and (2) mental health outpatient programs for adults/older adults in August 2017. The residential treatment program RFP specified that the contract would have an original term of one year from July 1, 2018 to June 30, 2019, with two options to extend the term for a total of 10 years. The outpatient program RFP specified that the contract would have an original term of one-and-a-half years from January 1, 2018 to June 30, 2019, with two options to extend the term for a total of 10 years.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution approves Amendment No. 1 to the contract between the Progress Foundation and the Department of Public Health, for behavioral health services, to (1) increase the agreement not-to-exceed amount by \$84,877,827 from \$9,645,691 to \$94,523,518 and (2) extend the term by four years from December 31, 2018, for a total agreement term of 4 ½ years from July 1, 2018 through December 31, 2022.

**FISCAL IMPACT**

Sources of funds for the proposed contract amendment include City General Funds and State and Federal grants.

Actual expenditures on the contract since July 1, 2018 total \$4,446,715. DPH projects additional expenditures of \$4,811,401 by December 31, 2018, and a total of \$17,973,059 in expenditures in FY 2018-19. Based on an annual average cost-of-doing-business adjustment of approximately 2.4 percent<sup>1</sup> and a 12 percent contingency, expenditures over the 4.5-year contract period from July 1, 2018 to December 31, 2022 are projected to total \$94,523,518, which is \$84,877,827 more than the current not-to-exceed amount, as shown in Table 1 below.

---

<sup>1</sup> Annual Cost of Doing Business increases to contracts with nonprofit organizations are subject to Board of Supervisors approval in the City's annual budget.

**Table 1: Actual and Projected Expenditures – July 1, 2018 to December 31, 2022**

<b>Contract Term</b>	<b>Actual Expenditures</b>	<b>Projected Expenditures</b>	<b>Total</b>
FY 2018-19	\$4,446,715	\$13,526,344	\$17,973,059
FY 2019-20		18,403,595	18,403,595
FY 2020-21		18,844,446	18,844,446
FY 2021-22		19,295,857	19,295,857
July 1, 2022 through December 31, 2022		9,879,041	9,879,041
<b>Subtotal</b>	\$4,446,715	\$79,949,283	\$84,395,998
<b>Contingency (12%)</b>			10,127,520
		<b>Total</b>	\$94,523,518
		<b>Less Existing Not-to-Exceed Amount</b>	(9,645,691)
		<b>New Total Requested Increased Amount</b>	<b>\$84,877,827</b>

**RECOMMENDATION**

Approve the proposed resolution.

<p><b>Item 5</b> <b>File 18-1073</b></p>	<p><b>Department:</b> Department of Public Health (DPH)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p>	
<ul style="list-style-type: none"> <li>The proposed resolution would retroactively approve a second amendment to the contract between the Department of Public Health (DPH) and Toyon Associates, Inc. (Toyon), to provide regulatory reporting and reimbursement maximization for Medicare and Medi-Cal programs. The proposed resolution would (1) increase the contract amount by \$5,055,360 for an amount not to exceed \$10,051,977, and (2) exercise the one option to extend the term by four years from March 31, 2018, for a total eight-year term of April 1, 2014 through March 31, 2022.</li> </ul>	
<p style="text-align: center;"><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>Toyon was selected through a competitive process in 2014 to provide regulatory reporting and reimbursement maximization for Medicare and Medi-Cal programs. Under Toyon’s contract with DPH, Toyon works with San Francisco General Hospital, Laguna Honda Hospital, and Health at Home Agency to review and file required regulatory documents with federal and state agencies in order to maximize revenue reimbursements to the City from Medicare and Medi-Cal programs. For the review and filing of regulatory documents, Toyon is paid on a fee-for-service basis. Toyon also pursues appeals to Medicare and Medi-Cal audits and is paid a contingency fee calculated as a percentage of the reimbursement realized by DPH.</li> </ul>	
<p style="text-align: center;"><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>The proposed second amendment to the contract between DPH and Toyon limits DPH to pay Toyon \$10,051,977, which is \$5,055,360 greater than DPH’s maximum amount of \$4,996,617 payable to Toyon under the first contract amendment. This increase in maximum allowed payments is due to DPH anticipating higher payments to Toyon for appealing Medicare and Medi-Cal audits, which DPH only pays contingent on the outcome of the appeal. In the proposed second amendment to the contract, DPH will pay Toyon a maximum of \$5,264,000 for appealing audits from Medicare and Medi-Cal compared to the previous maximum amount of \$2,688,000.</li> <li>According to DPH, Toyon’s appeals work has generated approximately \$15.5 million in total recovered reimbursement funds from Medicare and Medi-Cal audits for San Francisco General Hospital and Laguna Honda Hospital from FY 2015-16 through FY 2017-18.</li> </ul>	
<p style="text-align: center;"><b>Recommendation</b></p>	
<ul style="list-style-type: none"> <li>Approve the proposed resolution.</li> </ul>	

## 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

### Contract Award, Original Contract, First Amendment

On September 26, 2013, the Department of Public Health (DPH) issued a new Request for Proposals (RFP) for a four-year contract<sup>1</sup> to provide regulatory reporting and Medi-Cal and Medicare reimbursement maximization. Two firms, Moss-Adams LLP and Toyon Associates Inc. (Toyon) submitted proposals on November 22, 2013. On December 9, 2013, a DPH selection panel evaluated the two proposals based on their relevant experience, qualifications, background, resume and recommendations, local business designation, and projected budget using a 110 point system. Toyon, the existing contractor to DPH, received a score of 93.16 compared to Moss-Adams LLP's score of 77.

DPH previously awarded a contract to Toyon to provide similar services based on a RFP process for the four year period from April 1, 2010 through March 31, 2014. As a result of delays in developing a new contract with Toyon and the need to continue processing payments from Medicare and Medi-Cal without interruption, DPH entered into a six-month interim contract with Toyon from April 1, 2014 through September 30, 2014 for a not-to-exceed amount of \$614,813. Given the short term and amount of the interim contract, the six-month interim contract was not subject to Board of Supervisors approval.

In September 2014, the Board of Supervisors approved a first amendment to the six-month interim contract between DPH and Toyon to continue to provide regulatory reporting, and Medicare and Medi-Cal reimbursement maximization for a total contract amount not-to-exceed \$4,996,617 for the four-year period including the six-month interim contract from April 1, 2014 through March 31, 2018 (File 14-0747).

### Services and Compensation

Under Toyon's contract with DPH, Toyon works with San Francisco General Hospital, Laguna Honda Hospital, and Health at Home Agency to review and file required regulatory documents with federal and state agencies in order to maximize revenue reimbursements to the City from Medicare and Medi-Cal programs. For the review and filing of regulatory documents, Toyon is paid on a fee-for-service basis.<sup>2</sup> Toyon also pursues appeals to Medicare and Medi-Cal audits and is paid a contingency fee calculated as a percentage of the reimbursement realized by DPH.

---

<sup>1</sup> The RFP provided for a possible option to renew for one additional four-year term.

<sup>2</sup> The fee is calculated based on an hourly rate x number of hours; the hourly rates are defined by level of staff (executive, team leader, professional staff) and hours are defined by specific tasks, detailed in the appendix to the contract.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would retroactively approve a second amendment to the contract between the Department of Public Health (DPH) and Toyon Associates, Inc. (Toyon), to provide regulatory reporting and Medi-Cal and Medicare reimbursement maximization. The proposed resolution would (1) increase the contract amount by \$5,055,360 for an amount not to exceed \$10,051,977, and (2) exercise the one option to extend the term by four years from March 31, 2018, for a total eight-year term of April 1, 2014, through March 31, 2022.

The proposed second amendment to the existing contract between DPH and Toyon is retroactive to April 1, 2018 due to administrative delays in submitting the resolution to the Board of Supervisors for approval (the proposed resolution was submitted by DPH on October 29, 2018) and in calendaring the resolution.

According to Ms. Jacquie Hale, Manager at DPH's Office of Contracts Management and Compliance, Toyon continues to meet performance requirements and has contributed to helping DPH respond to the work of the Centers for Medicare & Medicaid Services (CMS) to clear a backlog of their audits going back to 2004, as well as ensure compliance with filing required CMS reports.

**FISCAL IMPACT****Contract Not-to-Exceed Amounts**

As noted above, the existing contract between DPH and Toyon is for a not-to-exceed amount of \$4,996,617. Under the proposed second amendment to the contract, DPH would increase contract amount by \$5,055,360 for a total contract amount of \$10,051,977, and extend the term to March 31, 2022, as shown in Table 1 below.

**Table 1: Maximum DPH Payments to Toyon from April 1, 2014 through March 31, 2022**

Year	San Francisco			Total
	General Hospital	Laguna Honda Hospital	Health at Home Agency	
2014-15	\$973,896	\$226,688	\$25,962	\$1,226,546
2015-16	983,265	230,132	26,712	1,240,109
2016-17	994,538	234,466	27,686	1,256,690
2017-18	1,005,810	238,801	28,661	1,273,272
2018-19	938,655	251,574	39,268	1,229,497
2019-20	950,824	254,923	40,354	1,246,101
2020-21	972,597	260,837	41,854	1,275,288
2021-22	994,370	266,750	43,354	1,304,475
<b>TOTAL</b>	<b>\$7,813,955</b>	<b>\$1,964,171</b>	<b>\$273,852</b>	<b>\$10,051,977</b>

Source: DPH

As noted above, Toyon's regulatory review and filing responsibilities are paid on a fee-for-service basis, depending on the services provided to three DPH providers: (1) San Francisco General Hospital, (2) Laguna Honda Hospital, and (3) Health at Home Agency. DPH pays Toyon

for appeals on Medicare and Medi-Cal report audits as a percentage of reimbursements realized by DPH. Table 2 below displays the maximum DPH is contractually allowed to pay Toyon for filing revenue reimbursements with Medicare and Medi-Cal and for appealing audits with Medicare and Medi-Cal with San Francisco General Hospital, Laguna Honda Hospital, and Health at Home Agency.

**Table 2: Maximum DPH Payments to Toyon from April 1, 2014 through March 31, 2022**

<b>Payment Type</b>	<b>San Francisco General Hospital</b>	<b>Laguna Honda Hospital</b>	<b>Health at Home Agency</b>	<b>Total</b>
Maximum Allowed Payment				
- Filing Revenue Reimbursements (Payment based on Fee-For-Service)	\$3,445,954	\$1,068,172	\$273,851	\$4,787,977
- Appealing Cost Audits (Payment Contingent on Outcome)	4,368,000	896,000	0	5,264,000
<b>Total</b>	<b>\$7,813,954</b>	<b>\$1,964,172</b>	<b>\$273,851</b>	<b>\$10,051,977</b>

Source: DPH

#### **Actual Contract Expenditures and Reimbursements**

In the first four years of the contract, DPH paid Toyon \$1,390,052 for filing revenue reimbursements with Medicare and Medi-Cal and for appealing audits with Medicare and Medi-Cal. According to Mr. Matthew Sur, Reimbursement Manager at San Francisco General Hospital, Toyon's appeals work has generated approximately \$15.5 million in total recovered reimbursement funds from Medicare and Medi-Cal audits for San Francisco General Hospital and Laguna Honda Hospital from FY 2015-16 through FY 2017-18, as shown in Table 5 below.

**Table 3: Actual Revenues Generated by Toyon Contract from FY2015 – 17<sup>3</sup>**

City Fiscal Year	End Date of Fiscal Year Audited <sup>4</sup>	Medicare Notice of Payment Reimbursement (NPR) Date <sup>5</sup>	Facility	Revenues Realized from Audit <sup>6</sup>	Revenues Realized from Appeals Paid on Fee For Service Basis <sup>7</sup>	Revenues Realized from Appeals Paid on Contingency Basis <sup>8</sup>	Total Revenue Realized
FY15-16	6/30/2003	2/6/2015	ZSFG <sup>9</sup>	\$ -	\$ 3,034,550	\$ -	\$ 3,034,550
FY15-16	6/30/2002	9/1/2015	ZSFG	\$ -	\$ 314,789	\$ -	\$ 314,789
		<i>Subtotal</i>		\$ -	\$ 3,349,339	\$ -	\$ 3,349,339
FY16-17	6/30/2007	2/24/2016	ZSFG	\$ 3,141,860	\$ -	\$ -	\$ 3,141,860
FY16-17	6/30/2006	6/20/2016	ZSFG	\$ 1,907,704	\$ -	\$ -	\$ 1,907,704
FY16-17	6/30/2006	7/27/2016	ZSFG	\$ -	\$ 197,111	\$ -	\$ 197,111
FY16-17	6/30/2008	12/22/2016	ZSFG	\$ 3,076,612	\$ -	\$ -	\$ 3,076,612
FY16-17	6/30/2001	2/15/2017	ZSFG	\$ -	\$ -	\$ 4,340	\$ 4,340
FY16-17	6/30/1999	4/27/2017	ZSFG	\$ -	\$ -	\$ 4,440	\$ 4,440
		<i>Subtotal</i>		\$ 8,126,176	\$ 197,111	\$ 8,780	\$ 8,332,067
FY17-18	6/30/2009	12/6/2017	ZSFG	\$ 715,208	\$ -	\$ -	\$ 715,208
FY17-18	6/30/2010	6/11/2018	ZSFG	\$ 852,961	\$ -	\$ -	\$ 852,961
FY17-18	6/30/2011	7/24/2018	ZSFG	\$ 2,217,416	\$ -	\$ -	\$ 2,217,416
FY17-18	1999-2011	10/14/2015	LHH <sup>10</sup>	\$ -	\$ -	\$ 31,009	\$ 31,009
		<i>Subtotal</i>		\$ 3,785,585	\$ -	\$ 31,009	\$ 3,816,594
		<b>Grand Total</b>		<b>\$ 11,911,761</b>	<b>\$ 3,546,450</b>	<b>\$ 39,789</b>	<b>\$ 15,498,000</b>

Source: DPH

Almost all of the reimbursements realized by DPH were due to reimbursement for San Francisco General Hospital services. According to Mr. Sur, because San Francisco General Hospital is a large acute care teaching hospital that provides healthcare services to a disproportionate share of low-income individuals, it participates in complex programs and is able to claim additional reimbursement. In contrast, Laguna Honda Hospital, which is primarily

<sup>3</sup> According to Mr. Sur, there were no settlements in FY14-15.

<sup>4</sup> This identifies Fiscal Year with which the revenues realized were generated.

<sup>5</sup> This is the date that DPH was notified by Centers for Medicare & Medicaid Services that they would be reimbursed the amount shown.

<sup>6</sup> Medicare or Medicaid revenues received by DPH as a result of Toyon's audit work and paid to Toyon on a fee-for-service basis.

<sup>7</sup> Medicare or Medicaid revenues received by DPH as a result of Toyon's work in preparing and filing appeals and paid to Toyon on a fee-for-service basis.

<sup>8</sup> This is the Medicare or Medicaid revenues received by DPH as a result of Toyon's work in preparing and filing appeals, paid to Toyon on contingency basis as a percentage of revenues realized (percentage is either 15 percent if services were delivered by DPH on or after 4/1/2014 or 20 percent if services were delivered prior to 4/1/2014).

<sup>9</sup> Zuckerberg San Francisco General Hospital

<sup>10</sup> Laguna Honda Hospital

a skilled nursing facility, and Health at Home Agency are only able to participate in basic reimbursement programs, which limits the amount of additional claimable reimbursement opportunities (through audits and appeals).

### **Future Audits and Appeals**

According to Mr. Sur, over the past four years, the CMS has set out to aggressively complete financial reimbursement audits for hospitals with open years. The DPH hospitals have been subjected to a significant increase in the number of active audits, and subsequent appeals of open reports related to the Medicare and Medicaid Waiver programs going back to FY 2003-04. Mr. Sur stated that despite the aggressive timeline, Medicare audits are still open going back to FY 2011-12, and Medicaid Waiver audits are open going back to FY 2008-09. In order to manage the increases in the number of audits, DPH has increased the contract budget with Toyon for filing revenue reimbursements. As a result of the increase in closed audits, DPH has increased the contract budget with Toyon for maximum allowable payments for audit appeals in anticipation of additional appeal opportunities.

### **RECOMMENDATION**

Approve the proposed resolution.



<b>Item 6</b> <b>File 18-1134</b>	<b>Department:</b> Department of Public Health (DPH)
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution approves Amendment No. 1 to the agreement between DPH and Cross Country for as-needed registry staff to respond to the increase in the patient census at Zuckerberg San Francisco General Hospital. Amendment No. 1 increased the agreement not-to-exceed amount by \$14,812,390, from \$9,840,000 to \$24,652,390. The agreement end date of June 30, 2019 does not change.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Department of Public Health (DPH) entered into an agreement with Cross Country Staffing, Inc. (Cross Country) in 2017, using the competitive process of Vizient, a group purchasing organization for which the DPH is a member. The original agreement between DPH and Cross Country for two years from July 1, 2017 through June 30, 2019, in the amount of \$9,840,000.</li> <li>• Under the agreement, Cross Country provides per diem nursing and support staff to work as-needed at San Francisco General Hospital or Laguna Honda Hospital. DPH is requesting an increase in the agreement with Cross County to provide additional per diem nursing and support staff due to the increase in patient census at San Francisco General Hospital. The budgeted patient census in FY 2018-19 is 285 beds but the actual patient census between July 2018 and October 2018 averaged 317 beds, an increase of 32 beds.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• DPH spent \$9,840,000 on the Cross Country agreement in FY 2017-18 and anticipates spending \$13,437,608 on the Cross Country agreement in FY 2018-19. Total projected expenditures, including a 10 percent contingency, are \$24,652,390.</li> </ul> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## 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.

Administrative Code Section 21A.2.b authorizes the Department of Public Health to join a group purchasing organization to obtain discounts on goods and materials. The Department may enter into agreements for professional services selected by the group purchasing organization.

## BACKGROUND

The Department of Public Health (DPH) entered into an agreement with Cross Country Staffing, Inc. (Cross Country) in 2017, using the competitive process of Vizient, a group purchasing organization for which the DPH is a member.<sup>1</sup> The original agreement between DPH and Cross Country for two years from July 1, 2017 through June 30, 2019, in the amount of \$9,840,000.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves Amendment No. 1 to the agreement between DPH and Cross Country for as-needed registry staff to respond to the increase in the patient census at Zuckerberg San Francisco General Hospital. Amendment No. 1 increased the agreement not-to-exceed amount by \$14,812,390, from \$9,840,000 to \$24,652,390. The agreement end date of June 30, 2019 does not change.

Under the agreement, Cross Country provides per diem nursing and support staff<sup>2</sup> to work as-needed at San Francisco General Hospital or Laguna Honda Hospital. DPH is requesting an increase in the agreement with Cross County to provide additional per diem nursing and support staff due to the increase in patient census at San Francisco General Hospital. The budgeted patient census in FY 2018-19 is 285 beds but the actual patient census between July 2018 and October 2018 averaged 317 beds, an increase of 32 beds.

## FISCAL IMPACT

DPH spent \$9,202,391 on the Cross Country agreement in FY 2017-18 and anticipates spending \$11,456,514 on the Cross Country agreement in FY 2018-19, as shown in the Table below.

---

<sup>1</sup> The Veterans Health Administration and the University Health System Consortium merged in 2015 to form Vizient, which replaced Novation, the company's group purchasing organization brand.

<sup>2</sup> Nursing and support staff may include registered nurses, licensed vocational nurses, certified nursing assistants, personal care assistants, and medical exam assistants. Per diem staff are hired on a daily basis to augment permanent staff if an insufficient number of permanent staff are available due to vacancies, time off, or increase in patient census to meet staffing requirements.

**Table: Actual and Projected Agreement Expenditures**

FY 2017-18 Actual Expenditures	\$9,840,000
FY 2018-19 Projected Expenditures	13,437,608
FY 2018-19 Contingency (10%)	1,374,782
<hr/> Total	<hr/> \$24,652,390

Source: DPH

**RECOMMENDATION**

Approve the proposed resolution.

<b>Items 9, 10, 11, 12, 13 and 14</b> <b>Files 18-1064, 18-1065, 18-1066,</b> <b>18-1067, 18-1068 &amp; 18-1069</b>	<b>Department:</b> San Francisco International Airport (Airport)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p>	
<ul style="list-style-type: none"> <li>• The proposed resolutions would approve food and beverage concession leases between San Francisco International Airport (Airport) as landlord and (i) Bun Mee, LLC, with Minimum Annual Guaranteed (MAG) rent of \$365,000; (ii) SSP America, Inc., with MAG rent of \$365,000; (iii) Amy’s Kitchen Restaurant Operating Company, LLC, with MAG rent of \$475,000; (iv) Paradies Lagardere @ SFO 2018 (F&amp;B), LLC, with MAG rent of \$600,000; (v) Tastes on the Fly San Francisco, LLC, with MAG rent of \$310,000; and (vi) Soaring Food Group, LLC, with MAG rent of \$385,000. Each lease would have a term of ten years with an option to extend for an additional two years.</li> </ul>	
<p style="text-align: center;"><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>• In December 2017, the Airport Commission authorized Airport staff to issue a Request for Proposals (RFP) for nine food and beverage concession leases in Terminal 1, including (i) an Asian quick serve restaurant; (ii) a Mexican, Latin, or South American quick serve restaurant; (iii) an American quick serve restaurant; (iv) a sit-down restaurant and bar; (v) a chicken quick serve restaurant; and (vi) a café.</li> <li>• A panel reviewed the proposals for these six leases and determined (i) Bun Mee, LLC; (ii) SSP America, Inc.; (iii) Amy’s Kitchen Restaurant Company, LLC; (iv) Paradies Lagardere @ SFO 2018 (F&amp;B), LLC; (v) Tastes on the Fly San Francisco, LLC; and (vi) Soaring Food Group, LLC, to be the highest scoring responsive and responsible proposers. In July 2018, the Airport Commission approved the six leases.</li> </ul>	
<p style="text-align: center;"><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>• Over the initial ten-year terms of the six leases, the Airport will receive at least \$22,812,500 in MAG rent. The initial term includes a period of approximately one year and nine months when the MAG would be reduced by 50 percent, due to the phased opening of Terminal 1, which is undergoing significant renovations. The Phase 1 opening is anticipated to be July 23, 2019.</li> <li>• If the Airport exercises the two-year options to extend, it would receive at least \$5,000,000 in additional MAG rent.</li> <li>• The Airport expects to receive percentage rent, which would exceed the MAG.</li> </ul>	
<p style="text-align: center;"><b>Recommendation</b></p>	
<ul style="list-style-type: none"> <li>• Approve the proposed resolutions.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of \$1 million or more is subject to Board of Supervisors approval.

## BACKGROUND

On December 5, 2017, the San Francisco International Airport (Airport) Commission authorized Airport staff to issue a Request for Proposals (RFP) for nine food and beverage concession leases in Terminal 1, including the following six leases:<sup>1</sup>

- Lease 1: Asian Quick Serve Restaurant
- Lease 2: Mexican, Latin or South American Quick Serve Restaurant
- Lease 3: American Quick Serve Restaurant
- Lease 4: Sit-Down Restaurant and Bar
- Lease 5: Chicken Quick Serve Restaurant
- Lease 6: Café

After issuing the RFP and conducting an informational meeting, Airport staff gathered feedback and made changes to some of the business terms. On March 20, 2018, the Airport Commission authorized staff to accept proposals. On May 2, 2018, the Airport received 41 proposals that met the minimum qualifications for the six leases. A four-member panel reviewed the proposals and scored them as shown in Table 1 below.

**Table 1: Proposals and Scores for Terminal 1 Food and Beverage Concession Lease RFP**

Proposer	Concept Name	Score
<i>Lease 1: Asian Quick Serve Restaurant (File 18-1064)</i>		
Bun Mee, LLC	Bun Mee	90.50
Paradies Lagardere @ SFO 2018 (F&B), LLC	Asian Box	88.75
Tastes on the Fly San Francisco, LLC	Out The Door	88.25
Sankaku, Inc.	Sa Su Ke, Sake Sushi House	86.00
Airside Delights SFO Inc.	Shunro	85.75
Lady Luck Gourmet, LLC	Goldilocks Filipino Cuisine	84.50
Teriyaki Madness – SFO Group	Teriyaki Madness	74.75
JDDA Concession Management, Inc.	Panda Express	74.00
Flagship LLC	Yum Roll	69.00
<i>Lease 2: Mexican, Latin or South American Quick Serve Restaurant (File 18-1065)</i>		
SSP America, Inc.	The Little Chihuahua	89.50
Andale Management Group, Inc.	Andale	81.25
JDDA Concession Management, Inc.	Qdoba	76.50
Nopa Ventures	Tortas Colibri	74.75

<sup>1</sup> The Airport Commission has also approved the other three leases included in the RFP: Lease 7 (Asian Quick Serve Restaurant), Lease 8 (Café and Market), and Lease 9 (Sit-Down Restaurant and Bar). These leases will be brought to the Board of Supervisors for approval at a later date.

<i>Lease 3: American Quick Serve Restaurant (File 18-1066)</i>		
Amy's Kitchen Restaurant Operating Company, LLC	Amy's Drive Thru	88.25
Bay Area Hospitality Group 2 LLC	The Mission	83.75
Beecher's Airport Restaurants – CA1, LLC	Beecher's Handmade Cheese	83.75
Rylo Management, LLC	The Counter	83.25
S.F. Mac & Cheese Kitchen – SFO Group	S.F. Mac & Cheese Kitchen	83.25
The Veggie Grill, Inc.	Veggie Grill	78.75
Gate 74, Inc.	Burger King	72.50
M5 SFO	Jamba Juice & Wetzel's Pretzels	68.75
<i>Lease 4: Sit-Down Restaurant and Bar (File 18-1067)</i>		
Paradies Lagardere @ SFO 2018 (F&B), LLC	Bourbon Pub	91.50
Host International, Inc.	Magnolia Brewing	87.50
SSP America, Inc.	Original Joe's	84.75
Bayport Concessions, LLC	Mama's of San Francisco	84.50
Beecher's Airport Restaurants – CA1, LLC	Beecher's Handmade Cheese	83.75
Mission Yogurt, Inc.	San Francisco Joe's	80.00
Nopa Ventures	Parranga	79.25
<i>Lease 5: Chicken Quick Serve Restaurant (File 18-1068)</i>		
Tastes on the Fly San Francisco, LLC	Starbird	91.75
Paradies Lagardere @ SFO 2018 (F&B), LLC	The Organic Coup	87.50
<i>Lease 6: Café (File 18-1069)</i>		
Soaring Food Group, LLC	Illy Caffe	91.00
Joe & The Juice SFO, LLC	Joe & The Juice	86.00
West Coast, LLC	Max's	86.00
Whisk & Bowl – SFO Group	Whisk & Bowl	82.00
JRenee SFO	Fraiche	75.50
Airport Coffee Experts, LLC	Dogpatch Caffe	71.40
Andre-Boudin Bakeries, Inc.	Boudin's	70.20
SBM SFO	Jamba Juice	69.25
High Flying Foods	Peets Coffee & Tea	67.60
Andale Management Group, Inc.	Ritual Coffee Roasters	65.20
S Two Puffs, LLC	Coffee + pi	59.75

The following were determined to be the highest scoring responsive and responsible proposers: (1) Bun Mee, LLC; (2) SSP America, Inc.; (3) Amy's Kitchen Restaurant Operating Company, LLC; (4) Paradies Lagardere @ SFO 2018 (F&B), LLC; (5) Tastes on the Fly San Francisco, LLC; and (6) Soaring Food Group, LLC. On July 10, 2018, the Airport Commission approved leases with the selected proposers.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve food and beverage concession leases between the Airport as landlord and the following concession tenants: (1) Bun Mee, LLC; (2) SSP America, Inc.; (3) Amy's Kitchen Restaurant Operating Company, LLC; (4) Paradies Lagardere @ SFO 2018 (F&B), LLC; (5) Tastes on the Fly San Francisco, LLC; and (6) Soaring Food Group, LLC. All leases would have a term of ten years, with an option for the Airport to extend for an additional two years, for total terms of 12 years. Each tenant would pay the greater of the Minimum Annual

Guaranteed (MAG) rent or percentage rent based on gross revenues. The key provisions of the leases are shown in Table 2 below.

**Table 2: Key Provisions of Proposed Leases**

Tenant	Bun Mee (File 18-1064)	SSP America (File 18-1065)	Amy's Kitchen (File 18-1066)	Paradies Lagardere (File 18-1067)	Tastes on the Fly (File 18-1068)	Soaring Food (File 18-1069)
<b>Square Footage</b>	1,191 square ft.	1,163 square ft.	1,600 square ft.	2,944 square ft.	1,278 square ft.	781 square ft.
<b>Initial MAG Rent<sup>2</sup></b>	\$365,000	\$365,000	\$475,000	\$600,000	\$310,000	\$385,000
<b>Percentage Rent (of Gross Revenues)</b>	8% up to \$500,000, 10% from \$500,000- \$1,000,000, 12% over \$1,000,000	8% up to \$500,000, 10% from \$500,000- \$1,000,000, 12% over \$1,000,000	8% up to \$500,000, 10% from \$500,000- \$1,000,000, 12% over \$1,000,000	8% up to \$1,500,000, 10% from \$1,500,000 – \$2,000,000, 12% over \$2,000,000	8% up to \$500,000, 10% from \$500,000- \$1,000,000, 12% over \$1,000,000	8% up to \$500,000, 10% from \$500,000- \$1,000,000, 12% over \$1,000,000
<b>Minimum Investment</b>	\$1,000 per square foot of the premises					
<b>Interim Rent During Construction</b>	12% of gross revenues					
<b>MAG Adjustment</b>	Adjusted annually based on Consumer Price Index (CPI)					
<b>Deposit</b>	Equal to one-half of initial MAG (subject to mid-term adjustment)					
<b>Early Termination</b>	Airport may terminate with 6 months written notice, if space is required for Airport's Five-Year or Ten-Year Capital Plan					
<b>Cleaning Fee</b>	\$59 per square ft. per year	\$59 per square ft. per year	\$59 per square ft. per year	Does not apply	\$59 per square ft. per year	\$59 per square ft. per year
<b>Infrastructure Fee</b>	\$5 per sq. ft. per year, + \$7,123 per year for terrazzo & trellis	\$5 per sq. ft. per year, + \$7,123 per year for terrazzo & trellis	\$5 per sq. ft. per year, + \$12,886 per year for terrazzo & trellis	Does not apply	\$5 per square ft. per year	\$5 per square ft. per year
<b>Promotional Charge</b>	\$1 per square foot per year					
<b>Pest Control Fee</b>	\$75 per month					

### Phased Opening

Terminal 1 is currently undergoing a significant renovation project, and the renovated terminal will be opened in phases. According to Mr. Tomasi Toki, Airport Principal Property Manager, these six restaurants are expected to open with the Phase 1 opening on July 23, 2019. Due to the phasing, the MAG rent is reduced by 50 percent for the period between the earlier of the Phase 1 opening and July 23, 2019, and the earlier of the Phase 3 opening and May 1, 2021. The full MAG would then be paid after the earlier of May 1, 2021 and the opening of Phase 3.

<sup>2</sup> Beginning with the Airport's 2016 competitive solicitation for food and beverage leases, the Airport sets MAG rents for each fully leased area, on an average, at 65 percent of projected percentage rent.

**FISCAL IMPACT**

Under the terms of each lease, the tenants would pay the greater of the MAG rent or percentage rent of gross revenues. Over the ten year terms of the leases, the Airport would receive at least \$22,812,500 in MAG rent. This includes the phased opening period of approximately 1 year and 9 months, in which the MAG rents are reduced by 50 percent. If the Airport chooses to exercise the options to extend for an additional two years, it would receive at least an additional \$5,000,000 in MAG rent. The MAG rents paid by the tenants are shown in Table 3 below.

**Table 3: MAG Rents Paid by Tenant**

<b>Tenant</b>	<b>MAG Rent</b>	<b>Phased Period (1.75 Years)</b>	<b>Full MAG (8.25 Years)</b>	<b>Full Term (10 Years)</b>	<b>Option Term (2 Years)</b>	<b>Total</b>
Bun Mee (File 18-1064)	\$365,000	\$319,375	\$3,011,250	\$3,330,625	\$730,000	<b>\$4,060,625</b>
SSP America (File 18-1065)	365,000	319,375	3,011,250	3,330,625	730,000	<b>4,060,625</b>
Amy's Kitchen (File 18-1066)	475,000	415,625	3,918,750	4,334,375	950,000	<b>5,284,375</b>
Paradies Lagardere (File 18-1067)	600,000	525,000	4,950,000	5,475,000	1,200,000	<b>6,675,000</b>
Tastes on the Fly (File 18-1068)	310,000	271,250	2,557,500	2,828,750	620,000	<b>3,448,750</b>
Soaring Food (File 18-1069)	385,000	336,875	3,176,250	3,513,125	770,000	<b>4,283,125</b>
<b>Total</b>	<b>\$2,500,000</b>	<b>\$2,187,500</b>	<b>\$20,625,000</b>	<b>\$22,812,500</b>	<b>\$5,000,000</b>	<b>\$27,812,500</b>

According to Mr. Toki, the Airport expects to receive percentage rent, which would exceed the MAG.

**RECOMMENDATION**

Approve the proposed resolutions.



<p><b>Items 16 and 17</b> <b>Files 18-1160 and 18-1161</b></p>	<p><b>Department:</b> Real Estate Division Mayor’s Office of Housing and Community Development</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p>	
<ul style="list-style-type: none"> <li>• File 18-1161 is a resolution approving the jurisdictional transfer of City-owned property at 211-291 Putnam Street from the City’s Real Estate Division to the Mayor’s Office of Housing and Community Development (MOHCD) for a \$0 transfer price.</li> <li>• File 18-1160 is a resolution approving the ground lease between the City and Market Heights 2, LP for 211-291 Putnam Street for up to 99 years in order to rehabilitate a 46-unit multi-family affordable rental housing development.</li> </ul>	
<p style="text-align: center;"><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>• 211-291 Putnam Street is City-owned land adjacent to the Alemany Farmer’s Market. The Real Estate Division entered into a 99-year ground lease with Boomerang Housing Corporation in 1993, who sublet to Boomerang Housing Associates LP, a nonprofit housing developer, to construct a 46-unit apartment building (Market Heights Apartments) with rental units affordable to households with income up to 60 percent of the Area Median Income. The City owns the land and Boomerang Housing Associates LP owns the building. The Real Estate Division has retained administration of the ground lease with Boomerang Housing Associates LP since its inception in 1993. File 18-1161 transfers jurisdiction of 211-291 Putnam Street from the Real Estate Division to MOHCD.</li> <li>• The Market Heights Apartments are slated for rehabilitation. The Market Heights Apartments project is estimated to cost \$35.2 million, which includes the purchase of the existing apartment building by Market Heights 2, LP, a single purpose limited partnership, from Boomerang Housing Associates LP, and rehabilitation of the units. The housing units consist of 45 rental units affordable to households with income up to 50 percent and 60 percent of the Area Median Income, and one manager’s unit.</li> <li>• The proposed ground lease between MOHCD and Market Heights 2, LP for 211-291 Putnam Street replaces the existing ground lease between the City and Boomerang Housing Associates LP. The initial lease term is for 75 years through approximately 2094, with one 24-year option to extend, for a total term of 99 years</li> </ul>	
<p style="text-align: center;"><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>• Rent to be paid by Market Heights 2, LP, under the proposed ground lease is consistent with MOHCD policy and other affordable housing ground leases previously approved by the Board of Supervisors. The base rent to be paid to MOHCD is \$15,000 per year. In addition to the base rent, Market Heights 2, LP, pays residual rent of \$315,000 per year to MOHCD if net operating revenues are sufficient to pay residual rent. Residual rent of \$315,000 and base rent of \$15,000, totaling \$330,000 equals 10 percent of the appraised land value of \$3,300,000.</li> </ul>	
<p style="text-align: center;"><b>Recommendation</b></p>	
<ul style="list-style-type: none"> <li>• Approve the proposed resolutions.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten or more years including options to extend, or that has anticipated revenues of \$1 million or more is subject to Board of Supervisors approval.

City Administrative Code Section 23.30 states that leases of City-owned property can be for less than market rent if the lease is for a proper public purpose.

## BACKGROUND

The Board of Supervisors approved a disposition and development agreement in 1991 between the City and the Bernal Heights Community Foundation for construction of affordable housing on the City-owned property at 211-291 Putnam Street, adjacent to the Alemany Farmer's Market. Bernal Heights Community Foundation assigned its interest in the disposition and development agreement to Bernal Heights Housing Corporation<sup>1</sup>, who subsequently assigned its interest to Boomerang Housing Corporation, a nonprofit housing developer.

The Real Estate Division entered into a 99-year ground lease with Boomerang Housing Corporation in 1993 for City-owned property at 211-291 Putnam Street. Under this ground lease, Boomerang Housing Corporation sublet the property to Boomerang Housing Associates LP, a single purpose limited partnership.<sup>2</sup>

Boomerang Housing Associates LP constructed and operated a 46-unit apartment building, including 45 affordable housing units and one manager's unit on the property. The ground lease restricted the housing units, with the exception of the manager's unit, to households with income up to 60 percent of the Area Median Income<sup>3</sup>.

Boomerang Housing Associates LP continued to own the apartment building and the City owned the land. The Real Estate Division has retained administration of the ground lease with Boomerang Housing Associates LP since its inception in 1993.

## DETAILS OF PROPOSED LEGISLATION

**File 18-1161** is a resolution (1) approving the jurisdictional transfer of City-owned property at 211-291 Putnam Street from the City's Real Estate Division to the Mayor's Office of Housing and Community Development (MOHCD) for a \$0 transfer price; (2) making a finding of consistency with the California Environmental Quality Act (CEQA), the City's General Plan, and the priority policies of Planning Code Section 101.1; and (3) authorizing other actions in furtherance of the resolution.

---

<sup>1</sup> Bernal Heights Community Foundation, which was an affiliate of the nonprofit Bernal Heights Neighborhood Center, no longer exists. Bernal Heights Housing Corporation is a housing affiliate of the Bernal Heights Neighborhood Center.

<sup>2</sup> The limited partnership consisted of AFLCIO/NEF, which exited the limited partnership in year 15; and Boomerang Housing Corporation.

<sup>3</sup> The income restrictions were based on income upon initial occupancy.

**File 18-1160** is a resolution (1) approving the ground lease between the City and Market Heights 2, LP with a term of up to 99 years for 211-291 Putnam Street in order to rehabilitate a 46-unit multi-family affordable rental housing development; (2) making a finding of consistency with the California Environmental Quality Act (CEQA), the City's General Plan, and the priority policies of Planning Code Section 101.1; and (3) authorizing other actions in furtherance of the resolution.

### **Jurisdictional Transfer and Rehabilitation of Affordable Housing**

File 18-1161 approves the transfer of City-owned property at 211-291 Putnam Street from the Real Estate Division to MOHCD for a \$0 transfer price. Because the property transfer is for affordable housing, the transfer does not require an independent appraisal in accordance with Administrative Code Section 23.14.

As noted above, while the City owns the land at 211-291 Putnam Street, the 46-unit apartment building located at 211-291 Putnam Street (known as the Market Heights Apartments) continued to be owned by Boomerang Housing Associates, LP.

### Proposed Rehabilitation of Affordable Housing

The Market Heights Apartments are slated for rehabilitation. In July 2018, the Board of Supervisors approved the application to the California Debt Limit Allocation Committee to allocate residential mortgage revenue bonds to the rehabilitation of the Market Heights Apartments (File 18-0691).<sup>4</sup> The October 2018 California Debt Limit Allocation Committee recommended allocation of \$18 million to the Market Heights Apartment project (File 18-1159, pending before the Board of Supervisors, approves the \$18 million allocation). Other funding sources include federal low income housing tax credits, a carryback loan from Bernal Heights Housing Corporation, and a conventional first mortgage.

The Market Heights Apartments project is estimated to cost \$35.2 million, which includes the purchase of the existing 46-unit apartment building by Market Heights 2, LP<sup>5</sup> from Boomerang Housing Associates LP, and rehabilitation of the 46 units. According to MOHCD, no residents will be displaced, as all existing residents have the right to return after temporary relocation. The project budget includes \$685,000 for relocation costs.

### **Proposed Ground Lease**

The proposed ground lease between MOHCD and Market Heights 2, LP for 211-291 Putnam Street (File 18-1160) replaces the existing ground lease between the City and Boomerang Housing Associates LP.

---

<sup>4</sup> The Internal Revenue Service Code limits the amount of tax-exempt debt that a state can issue in a calendar year. The California Debt Limit Allocation Committee (CDLAC) reviews applications and approves the allocation of tax-exempt debt (i.e., residential mortgage revenue bonds) to qualified projects.

<sup>5</sup> Market Heights 2, LP, is a single purpose limited partnership formed in August 2018, consisting of RPMH, LLC, as the Managing General Partner (which is an affiliate of Boomerang Housing Corporation); Devine Bernal LLC as the Administrative General Partner (which is an affiliate of Devine & Gong, affordable housing consultants); and Enterprise Community Partners as the limited partner equity investor.

*Lease Term*

The initial lease term is for 75 years through approximately 2094, with one 24-year option to extend, for a total term of 99 years.

*Purpose of the Lease*

According to the proposed ground lease, Market Heights 2, LP, will acquire Market Heights Apartments from Boomerang Housing Associates LP to rehabilitate and operate the affordable apartment building. The housing units will be affordable to households with income up to 50 percent and 60 percent of the Area Median Income.

**FISCAL IMPACT**

Rent to be paid by Market Heights 2, LP, under the proposed ground lease is consistent with MOHCD policy and other affordable housing ground leases previously approved by the Board of Supervisors. The base rent to be paid to MOHCD is \$15,000 per year. In addition to the base rent, Market Heights 2, LP, pays residual rent of \$315,000 per year to MOHCD if net operating revenues are sufficient to pay residual rent. Residual rent of \$315,000 and base rent of \$15,000, totaling \$330,000 equals 10 percent of the appraised land value of \$3,300,000.<sup>6</sup>

**RECOMMENDATION**

Approve the proposed resolutions.

---

<sup>6</sup> August 2018 report by Watts, Cohn and Partners, Inc.

<b>Item 18</b> <b>File 18-1109</b>	<b>Department:</b> Public Utilities Commission (PUC)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance would authorize an increase of \$160,000,000 in the principal amount of the SFPUC's Power Enterprise's Commercial Paper Program from the current not-to-exceed principal amount of \$90,000,000 to a principal amount not-to-exceed \$250,000,000 to be issued from time to time by the SFPUC to provide interim financing for Power Enterprise capital projects. The Power Enterprise's Commercial Paper Program includes capital projects approved under Administrative Code Section 9.107 for the reconstruction or replacement of existing power facilities, and for future projects approved under Proposition A to reconstruct, replace, expand, repair or improve the SFPUC's power facilities.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The SFPUC's Hetch Hetchy Enterprise is responsible for power trading and scheduling, customer relations and billing, in-City facilities, distribution infrastructure, street lights, public policy and financial planning. Power sales must generate sufficient revenues to fund the Enterprise's operating expenses and capital program.</li> <li>• The SFPUC's 10-Year Capital Plan provides for \$371 million in Hetch Hetchy power capital project expenditures through 2028. The Board of Supervisors previously authorized the sale of power revenue bonds up to approximately \$351,857,989. In November 2015, the Board of Supervisors approved an ordinance authorizing the SFPUC to issue Power Enterprise Commercial Paper in the aggregate principal amount not-to-exceed \$90,000,000.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The SFPUC is requesting an increase of \$160 million in Commercial Paper Program authorization from \$90 million to \$250 million to provide interim financing for Power Enterprise capital projects previously appropriated by the Board of Supervisors. The SFPUC has previously issued approximately \$20 million of the existing authorization, and will issue an additional \$60 million for projects totaling \$80 million.</li> <li>• Commercial paper interest rates and fees at approximately 2.25 percent annually are significantly lower than long-term revenue bond interest rates and fees, which are currently approximately 4.0 percent annually. Increasing the SFPUC commercial paper authorization will provide the SFPUC the flexibility to more efficiently finance its capital projects, by reducing the period of paying capitalized interest and allowing the SFPUC to issue bonds at a later date, thereby lowering the SFPUC's debt and debt service costs. Reducing SFPUC debt service costs should result in lower cost increases to electricity rate payers.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed ordinance.</li> </ul>	

**MANDATE STATEMENT**

Charter Section 9.107(6, 8) states that the Board of Supervisors is authorized to provide for the issuance of revenue bonds for the purpose of the reconstruction or replacement of existing water facilities or electric power facilities or combinations of water and electric power facilities under the jurisdiction of the Public Utilities Commission, when authorized by resolution adopted by a three-fourths affirmative vote of all members of the Board of Supervisors; and issued to finance or refinance the acquisition, construction, installation, equipping, improvement or rehabilitation of equipment or facilities for renewable energy and energy conservation.

City Charter Section 8B.124 states that the San Francisco Public Utilities Commission (SFPUC) may issue revenue bonds, including notes, commercial paper or other forms of indebtedness in order to reconstruct, replace, expand, repair or improve SFPUC water facilities or clean water facilities and that such debt issuances are subject to two-thirds approval by ordinance by the Board of Supervisors.

The Board of Supervisors authority under Charter Section 8B.124 is subject to receipt of a certification from (1) an independent engineer that (i) the projects to be financed by such debt meet utility standards and (ii) estimated net revenue will be sufficient to meet operating, maintenance, debt service coverage and other indenture or resolution requirements and (2) the San Francisco Planning Department that facilities financed with such debt will comply with applicable requirements of the California Environmental Quality Act (CEQA).

**BACKGROUND**

The SFPUC's Hetch Hetchy Water and Power Enterprise, of which the Power Enterprise is a component, is responsible for power trading and scheduling, customer relations and billing, in-City facilities, distribution infrastructure, street lights, public policy and financial planning. The Hetch Hetchy Water and Power Enterprise is also responsible for all water and power facilities at Hetch Hetchy. Power sales must generate sufficient revenues to fund the Hetch Hetchy Enterprise's operating expenses and capital program.

The Public Utilities Commission approved the SFPUC 10-Year Capital Plan for FY 2018-19 to FY 2027-2028 in January 2018. The 10-Year Capital Plan provides for \$371 million in Hetch Hetchy power capital project expenditures through 2028. These projects are funded primarily by Power Revenue Bonds, Water Revenue Bonds, operating revenue, and Cap and Trade Allowances<sup>1</sup>. The Power Enterprise Capital Plan is subject to approval by the Board of Supervisors as part of the SFPUC's two-year budget.

The Board of Supervisors previously authorized the sale of power revenue bonds up to approximately \$351,857,989 (Files 14-0482, 15-0078, 15-0079, 15-0942, 16-0473, and 18-0450).

---

<sup>1</sup> The California Cap and Trade Program sets greenhouse gas emission allowances for public and private utilities and other agencies; agencies that do not fully use their greenhouse gas emission allowance can sell the allowance to other agencies.

## Commercial Paper and Revenue Bonds

The SFPUC can issue commercial paper in advance of an anticipated longer-term revenue bond sale in order to provide short-term funding (no more than 270 days<sup>2</sup>) to finance capital projects. Proceeds from the sale of revenue bonds are then used to pay off the shorter-term commercial paper. Ultimately, the SFPUC redeems any power revenue bonds, including notes, commercial paper or other forms of indebtedness from revenues collected from power sales. In November 2015, the Board of Supervisors approved an ordinance to authorize the SFPUC to issue Power Enterprise Commercial Paper in the aggregate principal amount not-to-exceed \$90,000,000 (File 15-1088).

In addition, Proposition A, approved by San Francisco voters on June 5, 2018, authorized the SFPUC to issue indebtedness including revenue bonds, notes, or commercial paper, when authorized by ordinance approved by a two-thirds vote of the Board of Supervisors to reconstruct, replace, expand, repair or improve the SFPUC's power facilities, and in compliance with City Charter Section 8B.124, provided that the indebtedness is not used to finance the construction of power plants that generate electricity using fossil fuels or nuclear energy.

### DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (a) authorize an increase of \$160,000,000 in the principal amount of the SFPUC's Power Enterprise's Commercial Paper Program from the current not-to-exceed principal amount of \$90,000,000 to a principal amount not-to-exceed \$250,000,000, (b) authorize such commercial paper to be issued from time to time by the SFPUC to finance on an interim basis various capital projects benefitting the Power Enterprise pursuant to amendments to the City Charter enacted by San Francisco voters on June 5, 2018 as Proposition A, (c) authorize and direct the SFPUC General Manager, Controller, Director of the Office of Public Finance, Treasurer, City Attorney and other authorized staff and agents to take actions necessary to execute, issue and deliver the authorized commercial paper, and (d) ratify previous actions taken in connection with this ordinance.

On November 13, 2018, the SFPUC approved Resolution No. 18-0188, to authorize an increase of an additional \$160,000,000 from the existing authorization of not to exceed \$90,000,000 for a total not-to-exceed authorization of \$250,000,000 of aggregate principal Power Enterprise Commercial Paper and authorize the SFPUC General Manager to issue the Commercial Paper in accordance with the specified terms.

### Letters of Credit

An existing letter of credit, which is scheduled to expire in December 2018<sup>3</sup>, provided by Bank of America supports the Power Enterprise's Commercial Paper Program and allows the SFPUC to issue up to \$90,000,000 in commercial paper. Under the proposed ordinance, letters of

---

<sup>2</sup> The typical term for commercial paper is shorter than 270 days, but the notes may be remarketed and can in effect remain outstanding for longer than 270 days, even several years.

<sup>3</sup> The SFPUC have requested an extension on the existing \$90,000,000 letter of credit provided by Bank of America through April 1, 2019 until the new letters of credit may be authorized, pending approval of the proposed ordinance.

credit, which would support the Program and allow the SFPUC to issue up to \$250,000,000 in commercial paper, would be provided as follows:

- \$125,000,000 in an amended letter of credit provided by Bank of America from approximately December 2018 through approximately December 2021, or an increase of \$35,000,000 to the existing letter of credit of \$90,000,000
- \$125,000,000 in a new letter of credit provided by Sumitomo Mitsui Bank from approximately December 2018 through approximately December 2022

The SFPUC selected Bank of America and Sumitomo Mitsui Bank as the proposed credit facility providers through a competitive request for proposal sent to 12 qualified banks. Five proposals were received, and the two banks were selected as the lowest cost and most responsive and responsible proposals. As short term debt, commercial paper is resold up to every 270 days. Bank of America and Sumitomo Mitsui Bank would guarantee sufficient funds to the SFPUC through letters of credit to cover problems with the resale of the commercial paper. The SFPUC would draw on the letters of credit only in the event that the SFPUC could not make the required payments to the commercial paper investors. In the event that the SFPUC draws on the letter of credit, interest on the commercial paper purchased by the banks could increase up to 12 percent per year.

### **Financing Documents**

#### *Issuing and Payment Agent Agreement*

The Issuing and Payment Agent Agreement between the SFPUC and the Issuing and Paying Agent (U.S. Bank) sets out the terms by which the SFPUC issues and repays commercial paper. The agreement establishes various funds into which proceeds of the commercial paper are deposited or from which the SFPUC repays the credit facility banks (Bank of America and Sumitomo Mitsui Bank) for draws against the Letters of Credit.

#### *Reimbursement Agreements*

The Reimbursement Agreements between the SFPUC and each of the credit facility providers sets out the terms by which the Letter of Credit is issued as well as the terms under which the SFPUC repays the Bank of America and Sumitomo Mitsui Bank for draws against the Letters of Credit.

#### *Fee Agreements*

The SFPUC will pay a fee to each bank for the letter of credit equal to approximately 0.35 percent of the letter of credit of \$125,000,000, or \$476,336<sup>4</sup> per year for each bank, totaling \$952,672 per year for the proposed letters of credit provided by Bank of America and Sumitomo Mitsui Bank.

#### *Dealer Agreements*

The SFPUC would extend existing agreements with three commercial paper dealers, Barclays, Goldman Sachs and RBC Capital Markets. The agreements would be extended for four years,

---

<sup>4</sup> Calculated based on the stated amount in the letter of credit which includes interest



and the annual fee for each would be 0.0475% of the \$250,000,000, which is lower than the 0.05% market rate for dealer fees and is only paid on the amount of outstanding commercial paper remarketed by each dealer. The Dealer Agreements set the terms by which each dealer may purchase or arrange for the sale of the commercial paper.

### **Charter Required Certifications**

According to the Legislative Digest, except to the extent the Power Enterprise issues revenue bonds under Charter Sections 9.107(6) or 9.107(8), the Public Utilities Commission must obtain certification from (1) an independent engineer that projects funds by SFPUC debt meet utility standards, and estimated net revenue will be sufficient to meet operating, maintenance, debt service, and other requirements; and (2) from the Planning Department that these projects conform to CEQA. According to the proposed ordinance, the use of any indebtedness, including commercial paper, is subject to the receipt of these certifications for any new projects funded pursuant to Proposition A.

While approval of the proposed ordinance does not require such certifications, issuance of future debt for projects funded pursuant to Proposition A and Charter Section 8B.124, including the use of commercial paper as interim financing for these projects, does require these certifications.

### **FISCAL IMPACT**

The SFPUC is requesting the increased authorization of \$160,000,000, from a not-to-exceed \$90,000,000 to a total authorization not-to-exceed amount of \$250,000,000, in order to provide immediate short-term funding for projects funded in FY 2014-15 through FY 2019-20. The Board of Supervisors previously authorized the issuance and sale of power revenue bonds and other forms of indebtedness to finance the costs of Hetch Hetchy Water and Power capital projects<sup>5</sup>:

- On June 24, 2014, the Board of Supervisors approved Ordinance 104-14, which appropriated \$217,478,836 for projects budgeted in FY 2014-15 and FY 2015-16.
- On June 14, 2016, the Board of Supervisors approved Ordinance 110-16, which appropriated \$158,125,530 for projects budgeted in FY 2016-17 and FY 2017-18.
- On June 12, 2018, the Board of Supervisors approved Ordinance 139-18, which appropriated \$340,106,949 for projects budgeted in FY 2018-19 and FY 2019-20.

Without the requested \$160,000,000 increase in the commercial paper program, the SFPUC would issue SFPUC revenue bonds for these capital projects in 2019. However, if the proposed ordinance is approved, Mr. Michael Brown, SFPUC Capital Finance, advises that the SFPUC would issue commercial paper to fund these capital project costs in 2019 and then delay the issuance of revenue bonds.

---

<sup>5</sup> Corresponding financing ordinances for the appropriations pursuant to San Francisco Charter Sections 9.107(6) and 9.107(8) include 106-14 and 041-15 for FY 2014-15 and FY 2015-16, 113-16 for FY 2016-17 and FY 2017-18, and 141-18 for FY 2018-19 and FY 2019-20.

According to Mr. Brown, the SFPUC has previously issued approximately \$20 million of the existing \$90 million Commercial Paper authorization, and will issue an additional \$60 million for projects that were placed on Controller's Reserve at the time of the appropriation but that have now been released, for total Commercial Paper issuance of \$80 million against the existing \$90 million authorization. This leaves a current remaining authorized commercial paper balance of approximately \$10 million. As shown in Table 1 below, the SFPUC is planning to use the requested \$160,000,000 additional authorization for Power Enterprise Commercial Paper to help fund a total estimated \$314,857,654 of Power Enterprise capital project needs.

**Table 1: Summary of Projects to be Funded with Commercial Paper and Power Enterprise Revenue Bonds**

<b>Sources of Funds</b>	
Existing Commercial Paper Authority	\$90,000,000
Requested Commercial Paper Authority	160,000,000
Power Revenue Bonds	64,857,654
<b>Total Sources</b>	<b>\$314,857,654</b>
<b>Uses of Funds</b>	
<u>Power Enterprise Capital Projects Costs</u>	
Streetlights	\$16,312,338
Intervening Facilities	19,900,000
SFO Airport Substation	10,620,000
Power Infrastructure	120,140,454
Joint Power - Bonds	46,244,550
Mountain Tunnel	48,242,150
Financing Costs	52,352,444
City Services Auditor	888,289
Revenue Bond Oversight Committee	157,429
<b>Total Uses</b>	<b>\$314,857,654</b>

Source: SFPUC

### Commercial Paper Interest Rates and Fees

In accordance with the proposed ordinance, the interest rate on the commercial paper will not exceed 12 percent annually. However, according to Mr. Richard Morales, Debt Manager at the SFPUC, the actual interest rate on commercial paper is currently approximately 1.75 percent annually based on 60-day maturities, the typical length of SFPUC commercial paper. In addition to the commercial paper interest rate of 1.75 percent, there are bank credit facility fees and dealer fees, which generally result in an additional 0.5 percent cost or total costs of approximately 2.25 percent annually for the subject commercial paper under current market conditions. Rates for commercial paper may increase or decrease as the benchmark federal fund rates vary.

The SFPUC would incur estimated maximum annual fees and interest payments of \$3,485,710, or approximately 2.18 percent of the additional \$160,000,000 authorization of Power Enterprise Commercial Paper, as shown in Table 2. The \$3,485,710 estimated maximum cost, includes \$609,710 in fees paid to Bank of America and Sumitomo Matsui Bank for the Letters of Credit; a maximum total of \$76,000 to the three dealers noted above to sell and remarket the commercial paper to investors; and an estimated maximum total of \$2,800,000 in interest payments, based on current market conditions. The actual amount of fees will vary depending on when the SFPUC issues commercial paper, as interest and dealer fees accrue only when commercial paper is outstanding.

**Table 2: Maximum Estimated Annual Fees and Interest Payments**

Bank of America Fees (0.35% on \$35 Million Annually)*	133,374
Sumitomo Mitsui Bank Fees (0.35% on \$125 Million Annually)*	<u>476,336</u>
Subtotal Fees for Letters of Credit	609,710
Dealer Fees (0.0475% Annually)	76,000
Interest Payments (1.75% Annually in today’s market)	2,800,000
<b>Total Annual Fees</b>	<b><u>3,485,710</u></b>

Source: SFPUC

\*Calculated based on the stated amount in the letter of credit which includes interest

**Commercial Paper vs Revenue Bonds**

Mr. Morales notes that commercial paper interest rates and fees at approximately 2.25 percent annually are significantly lower than long-term revenue bond interest rates and fees, which are currently approximately 4.0 percent annually. Mr. Brown advises that increasing the SFPUC commercial paper authorization will provide the SFPUC the flexibility to more efficiently finance its capital projects, by reducing the period of paying capitalized interest and allowing the SFPUC to issue bonds at a later date, thereby lowering the SFPUC’s debt and debt service costs. Reducing SFPUC debt service costs should result in lower cost increases to electricity rate payers.

**RECOMMENDATION**

Approve the proposed ordinance.

<p><b>Item 19</b>  <b>File 18-1043</b>  <i>(Continued from the November 29, 2018)</i></p>	<p><b>Departments</b>                  City Administrator,                  Department of Public Works</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p><b>Legislative Objectives</b></p>	
<ul style="list-style-type: none"> <li>• The proposed ordinance would amend the Administrative Code to require a citywide project labor agreement applicable to certain public work or improvement projects with projected costs over the threshold amounts (ranging from \$1,000,000 to \$5,000,000 depending on the year the advertisement for bid is released; or \$10,000,000 if the project is funded by a source other than General Obligation Bond) or where delay in completing the project may interrupt or delay services or use of facilities that are important to the City’s essential operations or infrastructure.</li> </ul>	
<p><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>• A project labor agreement is a collective bargaining agreement with one or more labor organizations that establishes the terms and conditions of employment for specific construction projects. California Senate Bill (SB) 922 prohibits local governments (other than charter cities) from banning project labor agreements; charter cities such as San Francisco are not prohibited from banning project labor agreements but the State may withhold state funding from these cities’ projects.</li> <li>• According to the League of California Cities, arguments supporting project labor agreements include reducing the risk of construction delays and associated costs caused by a shortage of workers or labor disputes due to no-strike provisions in the agreement and use of centralized hiring systems. Arguments against project labor agreements include limits to competition, preference for union over non-union labor, and potential increased costs.</li> </ul>	
<p><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>• The City Services Auditor’s March 2016 report on the <i>Risk-Benefit Assessment of a Citywide Project Labor Agreement</i> found that, among other findings, the potential effects of a project labor agreement on the City’s construction costs are unclear. Based on the report’s findings, the City Services Auditor did not find “compelling evidence to suggest that the City would realize significant benefits from a mandated citywide PLA and recommends that departments are instead encouraged to consider the use of PLAs when appropriate for their needs, as in the case of the Airport and the SFPUC.”</li> <li>• According to the City Services Auditor’s report, the Office of Labor Standards Enforcement, the Department of Public Works, and other City departments could potentially need to add staff positions to administer and monitor the project labor agreement. The City would likely incur other costs associated with enhancing existing systems and/or procuring new systems to facilitate standard data collection and reporting.</li> </ul>	
<p><b>Recommendation</b></p>	
<ul style="list-style-type: none"> <li>• Approval of the proposed ordinance is a policy matter for the Board of Supervisors.</li> </ul>	

**MANDATE STATEMENT**

Charter Section 2.105 requires that legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

**DETAILS OF PROPOSED LEGISLATION**

The proposed ordinance would amend the Administrative Code to require a citywide project labor agreement applicable to certain public work or improvement projects with projected costs over the threshold amounts (ranging from \$1,000,000 to \$5,000,000 depending on the year in which the advertisement for bid is released; or \$10,000,000 if the project is funded by a source other than a General Obligation Bond) or where delay in completing the project may interrupt or delay services or use of facilities that are important to the City's essential operations or infrastructure.

**Project Labor Agreements**

A project labor agreement is a collective bargaining agreement with one or more labor organizations that establishes the terms and conditions of employment for specific construction projects. California Senate Bill (SB) 922 prohibits local governments (other than charter cities) from banning project labor agreements; charter cities such as San Francisco are not prohibited from banning project labor agreements but the State may withhold state funding from these cities' projects.

According to the League of California Cities, arguments supporting project labor agreements include reducing the risk of construction delays and associated costs caused by a shortage of workers or labor disputes due to no-strike provisions in the agreement and use of centralized hiring systems. Arguments against project labor agreements include limits to competition, preference for union over non-union labor, and potential increased costs.

**Proposed Ordinance**

Under the proposed ordinance, public works and capital improvement projects with projected costs over the threshold amounts, or determined to be essential, as noted above, would require project labor agreements. The threshold amounts for

- (1) projects funded by General Obligation Bonds begin at \$5,000,000 in the first year after signing the project labor agreement, \$3,000,000 in the second year and \$1,000,000 thereafter for General Obligation Bond-funded projects; and
- (2) \$10,000,000 for projects funded through sources other than a General Obligation Bond.

These would include Department of Public Works and Recreation and Park Department projects, but not Airport, Port, San Francisco Public Utilities Commission (SFPUC), or San Francisco Municipal Transportation Agency (SFMTA) projects. These projects would still be subject to Administrative Code provisions pertaining to public works contracts, Local Business Enterprise, and First Source Hiring.

The proposed ordinance would require the City Administrator to negotiate a project labor agreement with labor unions on behalf of the City no later than January 1, 2020. For public works and capital projects that begin after the start date, labor unions, contractors, and subcontractors would be bound by the terms of the project labor agreement. The project labor agreements would cover craft workers, but not supervisors above the foreman, managers, and clerical staff.

Under the project labor agreements, contractors and subcontractors would be required to hire union workers and apprentices in the State-approved joint apprenticeship program for the applicable crafts and trades. Unions would be required to use the Helmets to Hardhats program to assist returning veterans in obtaining training and employment on the projects.

The project labor agreements would provide a mechanism to resolve jurisdictional disputes between the labor unions. Labor unions would be required to refrain from strikes, and other work actions related to the project, and union workers would be required to continue working on the project despite in the event that the respective collective bargaining agreement(s) expired without a successor agreement.

## FISCAL IMPACT

### Impact on Construction Costs

The City Services Auditor's March 2016 report on the *Risk-Benefit Assessment of a Citywide Project Labor Agreement* found that, among other findings, the potential effects of a project labor agreement on the City's construction costs are unclear. Based on the report's findings, the City Services Auditor did not find "compelling evidence to suggest that the City would realize significant benefits from a mandated citywide PLA and recommends that departments are instead encouraged to consider the use of PLAs when appropriate for their needs, as in the case of the Airport and the SFPUC."

### City Departments' Administration and Monitoring Costs

The San Francisco Public Utilities Commission (SFPUC) used a project labor agreement for the \$4.8 billion Water System Improvement Program, and had approximately five full time equivalent staff positions to administer the agreement. In addition to project labor agreement administration, these positions were responsible for community outreach, especially to Local Business Enterprise contractors.<sup>1</sup>

According to the City Services Auditor's report, the Office of Labor Standards Enforcement, the Department of Public Works, and other City departments could potentially need to add staff positions to administer and monitor the project labor agreement. The City Services Auditor's report estimated that Public Works and other City departments subject to the project labor agreement ordinance (in this case, the Recreation and Park Department) would likely require numerous additional staff but did not provide a specific estimate.

---

<sup>1</sup> *Risk-Benefit Assessment of a Citywide Project Labor Agreement*, page 19.

According to the City Administrator's Office, "estimating the cost of administering a citywide Project Labor Agreement is challenging give the uncertainty about what specific provisions will be included in the Agreement." According to the City Administrator's Office, based on the number of active Public Works and Recreation and Park Department projects that could be covered by a project labor agreement, the Office of Labor Standards Enforcement could require five new positions to monitor compliance with the agreement.

The City Services Auditor's report also estimated that the City would likely incur other costs associated with enhancing existing systems and/or procuring new systems to facilitate standard data collection and reporting. The City Administrator's Office also estimates one-time costs for the City Administrator to negotiate the project labor agreement (as required by the proposed ordinance) and for potential database system modifications to enable the tracking and reporting related to agreement administration and monitoring.

### **RECOMMENDATION**

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