CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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July 13, 2012

TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: July 18, 2012 Budget and Finance Sub-Committee Meeting

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Item 1 File 12-0487	**Departments:** Department of Public Works (DPW), War Memorial

EXECUTIVE SUMMARY

Legislative Objective

The proposed ordinance would appropriate $155,000,000 of Certificates of Participation proceeds for the Veterans Building Seismic Upgrade and Improvements Project to the Department of War Memorial for FY 2011-12.

Key Points

- On July 13, 2011, the Board of Supervisors approved the execution and delivery of Certificates of Participation (COPs) in an aggregate principal amount not to exceed $170,000,000 to finance the seismic upgrade of and certain improvements to the War Memorial Veterans Building (File 11-0750). To date, the Board of Supervisors has appropriated $15,000,000 of the $170,000,000 to the War Memorial Seismic Upgrade and Improvement Project, through the FY 2010-11 Annual Appropriation Ordinance.
- The Department of Public Works (DPW) is the project manager for the War Memorial Seismic Upgrade and Improvement Project.
- DPW is now requesting appropriation of the remaining $155,000,000 of the $170,000,000 project cost, in order to enter into necessary preconstruction and construction agreements. DPW anticipates entering into agreements for (a) preconstruction services in September 2012 and (b) construction services in January 2013.
- War Memorial Veterans Building tenants, including (a) the Department of the War Memorial; (b) the San Francisco Posts of the American Legion and other veteran organizations; (c) the City's Law Library; and (d) the City's Arts Commission will need to vacate the Veterans Building on or before June 30, 2013 to allow for construction. Construction is estimated to take up to two years, from July 1, 2013 through June 30, 2015.
- The proposed ordinance would appropriate funds for FY 2011-12. Since FY 2011-12 concluded on June 30, 2012, the proposed ordinance should be amended to provide the requested supplemental appropriation in FY 2012-13.

Fiscal Impact

- The source of funds for the proposed $155,000,000 supplemental appropriation is revenue from the City's Commercial Paper Program, and revenue from Certificates of Participation (COPs), the issuance of which was previously approved by the Board of Supervisors. Any Commercial Paper costs would be refunded by revenue from COPs, which are projected to be issued in December 2012. The COPs would be repaid with General Fund revenues.

Recommendations

- Amend page 1, lines 5 and 11 to replace "Fiscal Year 2011-2012" with "Fiscal Year 2012-13."
- Approve the proposed ordinance as amended.

MANDATE STATEMENT & BACKGROUND

Mandate Statement

Under San Francisco Administrative Code Section 3.15, supplemental appropriations are subject to appropriation approval by the Board of Supervisors.

Background

The San Francisco War Memorial complex includes two buildings, the Veterans Building and the War Memorial Opera House, and the adjoining outdoor Memorial Court, all of which were completed in 1932. The complex is designated as both a City Landmark and State Landmark. The Veterans Building currently provides: (a) office, exhibit, and meeting space for the San Francisco Posts of the American Legion and other veteran organizations; (b) office space for the City's War Memorial staff; (c) exhibition space for the San Francisco Arts Commission; (d) office and exhibition space for various local non-profit organizations; (e) office space for the Mayor's Office of Disability; (f) the City's Law Library; and (g) meeting space for the City's Department of Environment. In addition, the Veterans Building also houses the Herbst Theatre and the Green Room performance and reception hall.

On July 13, 2011, the Board of Supervisors approved the execution and delivery of $170,000,000 of Certificates of Participation (COPs) to finance the seismic upgrade of and certain improvements to the War Memorial Veterans Building (File 11-0750). The Veterans Building Seismic Upgrade and Improvements Project consist of the following improvements:

- Seismic upgrades and earthquake damage repair;
- Hazardous materials mitigation;
- Improvements to preserve and improve building facilities, including:
    - Roof and skylights renovation;
    - Replacement or upgrade of attic catwalks and service platforms; and
    - Elevator upgrades;
- Accessibility upgrades;
- Local, State, and Federal Building Code-mandated upgrades, including:
    - Energy efficiency upgrades;
    - Mechanical system upgrades; and
    - Central plant replacement; and
- Replacement of the building's water piping and drinking water system.

The City's FY 2010-11 Annual Appropriation Ordinance (AAO), as previously approved by the Board of Supervisors, included $15,000,000 in the War Memorial's departmental budget for the Veterans Building Seismic Upgrade and Improvements Project (File 10-0701). The proposed supplemental appropriation ordinance would appropriate the remaining $155,000,000 of the $170,000,000 budget for the Veterans Building Seismic Upgrade and Improvements Project ($170,000,000 less $15,000,000).

DETAILS OF PROPOSED LEGISLATION

The proposed supplemental appropriation ordinance would appropriate $155,000,000 of Certificates of Participation proceeds for the Veterans Building Seismic Upgrade and Improvements Project for FY 2011-12. The requested $155,000,000 supplemental appropriation request, plus $15,000,000 previously appropriated to the Veterans Building Seismic Upgrade and Improvements Project in the FY 2010-11 Annual Appropriation Ordinance, equals the $170,000,000 total cost of the War Memorial Seismic Upgrade and Improvement Project.

The proposed supplemental appropriation of $155,000,000 would be expended on seismic upgrades and other improvements to the War Memorial Veterans Building as described in the Fiscal Impacts section below.

Veterans Building Seismic Upgrade and Improvements Project preconstruction activities have already commenced. Current tenants of the War Memorial Veterans Building, including the Department of the War Memorial; the San Francisco Posts of the American Legion and other veteran organizations; the City's Law Library; and the City's Arts Commission will need to vacate the Veterans Building on or before June 30, 2013. Construction is anticipated to last for up to two years, from July 1, 2013 to June 30, 2015.

According to DPW Project Manager Ms. Tara Lamont, DPW cannot enter into preconstruction or construction service agreements for the Veterans Building Seismic Upgrade and Improvements Project until the proposed supplemental appropriation has been approved. Ms. Lamont notes that without the proposed supplemental appropriation, DPW cannot approve the contractors to commence work. Preconstruction is currently scheduled to commence in September 2012 and initial construction is scheduled to commence in January 2013. Therefore, according to Ms. Lamont, delay or inaction on the proposed supplemental appropriation ordinance could result in (a) delays to the Veterans Building Seismic Upgrade and Improvements Project; (b) conflicts with Herbst Theatre commitments; and (c) potentially jeopardize the San Francisco Opera's gift of $21,000,000 for improvements to the fourth floor of the Veterans Building that are in addition to the $170,000,000 budget for the Veterans Building Seismic Upgrade and Improvements Project.

FISCAL IMPACTS

Funding for the proposed supplemental appropriation ordinance would be provided by a combination of Commercial Paper and Certificates of Participation (COPs), both of which have been previously approved by the Board of Supervisors (Files 10-0701 and 11-0750, respectively). According to Mr. Anthony Ababon of the Office of Public Finance, the City anticipates issuing the COPs in December 2012. Until the COPs are issued, the City's Commercial Paper program would provide any necessary funding. All Commercial Paper would be repaid by revenue from the issuance of the COPs. The COPs would be repaid from General Fund revenues, subject to future Board of Supervisors appropriation approval.

According to the Office of Public Finance, the planned use of Commercial Paper is in accordance with the City's Commercial Paper program, previously approved by the Board of Supervisors on April 6, 2010 (File 10-0269). The Office of Public Finance notes, "Commercial paper is an alternative form of short-term (or interim) financing for capital projects that permits the City to pay project costs as project expenditures are incurred."

Uses of the proposed $155,000,000 supplemental appropriation are shown in Table 1, below.

Table 1. Uses of the Proposed Supplemental Appropriation

Uses	Cost
Construction and Preconstruction Costs	**$117,192,900**
Debt Service Reserve, Capitalized Interest, and Costs of Issuance	**35,659,410**
Debt Service Reserve	12,299,400
Capitalized Interest	22,117,250
Other Costs of Issuance	402,185
Other Underwriter's Discount	840,575
Reserve Pending COP Sale*	**1,885,000**
City Services Auditor	**262,600**
Total Uses	**$155,000,000**

* This amount is set-aside in case of fluctuations in market rates for the Certificates of Participation. It cannot be used for other uses.

As is noted above, the total cost of this project is $170,000,000. A budget for the total project amount of $170,000,000 ($15,000,000 previously approved in FY 2010-11 and $155,000,000, which is the subject supplemental appropriation ordinance) is shown in Table 2 below.

Table 2: Veterans Building Seismic Upgrade and Improvements Project Budget

Hard Costs - Construction Contract Costs	**$101,940,800**
Soft Costs - Project Management, Design, Permits, etc.	**27,859,200**
a. Basic Engineering/Architectural Services	11,055,000
b. Supplemental Engineering/Architectural Services	2,412,589
c. Additional Construction Management Services, Geotech, Surveys	2,633,811
d. Construction Management and Related Services	4,690,800
e. DPW Project Management Services	3,095,030
f. City Administrative Services	884,400
g. Regulatory Agency Approvals	3,087,570
Commercial Paper Program Interest	**1,155,590**
Relocation Costs for Existing Veterans Building Tenants	**1,000,000**
HazMat Abatement	**500,000**
Debt Service Reserve, Capitalized Interest and Costs of Issuance	**35,659,410**
Reserve Pending COP Sale	**1,885,000**
Total Project Costs	**$170,000,000**

Source: Department of Public Works.

POLICY CONSIDERATIONS

The Board of Supervisors Has Previously Approved the Funding Source and Initial Appropriation for the Proposed Supplemental Appropriation for the War Memorial Seismic Upgrade and Improvement Project

As noted above, the Board of Supervisors has previously approved (a) the issuance of Certificates of Participation (COPs) to fund the Veterans Building Seismic Upgrade and Improvements Project (File 11-0750); and (b) the appropriation of $15,000,000 of the total project costs of $170,000,000 (File 10-0701). In addition, the Board of Supervisors recently approved an amendment to an agreement between DPW and Simpson Gumpertz & Heger, Inc. (SGH) in order for SGH to provide the initial engineering and architectural services for the Veterans Building Seismic Upgrade and Improvements Project (File 12-0255). Therefore, the proposed supplemental appropriation ordinance is consistent with these actions previously taken by the Board of Supervisors.

The Proposed Supplemental Appropriation Is for FY 2012-13

The proposed ordinance would appropriate funds for FY 2011-12. Since FY 2011-12 concluded on June 30, 2012, the proposed ordinance should be amended to provide the requested supplemental appropriation in FY 2012-13.

RECOMMENDATIONS

1. Amend page 1, lines 5 and 11 to replace “Fiscal Year 2011-2012” with “Fiscal Year 2012-13,” as noted above.
2. Approve the proposed ordinance as amended.

Item 2 File 12-0540	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the Second Amendment to the existing leases between the Airport and (a) Baysubway Airport (Subway), (b) Luna Azul Corporation (Jalapeno Grill), (c) Guava & Java (SFO), Inc. (Guava & Java), and (d) Burger Joint, Inc. (Mission Bar & Grill), in Boarding Area E of Terminal 3.

Key Points

- On April 14, 2011, the Airport began renovating Boarding Area E in Terminal 3, which due to the Airport's decision to expand the proposed renovations, is now anticipated to extend through October 2013, for a total of 30 months, or 14 months beyond the original August 2012 end date. The expanded renovation now requires the demolition of the tenants' premises.
- The demolition of the four tenants' premises will require each tenant to undergo a second capital improvement construction period and pay minimum costs of: (a) $298,200 for Baysubway Airport; (b) $203,000 for Luna Azul Corporation; (c) $204,050 for Guava & Java (SFO), Inc.; and (d) $938,000 for Burger Joint, Inc.
- As a result, the proposed resolution would amend four existing food and beverage leases with the Airport to continue to waive the Minimum Annual Guarantee (MAG) and fees, otherwise payable by the lessees to the Airport, for the time that the renovations will occur, as well as extend the terms of the leases for an additional ten years, to allow lessees to recoup costs incurred through this renovation process.

Fiscal Impacts

- Under the proposed resolution, the Airport will pay a total of $905,953 in one-time reimbursements to the four lessees for unamortized construction costs and forego $291,474 in annual MAG lease payments and fees until the commencement date of the amended leases. Currently, Subway is the only of the four lessees open for business in Boarding Area E of Terminal 3, and therefore the only tenant paying percentage rent to the Airport. Subway has experienced an approximately 30% decrease in sales since the Boarding Area was closed for renovations, and is expected to close for the duration of the renovation period starting in September 2012.
- Based on the Airport's conservative estimate of 1.8 million enplanements in Boarding Area E of Terminal 3 in the fiscal year following the completion of the construction, total sales for all tenants in Boarding Area E are projected cumulatively to increase 8.9%, from $10,739,825 in FY 2009-2010 to $11,700,000 in FY 2013-2014. Upon the completion of the renovations, if each lessee opens and experiences the projected 8.9% growth, the percentage rent revenue for the Airport from the four lessees will increase by $83,866 or by approximately 10%, to $913,965, far eclipsing the $248,040 revised MAG total.
- Although rent payments and fees would be waived while the Airport's space in Boarding Area E in Terminal 3 is renovated, any revenue reduction would not directly impact the Airport's budget due to the Airport's residual rate setting methodology (break-even policy).

Recommendation

Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with City Charter Section 9.118(c), any lease exceeding ten years and/or having anticipated revenue of $1,000,000 or greater is subject to the Board of Supervisors approval.

Background

On December 9, 2003, the Board of Supervisors approved four leases extending for ten years each, between the Airport and (a) Baysubway Airport (Subway), (b) Luna Azul Corporation (Jalapeno Grill), (c) Guava & Java SFO, Inc. (Guava & Java), and (d) Burger Joint, Inc. (Mission Bar & Grill), in Boarding Area E of Terminal 3 (File 03-1710).

On April 14, 2011, the Airport began renovating Boarding Area E in Terminal 3 to (a) provide upgraded facilities due to the recent relocation of American Airlines from Terminal 3 into the Airport's recently completed new Terminal 2, (b) relocate Air Canada from two locations in the International Terminal into Terminal 3, and (c) seismically renovate, increase concession space and upgrade all systems in Boarding Area E. On July 19, 2011, the Board of Supervisors approved retroactive First Amendments, effective April 14, 2011, to each of the four leases between the Airport and (a) Subway, (b) Jalapeno Grill, (c) Guava & Java, and (d) Mission Bar & Grill, to eliminate the Minimum Annual Guarantee (MAG) rent payments and the Food Court and Infrastructure Fees for the portion of the leases that were located within Boarding Area E in Terminal 3 during the time that the Airport renovations were being completed. Under the amended leases, each of the four lessees that continued to operate during the renovation period were subject to the percentage rents for the area within Boarding Area E in Terminal 3. However, due to the significant reduction in passenger traffic, three of the lessees, (a) Jalapeno Grill, (b) Guava & Java and (c) Mission Bar & Grill closed for part or all of the Renovation Period and only Subway remains open in Terminal 3, Boarding Area E. The construction was anticipated to extend for approximately 17 months, from April 2011 through August 2012.

According to Ms. Cheryl Nashir, Associate Deputy Airport Director, due to the success of the Airport's Terminal 2 renovations, the Airport Commission decided to expand the scope of the construction and renovation of Boarding Area E in Terminal 3 to mirror the improvements in Terminal 2. This expanded construction project will include the demolition, relocation and reconstruction of the existing tenants' spaces, within Boarding Area E. Ms. Nashir advises that the expanded renovation of Terminal 3 is anticipated to extend through October 31st, 2013, a total of 30 months, or 14 months beyond the original August 2012 end date for the construction. Under the expanded construction project, individual lessees will be responsible for constructing their individual space renovations during the summer 2013.

Page one of the Attachment to this report shows an overall Airport map with Boarding Area E identified and page two shows an enlarged picture of Boarding Area E in Terminal 3 identifying the specific new locations of the four concession tenants that would be directly impacted by the Airport's current renovations.

Table 1 below identifies the major terms of the four Airport tenants that have existing leases, and the portion of each lease in square feet, that will be directly impacted by the current renovations of Boarding Area E in Terminal 3.

Table 1: Terms of Four Existing Leases Located in Terminal 3, Boarding Area E

Existing Airport Tenants	BOS File No. and Date	Original Lease Commence-ment Date	Original Lease Expiration Date	Total Current Sq Ft Lease	Total Original Sq Ft in Boarding Area E	Minimum Annual Guarantee (MAG)	Percentage Rent
Luna Azul Corporation (Jalapeno Grill)	File No. 031710 12/09/03	November 9, 2004	March 14, 2015	506	506	$20,240	6% up to $600K; + 8% up to $1M; + 10% over $1M
Baysubway Airport (Subway)	File No. 031710 12/09/03	June 2, 2004	March 13, 2015	1,307	601	$52,280	6% up to $600K; + 8% up to $1M; + 10% over $1M
Guava & Java, Inc. (Guava & Java)	File No. 031710 12/09/03	June 4, 2004	March 14, 2015	1,200	400	$48,000	6% up to $600K; + 8% up to $1M; + 10% over $1M
Burger Joint, Inc. (Mission Bar & Grill)	File No. 031710 12/09/03	September 2, 2004	December 29, 2014	1,967	1,967	$78,680	8% up to $600k; + 10% up to $1M; + 12% over $1M

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Second Amendment to the existing four leases between the Airport and (a) Baysubway Airport (Subway), (b) Luna Azul Corporation (Jalapeno Grill), (c) Guava & Java SFO, Inc. (Guava & Java), and (d) Burger Joint, Inc. (Mission Bar & Grill), in Boarding Area E of Terminal 3.

The proposed Second Amendment would continue to waive the (a) Minimum Annual Guarantee (MAG) rent payments, (b) food court infrastructure fee, (c) tenant infrastructure fee, (d) food court cleaning fee, and (e) promotional fee for that portion of each lease that is located within Boarding Area E in Terminal 3 for the 14 month duration of the Airport renovations. However, as noted above, three of the four lessees are closed during the renovations of Boarding Area E in Terminal 3, such that this provision would only apply to Baysubway Airport (Subway), which plans to close in September 2012.

In addition, the proposed Second Amendment would:

(a) Extend each lease to provide a new ten-year term commencing immediately after the construction is completed from November 1, 2013 through October 31, 2023 to provide opportunity for the tenants to recoup losses incurred during this renovation period, notably losses incurred as a result of the second construction period following the renovation.

(b) Replace the current square footage with new increased square footage, as shown in Table 2 below, for all four tenants in accordance with the new planned layout of Boarding Area E in Terminal 3.

(c) Increase the MAGs to reflect the new premises in the renovated Terminal as shown in Table 2 below.

(d) Increase the deposit amounts to reflect the new square footage assigned to each tenant and the increase in the MAG.

(e) Establish a Minimum Investment Amount of $350 per square foot for each tenant, increased from $250 per square foot in the original leases, which according to Ms. Nanette Hendrickson of the Airport, is the minimum expected architectural and construction costs for each lessee. The demolition of the tenants' premises requires each tenant to undergo a second capital improvement construction period and pay minimum costs of: (a) Baysubway Airport to spend $298,200; (b) Luna Azul Corporation to spend $203,000; (c) Guava & Java (SFO), Inc. to spend $204,050; and (d) Burger Joint, Inc. to spend $938,000. Ms. Hendrickson anticipates that each tenant's costs to rebuild will exceed the minimum requirements.

(f) Adjust the rates of fees to reflect reduced scope of services being provided by the Airport to lessees as well as the changes in square footage per tenant, i.e. reducing the food court infrastructure and tenant infrastructure fees for several of the lessees from a total of $30 per square foot per year to $14.69 per square foot because fewer services will be provided by the Airport to the lessees.

(g) Require tenants to adhere to the Airport's Sustainable Food Guidelines, a set of both mandatory and strongly-encouraged standards.

(h) Repay tenants unamortized construction costs of the original spaces as shown in Table 2 below, based on the number of months the tenants had remaining on the original base term of the leases, the expected amortization period.

(i) Eliminate the right for the City to extend the term of these four lease agreements as, according to Ms. Hendrickson, the proposed new ten-year terms are estimated to be sufficient for each of the four tenants to amortize their capital improvement costs invested and recoup any losses incurred during the closure of Boarding Area E.

The proposed Second Amendment also establishes the commencement date for the new leases as well as the reinstatement of the MAG and all waived fees at the earlier of: (a) when the tenant's facilities are open for business, at the conclusion of their construction period for the tenant's spaces, or if a tenant's construction period for their premises extends beyond the allotted construction period, (b) then when the majority of the gates in Boarding Area E are occupied.

FISCAL IMPACTS

Table 2 below summarizes the major provisions in the proposed Second Amendments to the leases for each of the four lessees and highlights the projected annual revenue losses to the Airport that will occur based on reductions in the MAG and Airport fees, as appropriate.

Table 2: Major Costs Associated with the Proposed Amendment

					Total
Tenants	Luna Azul Corporation (Jalapeno Grill)	Baysubway Airport (Subway)	Guava & Java (SFO), Inc. (Guava & Java)	Burger Joint, Inc. (Mission Bar & Grill)	----
Open During Renovation Period (April 14, 2011 – October 31, 2013)	Closed September 2011	To close September 2012	Closed April 2012	No	----
Unamortized Construction Costs to be Reimbursed One-Time by the Airport	($151,353)	($154,907)	($144,559)	($455,134)	($905,953)*
Revised Minimum Annual Guarantee** *(To Be Waived)*	$23,200	$62,320	$55,320	$107,200	$248,040
Revised Boarding Area E Annual Infrastructure and Food Court Fees *(To Be Waived)*	$8,520	$12,516	$8,564	$9,139	$38,739
Annual Food Court Cleaning Fees *(To Be Waived)*	To be calculated	To be calculated	To be calculated	N/A	----
Revised Annual Promotional Fee *(To Be Waived)*	$580	$852	$583	$2,680	$4,695
Estimated Reduced Annual Revenues to Airport During Renovation	**$32,300**	**$75,688**	**$64,467**	**$119,019**	**$291,474**

* The Estimated Reduced Annual Revenues total figure does not include the food court cleaning fees as those amounts cannot be estimated at this time nor Percentage Rent as it was not waived, but the closure of three of the four restaurants can be assumed to have an impact on revenues. This total also does not include the one-time payout to compensate tenants of unamortized construction costs as that payout is not an annual payment, but a one-time payment.

As summarized in Table 2 above, the Airport will pay a total of $905,953 in one-time reimbursements to the four lessees for unamortized construction costs, and forego $291,474 in MAGs and fees annually until the commencement date of the revised leases.

As discussed above, Subway is the only of the four lessees currently open for business in Boarding Area E of Terminal 3, and therefore the only tenant currently paying percentage rent to the Airport. Subway has experienced an approximately 35% decrease in sales since Boarding Area E closed for renovations, and Subway is expected to close for the duration of the renovation period starting in September 2012.

Table 3 below shows the projected annual revenues for the Airport from the four lessees after the completion of the renovations in Boarding Area E in Terminal 3.

Table 3: Projected Annual Revenues for the Airport Post-Renovation

Tenants	Luna Azul Corporation (Jalapeno Grill)	Baysubway Airport (Subway)	Guava & Java (SFO), Inc. (Guava & Java)	Burger Joint, Inc. (Mission Bar & Grill)	Total
Revised Minimum Annual Guarantee	$23,200	$62,320	$55,320	$107,200	$248,040
Percentage Rent	6% up to $600K; + 8% up to $1M; + 10% over $1M	6% up to $600K; + 8% up to $1M; + 10% over $1M	6% up to $600K; + 8% up to $1M; + 10% over $1M	8% up to $600k; + 10% up to $1M; + 12% over $1M	----
Projected Percentage Rent, Post-Renovation	$60,557	$122,679	$128,514	$602,214	$913,965

Based on the Airport's conservative estimate of 1.8 million enplanements in Boarding Area E of Terminal 3 in the fiscal year following the completion of the construction, projected to be FY 2014-2015, estimated sales for the entire Boarding Area E are projected to cumulatively increase by $960,175 or 8.94%, from sales of $10,739,825 in FY 2009-2010 to approximately $11,700,000 in FY 2013-2014.

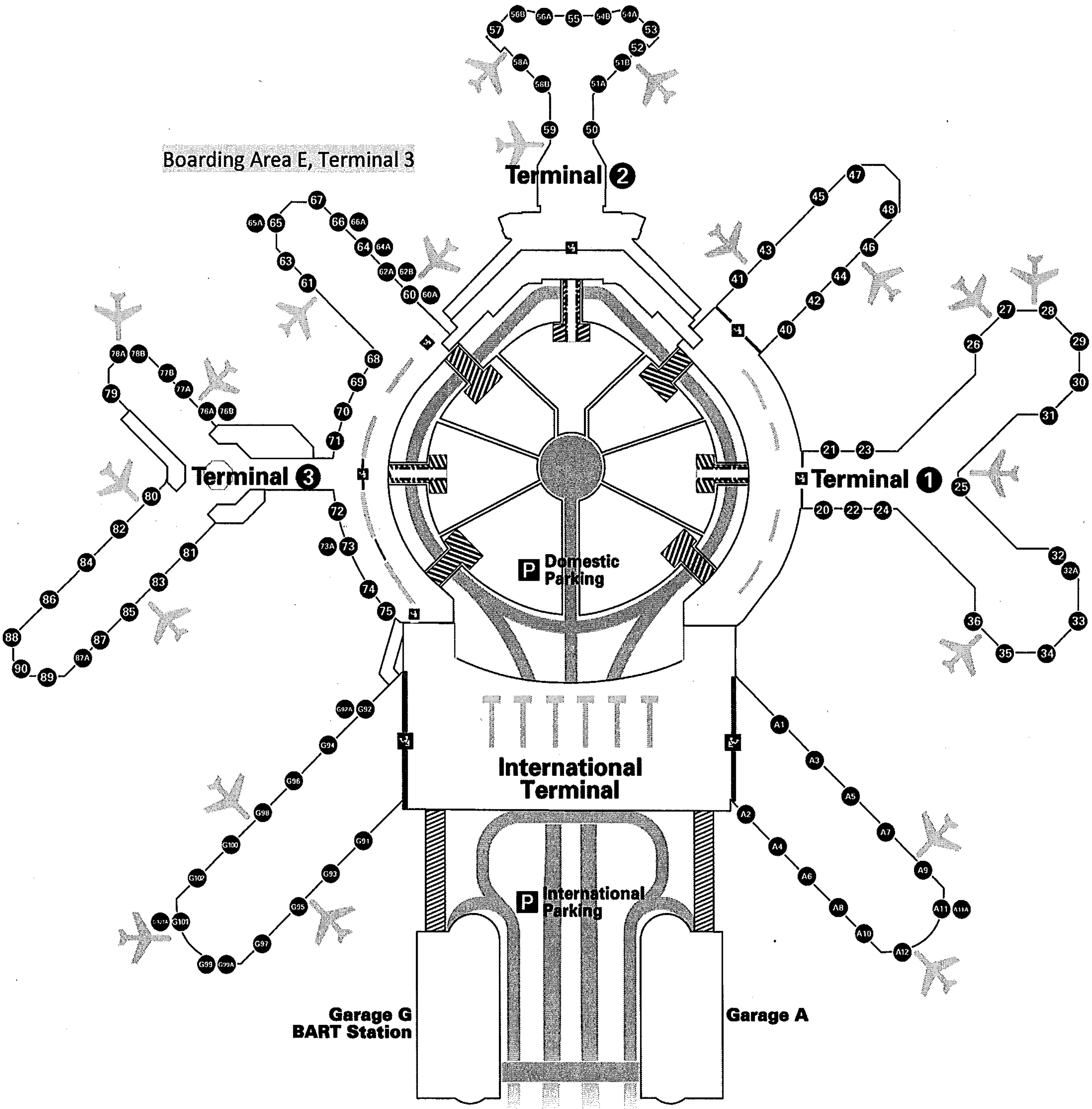
Upon the completion of the renovations, on October 31, 2013, if each lessee opens and experiences the projected 8.94% growth, the annual percentage rent revenue for the Airport from the subject four lessees will total $913,965, which is $83,866 or approximately 10.1% more than the total $830,099 in percentage rent that the Airport received in FY 2009-2010 from these four lessees. Also, as shown in Table 3 above, the projected $913,965 total percentage rent from the four lessees is more than the revised $248,040 MAG total (see Table 2 above). The new MAG of $248,040 is $48,840 more than the total MAG of $199,200 for all four lessees required under the original agreement. The Airport notes that the average sales-per-passenger varied in FY 2010-2011 from $5.82 to $9.14 depending on the terminal, and the Airport's projections for Boarding Area E in Terminal 3 are based on a conservative estimate of $6.50 average sales per passenger for FY 2013-2014.

Although under the proposed resolution, rent payments and fees will be suspended while the Airport's Terminal 3 space is renovated, any revenue reduction would not directly impact the Airport's budget due to the Airport's residual rate setting methodology (break-even policy). Under the Airport's residual rate setting methodology, any decreases in non-airline revenues (including concession lease revenues and parking revenues) are automatically offset by increasing the total rent payable by the airlines operating at the Airport, through the Airport's formula specified in each airline's lease that recalculates the rental rates, landing fees, and related fees charged to airlines. This break-even policy of the Airport requires that the total revenues paid to the Airport by all airlines in the upcoming year are sufficient to balance the Airport's budget.

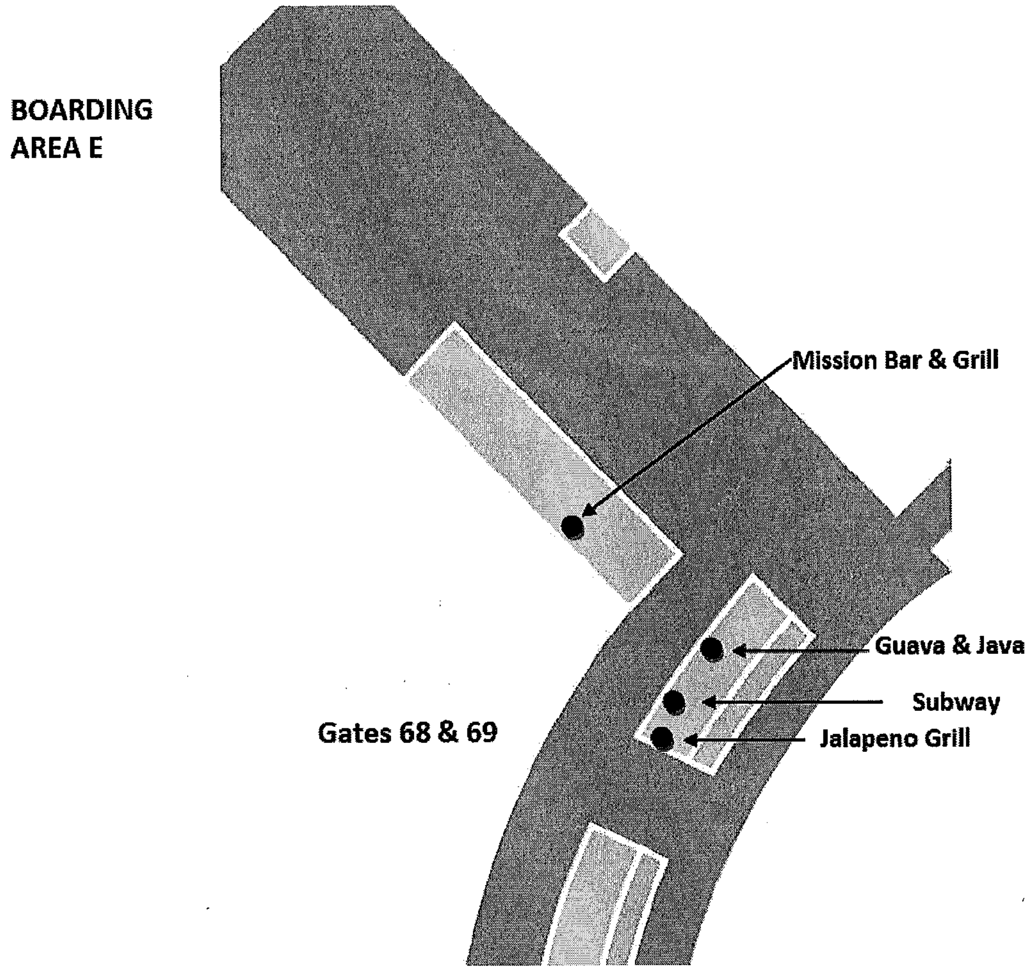
Therefore, the revenues generated from both the previous and proposed leases are considered in the Airport's residual rate setting methodology, such that the Airport's budget will remain fully balanced by the revenues paid by the airlines to the Airport, after considering the Airport's budgeted expenditures and all non-airline revenues.

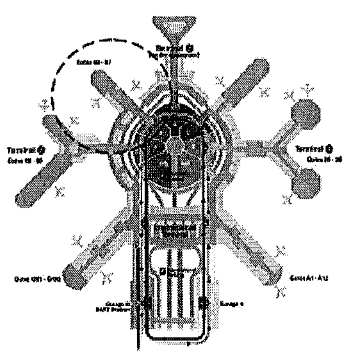
RECOMMENDATION

Approve the proposed resolution.


Boarding Area E, Terminal 3
Terminal 2
Terminal 3
Terminal 1
Domestic Parking
International Terminal
International Parking
Garage G
BART Station
Garage A

Affected Tenants





Item 3 File 12-0583	Department: Human Services Agency (HSA) and Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve a Second Amendment to the existing lease at 3120 Mission Street between the City, as lessee, and K.L.W., LLC, as lessor, to add approximately 5,000 square feet of HSA space at 3125 Mission Street, under one consolidated lease, for the remaining approximately three-year period from August 1, 2012 through June 30, 2015, and provide two additional five-year options to extend, or through June 30, 2025.

Key Points

- In 2001, the City entered into a lease with K.L.W., LLC for 37,000 square feet and ten parking spaces at 3120 Mission Street for the Department of Human Services (DHS), currently known as Human Service Agency (HSA), from July 1, 2001 through June 30, 2008. In 2003, the Director of the Real Estate Division (RED), on behalf of HSA, entered into a month-to-month lease for 2,251 square feet at 3425 Cesar Chavez Street to provide additional space for HSA.

- In 2008, the Board of Supervisors approved a First Amendment to the lease at 3120 Mission Street in order to consolidate the two leases at (a) 3120 Mission Street and (b) 3425 Cesar Chavez Street, to provide a total of 39,251 square feet, from October 2, 2008 through June 30, 2015. As of July 1, 2012, the monthly rent was $110,444 or approximately $2.81 per square foot per month.

- In 2009, the Director of RED, on behalf of HSA, entered into a year-to-year lease of 5,000 square feet at 3125 Mission Street with K.L.W., LLC from July 1, 2010 through June 30, 2011, which was later extended through June 30, 2012. The monthly rent is currently $5,000 or $1.00 per square foot.

- The proposed Second Amendment adds the existing 5,000 square foot lease at 3125 Mission Street with the existing consolidated lease at 3120 Mission and 3425 Cesar Chavez Streets. The proposed lease will provide a total of 44,251 square feet of office space at a monthly rental rate of $120,444 or an estimated $2.72 per square foot per month ($1,445,327 or $32.66 per square foot) with CPI adjustments of no less than three percent and no more than six percent.

Fiscal Impacts

- HSA’s three-year total cost of the proposed lease is estimated between $5,498,624 and $5,632,605.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with Administrative Code Section 23.27, except as otherwise provided in the City's Charter or Administrative Code Section 23.26, leases, in which the City is the lessee, are subject to the Board of Supervisors approval, by resolution.

Administrative Code Section 23.26 states that the Director of Property has the authority, without the approval of the Board of Supervisors, to enter into year to year or shorter term lease agreements of $5,000 or less per month in which the City is the lessee.

Background

In 2001, the Board of Supervisors approved a seven-year lease with K.L.W., LLC for 37,000 square feet of office space and ten parking spaces at 3120 Mission Street, between Cesar Chavez and Valencia Streets, for the Department of Human Services (DHS),[1] currently known as the Human Services Agency (HSA), from July 1, 2001 through June 30, 2008 (File 01-0764) at a monthly rental rate of $98,947 or an estimated $2.67 per square foot. In accordance with Administrative Code Section 23.26, the Director of the Real Estate Division (RED), on behalf of the City as lessee, entered into a month-to-month lease agreement, with K.L.W., LLC for an additional 2,251 square feet of office space for a monthly rental rate of $4,840 or an estimated $2.15 per square foot at 3425 Cesar Chavez Street, between Mission and Valencia Streets, on May 15, 2003.

In 2008, the Board of Supervisors approved a First Amendment with K.L.W., LLC, on behalf of HSA to the lease at 3120 Mission Street (File 08-1079) to consolidate the two leases at (a) 3120 Mission Street for 37,000 square feet and (b) 3425 Cesar Chavez Street for 2,251 square feet, to provide a total of 39,251 square feet, for approximately six years and nine months from October 2, 2008[2] through June 30, 2015. The First Amendment to the lease provides:

- Base rent of $98,128 or an estimated $2.50 per square foot per month for 39,251 square feet ($1,177,536 or $30.00 per square foot annually).
- Annual CPI adjustments to the base rent on July 1 of each subsequent fiscal year, which would increase at no less than three percent and no more than six percent. As of July 1, 2012, the base rent is $110,444 or an estimated $2.81 per square foot per month.
- Janitorial services are included in the rent. Utilities and security service are paid by the City.

[1] In 2004, the Department of Human Services (DHS) and the Department of Aging and Adult Services (DAAS) merged to form the Human Services Agency (HSA).
[2] As noted above, the lease at 3120 Mission Street expired on June 30, 2008. From July, 1 2008 through October, 1, 2008, the City continued to pay the prior monthly rent, instead of the holdover rate of 110 percent.

The existing consolidated lease provides office and counseling space for HSA's Workforce Development Program. The Center provides employment services, job training, education and other services, targeted to low-income job-seekers who are part of CalWORKs and General Assistance Programs.

In 2010, in accordance with Administrative Code Section 23.26, the Director of Property, on behalf of HSA, entered in to a year-to-year lease of 5,000 square feet of additional space at 3125 Mission Street, between Cesar Chavez and Valencia Streets, from K.L.W., LLC from July 1, 2010 through June 30, 2011, which was later extended through June 30, 2012 at $5,000 or $1.00 per square foot ($60,000 annually or $12.00 per square foot). This additional 5,000 square feet of space was leased to expand HSA's Workforce Development Program to provide space for staff-facilitated group activities.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a Second Amendment to the existing lease at 3120 Mission Street between the City, on behalf of HSA, as lessee, and K.L.W., LLC, as lessor, in order to add the approximately 5,000 square feet of HSA space at 3125 Mission Street into one consolidated lease for the remaining approximately three-year term from August 1, 2012 through June 30, 2015, and provide two additional five-year options to renew, or through June 30, 2025. The proposed Second Amendment provides:

- Total of 44,251 square feet, including (a) 37,000 square feet at 3120 Mission Street, (b) 2,251 square feet at 3425 Cesar Chavez Street, and (c) 5,000 square feet at 3125 Mission Street. Therefore, the proposed Second Amendment would consolidate, under one lease, three separate lease locations.
- Base rent of $120,444 or $2.72 per square foot per month ($1,445,328 or $32.66 per square foot).
- Annual CPI adjustments to the base rent on July 1 of each subsequent fiscal year, at no less than three percent and no more than six percent.
- Janitorial services are included in the rent. Utilities and security services are paid by the City.
- Two five-year options to renew, with the monthly rent to be set at 95 percent of the then-prevailing market rate, as determined by comparable leases or independent appraisal.

Table 1 below details both the previous First Amendment, which consolidated the leases at 3120 Mission Street and 3425 Cesar Chavez Street (two separate locations under one lease) and the proposed Second Amendment, which will further consolidate the leases at 3120 Mission Street, 3425 Cesar Chavez Street, and 3125 Mission Street (three separate locations under one lease).

Table 1: Consolidation under One Lease of Three Separate Lease Locations

Leases	Location(s)	Space size (sq. ft.)	Initial Lease Period	Monthly Base Rent*	Monthly Base Rent per sq. ft.*
Existing First Amendment	3120 Mission Street (37,000 sq. ft.) and 3425 Cesar Chavez Street (2,251 sq. ft.)	39,251	October 2, 2008 – June 30, 2015	$110,444	$2.81
Existing Annual Lease	3125 Mission Street	5,000	July 1, 2011 - June 30, 2012	$5,000	$1.00
Total Existing Leases	**3120 Mission Street, 3425 Cesar Chavez Street, and 3125 Mission Street**	**44,251**		**$115,444**	**$2.61**
Proposed Second Amendment	**3120 Mission Street, 3425 Cesar Chavez Street, and 3125 Mission Street**	**44,251**	**August 1, 2012 – June 30, 2015**	**$120,444**	**$2.72**

* Base rental rate is subject to CPI annual adjustments of no less than three percent and no more than six percent.

FISCAL IMPACTS

As noted above, HSA is currently paying $110,444 or an estimated $2.81 per square foot per month for a total of 39,251 square feet of office space including (a) 37,000 square feet at 3120 Mission Street and (b) 2,251 square feet at 3425 Cesar Chavez Street. In addition, HSA currently pays $5,000 or $1.00 per square foot per month for 5,000 square feet at 3125 Mission Street under a separate lease. As shown in Table 1 above, for these two leases, HSA is therefore currently paying a total of $115,444 per month, or an average of $2.61 per square foot for the total 44,251 square feet of space.

Under the proposed Second Amendment, the monthly rental rate for the additional 5,000 square feet at 3125 Mission Street would be increased from $1.00 to $2.00 per square foot, or from the current $5,000 per month to $10,000 per month, an increase of 100 percent, which would be added to the existing lease at 3120 Mission Street and 3425 Cesar Chavez Street. As a result, the square footage under the proposed consolidated lease would increase from 39,251 square feet to 44,251 square feet, an increase of 5,000 square feet. The total monthly rent for the three locations would increase from $115,444 to $120,444 per month, an increase of $5,000 or 4.3 percent, and the average cost per square foot would increase from an estimated $2.61 to $2.72 per square foot per month, a $0.11 or 4.3 percent increase, as shown in Table 1 above.

According to Mr. John Updike, the Acting Director of the RED, while the City has previously benefited from rental rates that were significantly below market rates, the proposed rental rate represents the current fair market rate.

Table 2 below shows the (a) rents for the remaining three years of the lease, with annual CPI adjustments of three to six percent annually, (b) estimated annual costs for utilities and security services, with projected 4.5 percent annual increases, and (c) total estimated costs for each remaining lease year.

Table 2: Estimated Costs for Proposed Lease for Three Years at 3120 Mission Street, 3425 Cesar Chavez Street, and 3125 Mission Street

	Based on three percent CPI adjustment			***Based on six percent CPI adjustment***		
Lease year	**Annual Rent**	**Utility and Security Services at 4.5% inflation**	**Total**	**Annual Rent**	**Utility and Security Services at 4.5% inflation**	**Total**
2012-13*	$1,324,884	$345,722	$1,670,606	$1,324,884	$345,722	$1,670,606
2014-15	$1,488,687	$394,123	$1,882,811	$1,532,048	$394,123	$1,926,170
2016-17	$1,533,348	$411,858	$1,945,207	$1,623,970	$411,858	$2,035,829
Total	**$4,346,919**	**$1,151,703**	**$5,498,624**	**$4,480,902**	**$1,151,703**	**$5,632,605**

* Costs based on the estimated start date of August 1, 2012 through June 30, 2013.

As shown in Table 2 above, the costs of the proposed lease for the next three years range from $5,498,624 to $5,632,605, based on the three and six percent annual adjustments, respectively.

According to Mr. Chu, proposed lease expenditures are fully budgeted for FY 2012-13 and FY 2013-14, based on a combination of Federal funds (35 percent), State funds (15 percent), and General Funds (50 percent). All funds are subject to final appropriation approval by the Board of Supervisors.

RECOMMENDATION

Approve the proposed resolution.

Item 4 File 12-0585	Departments: Human Services Agency (HSA) and Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve the exercise of a five-year option to extend the sublease of 52,200 square feet of office space at 1440 Harrison Street between the City, on behalf of the Human Services Agency (HSA) as the sublessee, and 1440 Harrison Street Development Group, LLC, as the sublessor, from July 1, 2012 through June 30, 2017.

Key Points

- In 1983, the City subleased 52,200 square feet of office space from 1440 Harrison Street Development Group, LLC for HSA's Medi-Cal, housing and homeless services and Food Stamps programs.

- Under the current sublease agreement which expires on June 30, 2012, HSA pays a monthly flat rental rate of $58,725 or approximately $1.13 per square foot ($704,700 annually or $13.50 per square foot per year) for 52,200 square feet of office space. The utilities, janitorial services, and security services are paid by the City. The current sublease includes four five-year options and one additional eight-year option to renew at rental rates that are 95 percent of the prevailing market rates, as determined by three comparable leases or an independent appraiser.

- Under the first five-year sublease extension, which is the subject of the proposed resolution, the City would pay a monthly flat rental rate of $101,268 or $1.94 per square foot ($1,215,216 annually or $23.28 per square foot per year), which is $42,543, or 72.4 percent more than the current monthly rent of $58,725. According to the Senior Real Property Officer of the Real Estate Division, this increase in the rental rate is primarily due to the relocation of various technology companies in the Western South of Market area. The City will continue to be responsible for utilities, janitorial services, and security services.

- The proposed five-year extended sublease commenced on July 1, 2012 and would expire on June 30, 2017. Therefore, the proposed resolution should be amended to provide for retroactive approval to July 1, 2012.

Fiscal Impacts

- Including the costs of utilities, janitorial services and security services, over the five year term of the proposed sublease extension, the total estimated costs to HSA would be $8,486,178, which would be funded from 35 percent in Federal funds, 15 percent in State funds, and 50 percent from the City’s General Fund, subject to the Board of Supervisors appropriation approval.

Recommendations

- Amend the proposed resolution to provide for retroactive approval to July 1, 2012.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with Administrative Code Section 23.27, leases, in which the City is a lessee, are subject to Board of Supervisors approval.

Background

The San Francisco Unified School District (SFUSD), as the lessor, currently owns an office building at 1440 Harrison Street, between 10th and 11th Streets, which is leased by 1440 Harrison Street Development Group, LLC, as the lessee. In 1983, the City, as the sublessee, subleased the office space at 1440 Harrison Street from 1440 Harrison Street Development Group, LLC, for the HSA's Medi-Cal, housing and homeless services and Food Stamps programs. In 2005, the Board of Supervisors approved renewing the sublease agreement with 1440 Harrison Street Development Group, LLC for 52,200 square feet of office space at 1440 Harrison Street for HSA for seven years from August 12, 2005 through June 30, 2012 (File 05-1124), which provided for:

- Flat monthly rent of $58,725 or approximately $1.13 per square foot ($704,700 annually or $13.50 per square foot per year) over the seven-year period. Utilities, janitorial services and security services are paid by the City.
- Four five-year options and one additional eight-year option to renew at rental rates of 95 percent of the prevailing market rates, as determined by three comparable leases or by an independent appraiser if disagreement over the rental rates arises between the sublessor and the sublessee.
- Initial tenant improvement allowance of up to $783,000 to be paid by the sublessor for carpeting, repainting, improved lighting system, and reconfiguration of space based on HSA needs.

Currently, HSA operates a Medi-Cal program, the Medi-Cal Healthy Connections Program, and conducts eligibility screenings for families under the Food Stamps Program, currently known as the CalFresh Program, at 1440 Harrison Street. According to Ms. Debra Solomon, Budget Analyst at HSA, the housing and homeless programs were previously relocated from the 1440 Harrison Street building. . According to Mr. Derek Chu, Budget Director at HSA, HSA serves approximately 107,000 clients each year at the 1440 Harrison Street building, with 184 HSA employees.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the exercise of the first five-year option from July 1, 2012 through June 30, 2017 to extend the existing 52,200 square feet sublease at 1440 Harrison Street between the City, on behalf of HSA as the sublessee, and 1440 Harrison Street Development Group, LLC, as the sublessor. The proposed five-year lease option provides for:

- Flat monthly rent of $101,268 or $1.94 per square foot ($1,215,216 annually or $23.28 per square foot per year) over the five-year option period.
- Utilities, janitorial services and security services to be paid by the City.

- Additional tenant improvements at an estimated cost of $205,500 to be paid by the sublessor for carpeting and repainting.
- All other lease obligations in the sublease agreement remain the same as the current sublease provisions.

According to Ms. Claudine Venegas, Senior Real Property Officer of the Real Estate Division (RED), the effective date of this first option period is July 1, 2012, such that the rent for July 2012 would be at the new higher rental rate. Therefore, the Budget and Legislative Analyst recommends that the proposed resolution be amended to provide for retroactive approval to July 1, 2012.

Under the proposed five-year lease extension, HSA will continue to operate the Medi-Cal Healthy Connections Program and the CalFresh Program at 1440 Harrison Street. According to Mr. Chu, as a result of the implementation of the Federal Affordable Care Act and the State's elimination of the Healthy Families Program, HSA expects to serve approximately 154,000 clients annually, an increase of 47,000 clients or 43.9 percent more than the approximately 107,000 clients currently served.

FISCAL IMPACTS

The monthly rent for the proposed 52,200 square foot five-year option term would be $101,268 per month or $1.94 per square foot per month, which reflects a $42,543 or 72.4 percent increase from the current monthly rent of $58,725. On an annual basis, HSA currently pays total rent payments of $704,700 annually, which would increase to a flat rental rate of $1,215,216 annually over the proposed five year extension sublease, an increase of $510,516 per year.

According to Ms. Venegas, the proposed monthly rent represents 95 percent of the current fair market rate established by an independent appraisal conducted by John Clifford Advisory, who was retained by 1440 Harrison Street Development Group, LLC. Ms. Venegas states that the proposed rental rate increase of 72.4 percent reflects the recent escalating rents in the Western South of Market area, primarily due to the relocation of various technology companies, including Twitter and Zynga.

In addition to the annual rent of $1,215,216, according to Mr. Chu, HSA is responsible for paying annual utilities, janitorial services, and security services, at an estimated cost of $440,546 in FY 2012-13. Such costs are estimated to increase by approximately 4.5 percent annually. As shown in the Table below, the total estimated cost of the proposed five year sublease extension to the City would be $8,486,178, including the costs of utilities, janitorial services, and security services.

Table: Total Costs by Fiscal Year
under Proposed Five Year Sublease Extension

FY	Annual Rent	Utilities, janitorial services and security services with 4.5% inflation	Total Cost
2012-13	$1,215,216	$440,546	$1,655,762
2013-14	$1,215,216	$460,370	$1,675,586
2014-15	$1,215,216	$481,087	$1,696,303
2015-16	$1,215,216	$502,736	$1,717,952
2016-17	$1,215,216	$525,359	$1,740,575
Total	**$6,076,080**	**$2,410,098**	**$8,486,178**

According to Mr. Chu, the funding sources for the proposed sublease and costs of related services are comprised of 35 percent in Federal funds, 15 percent in State funds, and 50 percent from the City's General Fund, and would be included in HSA's annual operating budgets, subject to appropriation approval by the Board of Supervisors.

POLICY CONSIDERATION

As noted above, HSA currently serves approximately 107,000 clients each year at the 1440 Harrison Street facility, with 184 HSA employees. The 1440 Harrison Street lease includes a total of 52,200 square feet, or an average of approximately 284 square feet per employee. As discussed above, Mr. Chu advises that as a result of the implementation of the Federal Affordable Care Act and the elimination of the State's Healthy Families Program, HSA expects to serve approximately 154,000 clients annually, an increase of 47,000 clients or 43.9 percent more than the approximately 107,000 clients currently served.

Because of the anticipated number of additional clients, Ms. Solomon states that additional employees will be needed in the future. Ms. Solomon advises that HSA plans to reconfigure the space at 1440 Harrison Street to accommodate the additional employees.

RECOMMENDATIONS

1. Amend the proposed resolution to provide for retroactive approval to July 1, 2012.

2. Approve the proposed resolution, as amended.

Item 5 File 12-0610	Department: San Francisco Public Utilities Commission (SFPUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would (a) concur with the Public Utilities Commission's Declaration of Emergency on April 30, 2012, and (b) approve an emergency construction contract between the San Francisco Public Utilities Commission (PUC) and the California Drilling and Blasting Co., Inc. in an amount not-to-exceed $319,000 to make the needed construction repairs caused by a rockfall near South Fork Adit of the Tuolumne River.

Key Points

- On April 27, 2012, PUC Hetch Hetchy Water and Power system experienced a rockfall of approximately 400 cubic yards along the north side of South Fork Adit Access Road near the intersection of the South Fork and Middle Fork of the Tuolumne River. Rock masses were released from the slide zone, and unstable rock masses remained at the top of the site. As a result, the road was closed and local agencies were notified about the situation.
- In accordance to Administrative Code Section 6.60(D) which authorizes department heads to award emergency contracts, the PUC General Manager declared an emergency on April 30, 2012. On May 22, 2012, the Public Utilities Commission approved a resolution to ratify the declaration of emergency.
- SFPUC contracted with California Drilling and Blasting Co. Inc. to perform the construction repair work for a not-to-exceed amount of $319,000. The contract Notice-To-Proceed was issued on May 4, 2012 for a duration period of 100 consecutive calendar days and an expected completion date of August 12, 2012. The contractor started the needed construction repair work on May 10, 2012 and is projected to finish the last phase of reinstalling a rockfall fence by August 3, 2012.
- In accordance to Administrative Code Section 6.60, emergency contracts are not subject to the City's regular competitive bidding procedures**.**

Fiscal Impact

- The total estimated project expenditures are $115,250, which is $203,750 or 63.9% less than the proposed not-to-exceed amount of $319,000.

Recommendations

- Amend the proposed resolution to reduce the contract not-to-exceed amount by 203,750 from $319,000 to $115,250.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT/BACKGROUND

Mandate Statement

In accordance with San Francisco Administrative Code Section 6.60, an emergency contract awarded by a City department that exceeds $250,000 requires approval of the Board of Supervisors. The department head responsible for the emergency work is authorized to award emergency contracts, which are not subject to the City's regular competitive bidding procedures. The Administrative Code defines an emergency as a sudden, unforeseeable and unexpected occurrence or a discovery of a condition involving a clear and imminent danger, demanding immediate action to prevent or mitigate loss or damage to, life, healthy property or essential public services.

Background

On April 27, 2012, the PUC's Hetch Hetchy Water and Power (Hetch Hetchy) system experienced a rockfall of approximately 400 cubic yards along the north side of South Fork Adit Access Road near the intersection of the South Fork and Middle Fork of the Tuolumne River. Two large rock masses were released from the slide, including a 9 foot by 9 foot by 12 foot boulder that landed on the road. Also, two large rock masses at the top of the slide zone appeared to be unstable. As a result, the road was closed, and local agencies were notified about the situation.

According to Ms. Margaret Hannaford, Hetch Hetchy Division Manager, the primary cause of the rockfall was rock instability from two geological formations at the location. According to Ms. Hannaford, this rockfall incident created a safety hazard for Hetch Hetchy employees and the public, and blocked the sole access to the South Fork Adit, a mountain tunnel of the Hetch Hetchy Water System.

In accordance to Administrative Code Section 6.60(D) which authorizes department heads to award emergency contracts, Mr. Ed Harrington, the PUC General Manager, declared an emergency on April 30, 2012.

In accordance to Administrative Code Section 6.60, emergency contracts are not subject to the City's regular competitive bidding procedures. Therefore, PUC awarded a not-to-exceed contract amount of $319,000, on a sole-source basis, to the California Drilling and Blasting Co. Inc. to perform the construction work because of (a) their familiarity with the terrain, and (b) their expertise and past successful performance in clearing a similar rockfall for Hetch Hetchy. The estimated not-to-exceed amount of the contract was based on the contractor's and Hetch Hetchy engineers' estimates of labor hours and equipment needed to perform the construction work on the road and the hillside.

Pursuant to Administrative Code Chapter 14 Section 12.2,[1] the Human Rights Commission (HRC) granted PUC an emergency waiver of Administrative Code Chapter 14B, requiring local business enterprise (LBE) subcontracting goals.

The construction work consists of (a) removing the remaining unstable hanging rock, (b) blasting larger rocks on the roadway into smaller sizes to facilitate removal, and (c) placing rock bolts and installing wire mesh to stabilize any remaining rock. The construction contract Notice-To-Proceed was issued on May 4, 2012 for a duration period of 100 consecutive calendar days and an expected completion date of August 12, 2012.

Under the delegation agreement between the PUC and the Planning Department, the PUC Bureau of Environmental Management determined that the declaration of emergency took precedence over normal environmental review under the California Environmental Quality Act, Section 15269.[2] Prior to the blasting and removal of rocks, PUC also obtained Federal Army Corps of Engineers, California Department of Fish and Game, and Regional Water Quality Board permits to authorize the discharge of rocks into the river to mitigate the environmental concern.

On May 10, 2012, the contractor began the construction repair work. The remaining work to reinstall a rockfall fence is expected to be completed by August 3, 2012.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (a) concur with the Public Utilities Commission's Declaration of Emergency, and (b) retroactively approve an emergency construction contract for an amount not-to-exceed $319,000 to make the necessary construction repairs caused by the rockfall near South Fork Adit of the Tuolumne River.

Under the Administrative Code Section 6.60, an emergency contract awarded by a City department that exceeds $250,000 requires approval by the Board of Supervisors. If the City department cannot receive approval prior to the commencement of the emergency work, the department head must immediately notify the Controller about the work and its estimated costs, and within seven days of the start of the work notify the Board of Supervisors. Although actual construction work started on May 10, 2012, PUC did not submit a resolution seeking approval of the emergency work until June 4, 2012, or 17 business days after the commencement of construction.

[1] Administrative Code Section 14A.12.2 states that the Director of Human Rights Commission is authorized to waive disadvantaged business enterprises (DBE) bid/rating discounts and good faith efforts requirements for emergency contracts.

[2] California Environmental Quality Act (CEQA) is a statute that requires State and local agencies to identify significant environmental impacts of their activities and to adopt measures to mitigate these impacts. In accordance CEQA Article 18, Section 15269, emergency projects that are necessary to maintain public health, safety or welfare or prevent or mitigate an emergency are exempted from the CEQA guidelines.

In accordance with Administrative Code Section 6.60, which authorizes the department head to award an emergency contract that is not subject to the competitive bidding process, PUC awarded California Drilling and Blasting Co. Inc. a not-to-exceed amount of $319,000. The construction contract Notice-To-Proceed was issued on May 4, 2012 for a duration period of 100 consecutive calendar days and an expected completion date of August 12, 2012.

FISCAL ANALYSIS

As shown in the table below, the total project costs are now estimated at $115,250, which is $203,750 or 63.9% less than the proposed not-to-exceed amount of $319,000.

According to Ms. Cheryl Sperry, the PUC Principal Administrative Analyst, the difference between the projected expenditures and the not-to-exceed amount is primarily due to lack of understanding of the scope of the work before gathering more information after the helicopter inspection of the rockfall site on May 8, 2012. The following table details the estimated costs of $115,250.

Table: Actual Project Expenditures to Date and Estimated Future Project Expenditures

Item	Actual expenditures to date	Estimated expenditures to be completed on about August 12, 2012	Total Estimated Expenditure
Labor	$49,200	$20,800	$70,000
Equipment	$4,247	$5,133	$9,380
Materials	$855	$22,800	$23,655
Insurance	$1,738		$1,738
10% Contingency			$10,477
Total	**$56,040**	**$48,733**	**$115,250**

According to Ms. Hannaford, the construction contract is fully funded from Hetch Hetchy Water revenues for capital projects previously appropriated by the Board of Supervisors.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the contract not-to-exceed amount by 203,750 from $319,000 to $115,250.

2. Approve the proposed resolution, as amended.

Item 6 File 12-0547	Department(s): Department of Public Health

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution (File 12-0547) would authorize the First Amendment to the existing agreement between the Department of Public Health (DPH) and Community Awareness and Treatment Services, Inc. (CATS), a nonprofit organization, to increase the not-to-exceed amount of the agreement by $23,234,461, from not-to-exceed $12,464,714 to not-to-exceed $35,699,175. The agreement term, both for the original agreement and in the amendment, is July 1, 2010 through December 31, 2015.

Key Points

- The Board of Supervisors previously approved the original agreement between DPH and CATS in 2010 (File 10-0927) for a term of 5 ½ years from July 1, 2010 through December 31, 2015, in an amount not-to-exceed $12,464,714. The original agreement of $12,464,714 funded seven programs, four of which were selected through a competitive Request for Proposal (RFP) process and three of which were awarded on a sole source basis, in accordance with Administrative Code Section 21.42, authorizing DPH to enter into sole source contracts for health and behavioral health services. At the time of the original agreement approval, DPH intended to issue a subsequent competitive RFP in FY 2010-11 for the three sole source programs. However, according to Ms. Michelle Ruggels, DPH Director of Operations, DPH has not implemented a competitive process for these sole source programs because DPH is planning to reconfigure and redesign these programs, including providing better coordination of services to homeless clients.
- The budget of $12,464,714 for the original agreement fully funded three of the seven programs from July 1, 2010 through December 31, 2015. The original agreement budget did not include funding for the three sole source programs from January 1, 2012 through December 31, 2015. In addition, the original agreement budget did not include funding from March 1, 2012 through December 31, 2015 for one of the four programs awarded through the RFP process because it was funded by the federal Ryan White grant, which expired on February 29, 2012. The Board of Supervisors subsequently approved a supplemental appropriation to backfill the Ryan White grant with General Fund monies (File 12-0018).

Fiscal Impact

- The proposed resolution (File 12-0547) would authorize the First Amendment to the existing agreement between DPH and CATS to increase the not-to-exceed amount by $23,234,461, from not-to-exceed $12,464,714 to the not-to-exceed amount $35,699,175. The proposed increase of $23,234,461 would continue funding for the three sole source programs, which were not funded under the original agreement from January 1, 2012 through December 31, 2015, and for the program funded by the federal Ryan White grant, which expired on February 29, 2012.
- The FY 2012-13 and FY 2013-14 DPH budgets include General Fund monies to fund these programs, subject to Board of Supervisors final appropriation approval.

Policy Consideration

- When the Board of Supervisors approved the original agreement, DPH stated that DPH would conduct a competitive bidding process in FY 2010-11 for the three sole source programs. Because DPH has not issued an RFP for the three sole source programs, as originally reported to the Board of Supervisors, the Budget and Legislative Analyst considers approval of the $18,952,692 of the total requested increased amount of $23,234,461, which funds the three sole source programs, to be a policy matter for Board of Supervisors.

Recommendations

- Approval of $18,952,692 for three sole source programs is a policy matter for the Board of Supervisors.
- Approve the balance of $4,281,769 (the requested $23,234,461 less $18,952,692).

DETAILS OF PROPOSED RESOLUTION

Mandate Statement

In accordance with Charter Section 9.118, an agreement (a) for more than $10,000,000, (b) with a term of more than ten years, or (c) with an amendment of more than $500,000, is subject to Board of Supervisors approval.

Background

In 2010, the Department of Public Health (DPH) conducted a competitive Request for Proposal (RFP) process for mental health and substance abuse treatment services for men and women, and DPH selected CATS as the highest qualified scorer when considering the RFP qualifications. DPH contracted four programs with CATS as a result of this RFP process. These four programs are:

1. A Woman's Place (AWP): Mental Health Post Hospital Placement, a post-hospital-release program;
2. A Woman's Place (AWP), a substance abuse program;
3. Golden Gate for Seniors (GGS), a substance abuse program for those 55 and older; and
4. A Woman's Place: HIV Residential Mental Health Services, a residential mental health program for primarily African American and transgender women with HIV.

DPH also contracted with CATS for three specific programs on a sole source basis, in accordance with Administrative Code Section 21.42 authorizing DPH to enter into sole source contracts for health and behavioral health services. Those three sole source programs with CATS are:

1. Mobile Assistance Patrol (MAP), a transportation and shelter referral service;
2. San Francisco Homeless Outreach Team (SF HOT), a support team for the homeless in San Francisco;
3. San Francisco Medical Respite & Sobering Center, a shelter with medically-oriented supportive services.

The Board of Supervisors approved the original agreement between the Department of Public Health (DPH) and Community Awareness and Treatment Services, Inc. (CATS), a non-profit organization, in 2010 (File 10-0927) for the 5 ½ year term from July 1, 2010 through December 31, 2015, for an amount not-to-exceed $12,464,714.

Included in the Budget and Legislative Analyst's report of December 1, 2010 to the Budget and Finance Committee meeting was a statement from Ms. Michelle Ruggels, DPH Director of Operations, who advised that DPH would conduct a competitive bidding process in FY 2010-11 for the three programs that had been awarded on a sole source basis. The budget of $12,464,714 for the original agreement fully funded three of the seven programs from July 1, 2010 through December 31, 2015. The original agreement budget did not include funding for the three sole source programs from January 1, 2012 through December 31, 2015. In addition, the original agreement budget did not include funding from March 1, 2012 through December 31, 2015 for one of the four programs awarded through the RFP process because it was funded by the federal Ryan White grant, which expired on February 29, 2012. The Board of Supervisors subsequently approved a supplemental appropriation to backfill the Ryan White grant with General Fund monies (File 12-0018), as shown in Table 1 below.

Table 1
Original Agreement Budget
July 1, 2010 through December 31, 2015

Date	Annual Budget	Four Competitively Awarded Programs	Three Sole Source Programs
July 1, 2010 to June 30, 2011	$5,633,021	AWP Mental Health Post Placement AWP Substance Abuse Golden Gate Seniors AWP HIV Residential Mental Health	Mobile Assistance Patrol SF Homeless Outreach (HOT) Medical Respite & Sobering Center
July 1, 2011 to June 30, 2012	3,109,743	AWP Mental Health Post Placement AWP Substance Abuse Golden Gate Seniors AWP HIV Residential Mental Health [1]	*End Dec. 31, 2011:* Mobile Assistance Patrol SF Homeless Outreach (HOT) Medical Respite & Sobering Center
July 1, 2012 to June 30, 2013	719,992	AWP Mental Health Post Placement AWP Substance Abuse Golden Gate Seniors	n/a
July 1, 2013 to June 30, 2014	719,992	AWP Mental Health Post Placement AWP Substance Abuse Golden Gate Seniors	n/a
July 1, 2014 to June 30, 2015	586,465	AWP Mental Health Post Placement AWP Substance Abuse Golden Gate Seniors	n/a
July 1, 2015 to Dec. 31, 2015	359,996	AWP Mental Health Post Placement AWP Substance Abuse Golden Gate Seniors	n/a
Subtotal	**11,129,209**		
12% Contingency	1,335,505		
Total	**$12,464,714**		

[1] A Woman's Place HIV Residential Mental Health Program was funded by the federal Ryan White Grant from July 1, 2010 through February 29, 2012.

According to Ms. Ruggels, DPH has not implemented a competitive process for the three program services previously awarded on a sole source basis because DPH is conducting “reconfiguration and redesign of the programs, conducted to maximize efficiencies” and the “coordination of services to homeless clients took longer than anticipated.” Ms. Ruggels also stated that DPH is planning to create a pilot program to confirm the functionality of the new program design before DPH enters a new RFP process. Therefore, DPH is requesting to extend the terms of these current sole source programs from January 1, 2012 to December 31, 2015 in order to continue to provide these services while DPH concurrently conducts the program evaluation. The timeline for the evaluation and the pilot program is currently not known.

DETAILS OF PROPOSED RESOLUTION

The proposed resolution (File 12-0547) would authorize the First Amendment to the existing agreement between DPH and CATS to increase the not-to-exceed amount by $23,234,461, from not-to-exceed $12,464,714 to not-to-exceed $35,699,175.

FISCAL IMPACTS

As shown in Table 2 below, the proposed First Amendment would increase the agreement amount by $23,234,461 in order to continue to fund all seven programs from the commencement date of the original agreement of July 1, 2010 through December 31, 2015, as follows:

- The AWP HIV Residential Mental Health program previously funded by the federal Ryan White grant, which terminated in February 2012. The FY 2012-13 and FY 2013-14 DPH budget includes General Fund monies to backfill the federal Ryan White grant, subject to Board of Supervisors approval; and
- The three sole source programs – Mobile Assistance Patrol (MAP), San Francisco Homeless Outreach Team (SF HOT), and San Francisco Medical Respite & Sobering Center – for the entire term of the agreement through December 31, 2015. The FY 2012-13 and FY 2013-14 DPH budget includes General Fund monies for these programs, subject to Board of Supervisors appropriation approval.

Table 2
Total Annual Budget for Proposed First Amendment

Date	Original Agreement Budget	Proposed First Amendment Budget	Increase/ (Decrease)
July 1, 2010 – June 30, 2011	$5,633,021	$5,633,021	$0
July 1, 2011 – June 30, 2012	3,109,743	5,831,387	2,721,644
July 1, 2012 – June 30, 2013	719,992	5,831,387	5,111,395
July 1, 2013 – June 30, 2014	719,992	5,831,387	5,111,395
July 1, 2014 – June 30, 2015	586,465	5,831,387	5,244,922
July 1, 2015 – Dec. 31, 2015	359,996	2,915,694	2,555,698
Subtotal	**11,129,209**	**31,874,263**	**20,745,054**
12% Contingency	1,335,505	3,824,912	2,489,407
Total	**$12,464,714**	**$35,699,175**	**$23,234,461**

According to Ms. Jacquie Hale, DPH Office of Contract Management and Compliance Director, the Department has been funding the continuation of the three sole source programs beyond the previously authorized funding date of December 31, 2011, primarily from the agreement contingency funds of $1,335,505.

POLICY CONSIDERATION

As noted above, when the Board of Supervisors approved the original agreement, DPH stated that DPH would conduct a competitive bidding process in FY 2010-11 for the three sole source programs. Of the total annual budget of $5,831,387, $4,738,173 or 81.2% are for the three sole-source programs. Because DPH has not issued an RFP for the three sole source programs, as originally reported to the Board of Supervisors, the Budget and Legislative Analyst considers approval of the $18,952,692 ($4,738,173 times the four years from January 1, 2012 through December 31, 2015) of the total requested increased amount of $23,234,461 to be a policy matter for Board of Supervisors.

RECOMMENDATION

1. Approval of $18,952,692 for three sole source programs is a policy matter for the Board of Supervisors.

2. Approve the balance of $4,281,769 (the requested $23,234,461 less $18,952,692).

Item 7 **File 12-0630**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize a new two-year sole-source agreement between the Department of Public Health (DPH) and the San Francisco Community Health Authority (SFCHA), a nonprofit subsidiary of the San Francisco Health Authority, for provider payment services for the Healthy San Francisco Program. The proposed agreement is for the period from July 1, 2012 through June 30, 2014, in an amount not-to-exceed $31,940,000.

Key Points

- The Healthy San Francisco Program provides universal, comprehensive, affordable health care to residents of San Francisco who are uninsured adults, through a network of nonprofit and for-profit health care clinics and DPH-operated public clinics. The San Francisco Community Health Authority (SFCHA) is a nonprofit organization approved by the Board of Supervisors on March 29, 2005 (File 05-0514) to (a) increase access to health care for low and moderate income San Francisco residents and (b) provide third-party administration of various public health insurance programs to San Francisco residents.
- DPH negotiates monthly per participant rates with for-profit and non-profit health care providers providing health services to Healthy San Francisco Program participants. Monthly payments to providers are based on the negotiated rates and the number of program participants enrolled with each provider. SFCHA pays the program providers on behalf of DPH.
- The Board of Supervisors has previously approved four one-year sole-source agreements to SFCHA for provider payment services. DPH is now requesting retroactive approval of a new fifth agreement between SFCHA and DPH for provider payment services for the two-year period from July 1, 2012 through June 30, 2014, in an amount not-to-exceed $31,940,000.

Fiscal Impact

- Funding for the proposed two-year agreement totals $31,940,000, of which $15,960,790 is included in the DPH FY 2012-13 budget, and $15,979,210 is included in the DPH FY 2013-14 budget. These General Fund expenditures are subject to final appropriation approval by the Board of Supervisors.

Policy Issues

- DPH developed the estimates of participation in Healthy San Francisco for the two-year period from July 1, 2012 through June 30, 2014 assuming no implementation of federal health care reform, pending the Supreme Court's decision on the Affordable Care Act. According to Ms. Brigham, the department is presently researching the impacts of the June 28, 2012 decision by the Supreme Court. Ms. Brigham indicates that the department may see a reduction in Healthy San Francisco participation as newly eligible individuals are transitioned to insurance under Medi-Cal or the new California Health Benefits Exchange as part of the Affordable Care Act implementation. According to Ms. Brigham, as of the writing of this report, DPH is unable to precisely estimate the impact of the Affordable Care Act on Healthy San Francisco Program participation, as there is considerable uncertainty about the timing of the transition for newly-eligible participants that will begin on January 1, 2014.
- Because Healthy San Francisco enrollment may decline in FY 2013-14 when the Affordable Care Act is fully implemented and because the not-to-exceed amount in prior agreements has not been fully expended, the Budget and Legislative Analyst recommends that the agreement not-to-exceed amount be reduced by $1,000,000, from $31,940,000 to $30,940,000. DPH should also submit a report to the Budget and Finance Committee of the Board of Supervisors on the impact of the Affordable Care Act on the Healthy San Francisco Program participation prior to December 31, 2013.

Recommendations

- Amend the proposed resolution for retroactive approval of the proposed agreement between DPH and SFCHA to July 1, 2012.
- Amend the proposed resolution to reduce the agreement not-to-exceed amount by $1,000,000, from $31,940,000 to $30,940,000 to reflect the estimated reduction in participation in FY 2013-14 due to implementation of the Affordable Care Act.
- Approve the proposed resolution as amended.
- Request that DPH submit a report to the Budget and Finance Committee of the Board of Supervisors on the impact of the Affordable Care Act on the Healthy San Francisco Program participation prior to December 31, 2013.

MANDATE STATEMENT & BACKGROUND

Mandate Statement

San Francisco Charter Section 9.118 provides that all agreements of $10,000,000 or more, or for a term greater than ten years, be subject to Board of Supervisors approval.

Background

Healthy San Francisco

The Healthy San Francisco Program, administered by the Department of Public Health (DPH), provides universal, comprehensive, affordable health care to uninsured adults, who are residents of San Francisco, irrespective of the person's employment status, immigration status, or pre-existing medical conditions. The Healthy San Francisco Program defines qualifying adults as being between the ages of 18 and 64, who earn an income less than 500 percent of the Federal Poverty Level. Under the Healthy San Francisco Program, health care services are provided to participants through the participant's chosen "medical home," which functions as the participant's primary health care provider. Medical homes include (a) facilities which are operated directly by DPH, or (b) nonprofit and for-profit health care providers.

San Francisco Community Health Authority

The San Francisco Community Health Authority (SFCHA) is a nonprofit organization, previously approved by the Board of Supervisors on March 29, 2005 (File 05-0514) to (a) increase access to health care for low and moderate income residents of San Francisco, and (b) provide third-party administration of various City public health insurance programs.[1] The SFCHA serves as the third-party administrator for the Healthy San Francisco Program.

Services Rendered Under Healthy San Francisco by Private Providers

The Healthy San Francisco Program is structured as a public-private partnership because DPH alone does not have the clinical capacity to be the sole provider for all uninsured adults in San Francisco, and because several providers already had relationships with many of the uninsured now receiving care under the program. Since 2008, the program has maintained the same network of DPH and San Francisco Community Clinic Consortium clinics, but has added additional nonprofit and for-profit private providers. Table 1 below summarizes the private providers, consisting of nonprofit and for-profit organizations that offer services for Healthy San Francisco.

[1] According to Ms. Tangerine Brigham, DPH Deputy Director of Health, and Director of Healthy San Francisco, the San Francisco Community Health Authority (SFCHA) is considered a subsidiary of the San Francisco Health Authority, which was created by the Board of Supervisors in 1994, as codified in Chapter 69 of the Administrative Code, to provide third-party administration for various public health programs.

Table 1 - Private Providers for Healthy San Francisco

BAART Community HealthCare	Nonprofit
Brown & Toland Physicians Group	For-profit
Chinese Community Health Care Association	Nonprofit
Kaiser Permanente[2]	For-profit
North East Medical Services	Nonprofit
San Francisco Community Clinic Consortium, representing: • Glide Health Services • Haight-Ashbury Free Medical Clinic • Lyon Martin Health Services • Mission Neighborhood Health Center • Native American Health Center • Saint Anthony Free Medical Clinic • South of Market Health Center	Nonprofit
Sister Mary Philippa Clinic	Nonprofit

The number of Healthy San Francisco Program participants receiving services from private providers has increased in each of the program's first three years, and according to Ms. Tangerine Brigham, DPH Deputy Director of Health, and Director of Healthy San Francisco, the increasing share of participants electing private providers as their medical home results from the program's several eligibility expansions while the number of DPH clinics have not increased since 2008. Therefore, the program has accommodated these new participants by adding new private providers.

History of Agreements with SFCHA for Provider Payments

Since July of 2008, DPH has awarded four consecutive one-year sole-source agreements to the SFCHA under which the SFCHA provides payment services for nonprofit and for-profit providers for health care services to Healthy San Francisco participants. According to Ms. Tangerine Brigham, DPH Deputy Director, because SFCHA has been awarded a separate sole-source agreement to serve as the third party administrator for the Healthy San Francisco Program, using a competitive selection Request for Proposals (RFP) process for the agreements to provide provider payment services under the Healthy San Francisco Program, instead of awarding the provision of such services to SFCHA on a sole-source basis, would have been inefficient.

Table 3 below shows the three completed agreements for FY 2008-09 through FY 2010-11. The fourth agreement for FY 2011-12 was for $15,970,000 but DPH does not yet have final expenditure and participation data for this agreement. The expenses incurred under these agreements are General Fund expenses.

[2] Kaiser Permanente includes for-profit and nonprofit entities.

Table 2 – Agreement Amount and Actual Expenditures For Three Completed Agreements

Term	Agreement Budget	Actual Expenditures	Expenditure Surplus	Percent	Actual Participants[1]	Cost per Participant per Month
Jul 1, 2008 to Jun 30, 2009	$7,940,617	$6,683,671	$1,256,946	15.8%	196,369	$34.04
Jul 1, 2009 to Jun 30, 2010	13,306,000	11,516,867	1,789,133	13.4%	305,693	$37.67
Jul 1, 2010 to Jun 30, 2011	15,970,000	14,396,117	1,573,883	9.9%	354,565	$40.60
Total	**$37,216,617**	**$32,596,655**	**$4,619,962**	**12.4%**	**856,627**	**$38.05**

Source: DPH

[1] Months of enrollment with private providers

The proposed resolution authorizes DPH to enter into a fifth consecutive agreement with the SFCHA for provider payments for Healthy San Francisco. The term of the proposed agreement is two years, retroactive from July 1, 2012 through June 30, 2014, in an amount not-to-exceed $31,940,000. According to Ms. Brigham, the department is proposing a two-year agreement to follow the City's two-year budgeting process and in response to input from the Board of Supervisors.

Negotiations with Providers

Healthy San Francisco negotiates a separate monthly per participant rate with each provider based on the array of services they provide. The SFCHA pays the providers based on the negotiated rate for each provider and the number of Healthy San Francisco Program participants enrolled in the provider's clinic for the given month. According to Ms. Brigham, the monthly per participant rates paid to providers are negotiated rates and are based on the range of services provided by each provider and the providers' clinical capacity. The rates are not publicly disclosed consistent with standard practice. According to Ms. Brigham, the agreements with the providers have the same start and end dates as the proposed agreement between DPH and the SFCHA.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively authorize the Director of Public Health to execute a new two-year sole-source agreement between DPH and the SFCHA for Healthy San Francisco provider payment services for the period from July 1, 2012 through June 30, 2014, in an amount not-to-exceed $31,940,000.

The not-to-exceed amount of $31,940,000 for the proposed agreement only covers reimbursements to nonprofit and for-profit health care providers, and does not cover the costs of the Healthy San Francisco Program participants that use the public health care facilities operated by DPH, which are separately funded in the department's annual budget.

FISCAL IMPACTS

The proposed agreement includes funding for:

- Payments to full-service nonprofit and for-profit health care providers which provide a full scope of medical services including specialty care, inpatient services, and pharmacy services to Healthy San Francisco Program participants.
- Payments to limited-service nonprofit and for-profit health care providers which provide only primary and some specialty care to Healthy San Francisco Program participants.
- Funding for additional costs, including:
  - Emergency Medical Transportation by private ambulance;
  - Additional nonprofit and for-profit health providers that may be added during the fiscal year;
  - Increased clinic capacity, as needed; and
  - Potential increased enrollment.

The budget for the proposed two-year agreement of $31,940,000 is shown in Table 3 below:

Table 3 – Agreement Budget

	FY 2012-13	**FY 2013-14**	**Total** (not-to-exceed amount)
Full Service Providers	$7,200,000	$7,200,000	$14,400,000
Limited Service Providers	8,024,579	8,042,999	16,067,578
Subtotal Providers	15,224,579	15,242,999	30,467,578
Emergency Medical Transportation	300,000	300,000	600,000
Increase Clinic Capacity	96,211	96,211	192,422
Increased Enrollment	75,000	75,000	150,000
Additional Medical Homes	265,000	265,000	530,000
Subtotal	736,211	736,211	1,472,422
Total Use of Funds	**$15,960,790**	**$15,979,210**	**$31,940,000**

Source: DPH

The source of the payments made by SFCHA to the health providers under the proposed agreement is General Fund monies which are included in the DPH FY 2012-13 and FY 2013-14 budgets, subject to final Board of Supervisors appropriation approval.

POLICY CONSIDERATIONS

Implementation of the Affordable Care Act may impact participation in the Healthy San Francisco Program.

DPH developed the estimates of participation in Healthy San Francisco for the two-year period from July 1, 2012 through June 30, 2014, assuming no implementation of federal health care reform, pending the Supreme Court decision on the Affordable Care Act. According to Ms. Brigham, the department is presently researching the impacts of the June 28, 2012 decision by the Supreme Court.

Ms. Brigham indicates that the department may see a reduction in Healthy San Francisco participation as newly eligible individuals are transitioned to insurance under Medi-Cal or the new California Health Benefits Exchange as part of the Affordable Care Act implementation. According to Ms. Brigham, DPH is unable to precisely estimate the impact of the Affordable Care Act on program participation, as there is considerable uncertainty about the timing of the transition for newly-eligible participants that will begin on January 1, 2014.

Because Healthy San Francisco enrollment may decline in FY 2013-14 when the Affordable Care Act is fully implemented and because the not-to-exceed amount in prior agreements has not been fully expended, the Budget and Legislative Analyst recommends that the agreement not-to-exceed amount be reduced by $1,000,000, from $31,940,000 to $30,940,000.

DPH should also submit a report to the Budget and Finance Committee of the Board of Supervisors on the impact of the Affordable Care Act on the Healthy San Francisco Program participation prior to December 31, 2013.

RECOMMENDATIONS

1. Amend the proposed resolution for retroactive approval of the proposed agreement between DPH and SFCHA to July 1, 2012.

2. Amend the proposed resolution to reduce the agreement not-to-exceed amount by $1,000,000, from $31,940,000 to $30,940,000 to reflect the estimated reduction in participation in FY 2013-14 due to implementation of the Affordable Care Act.

3. Approve the proposed resolution as amended.

4. Request that DPH submit a report to the Budget and Finance Committee of the Board of Supervisors on the impact of the Affordable Care Act on the Healthy San Francisco Program participation prior to December 31, 2013.

Items 8 and 9 **Files 12-0754 and 12-0755**	**Department** Health Service System (HSS)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed ordinance (File 12-0754) would amend Administrative Code Section 16.703, establishing the Health Service System's calendar year (CY) 2013 health, vision, and dental plans and premiums.
- The proposed resolution (File 12-0755) would approve the CY 2013 employers' health plan premium contribution of $534.78 per member per month.

Fiscal Impact

- Under Proposition C, approved by the voters in November 2011, the Health Service System will implement health plans on the calendar year rather than the fiscal year, as of January 1, 2013. In order to implement Proposition C, the Board of Supervisors previously approved Health Service System health plans and premiums for the six-month period from July 1, 2012 through December 31, 2012 (Files 12-0050 and 12-0051).
- The total costs for the City, employees, retirees, and their dependents of $591,749,136 in CY 2013 for the health, vision, and dental plans, and long-term disability and life insurance is $8,040,874 or 1.4% more than the annualized costs for these plans of $583,708,262 from July 1, 2012 through December 31, 2012.
- The City's contribution per employee toward the total monthly premium in CY 2013 is $534.78, which is $11.81 or 2.3% more than the City's contribution of $522.97 from July 1, 2012 through December 31, 2012.

Policy Issues

- The Health Service Board has proposed changing the Blue Shield HMO plan from a fully-insured plan to a flex funded plan. The flex funded plan differs from the fully-insured plan in that (1) under the fully-insured plan, Blue Shield pays all covered claims, while (2) under the flex funded plan, the Health Service System is responsible for paying aggregate claims that exceed the Blue Shield premium payments made by the City and employees. The Health Service System's responsibility for paying aggregate claims exceeding premium payments is capped at 125% of the total amount of the premium payments. The Health Service Board has recommended the Blue Shield flex funded plan in order to reduce the increase in the Health Service System's employers', employees' and retirees' CY 2013 premium costs.
- Although the Blue Shield flex funded plan could result in savings to the Health Service System, the flex funded plan also transfers financial risk to the Health Service System if aggregate claims costs exceed premium payments to Blue Shield. Therefore, the Budget Analyst considers approval of the proposed Blue Shield flex funded plan in CY 2013 to be a policy matter for the Board of Supervisors.

Recommendations

- Approve Resolution 12-0755, setting the City's CY 2013 health plan premium contribution.
- Except for the Blue Shield flex funded plan, approve Ordinance 12-0754, establishing the Health Service System's plans and premiums for the Kaiser Health Plan, the City Health Plan, the vision plans, and the dental plans, and life insurance and long term disability payments.
- Approval of the Blue Shield flex funded plan under Ordinance 12-0754 is a policy matter for the Board of Supervisors.

MANDATE STATEMENT/BACKGROUND

The Health Service Board oversees the Health Service System. The Health Service System administers non-pension benefits, including health, dental, vision, and other benefits that may be available to City employees, such as life and long term disability insurance.

The Health Service Board adopts the annual health, vision, and dental plans, and the respective plan premiums and premium equivalents paid by employers and members.

- Health Service System employers include the City and County of San Francisco ("City"), the San Francisco Unified School District (SFUSD), the San Francisco Community College District (CCD), and the San Francisco Superior Court (Superior Court).

- Health Service System members are active and retired employees of the above noted employers, their dependents, and members of eligible boards and commissions. Dependents include children, spouses, domestic partners, surviving spouses of deceased employees, and other legal dependents.

Under City Charter Section A8.423, the Health Service Board is required to (a) conduct a survey of the ten most populous California counties each year, excluding San Francisco, and (b) determine and set the health plan premiums paid by the City, employees, and retirees. The City's contribution to the health plan premiums for each plan member is equal to the average of the contributions made by each of the ten counties.

Proposition C

Under Proposition C, approved by San Francisco voters in November 2011, the Health Service Board had the option of changing the health plan year from the fiscal year to the calendar year. The Health Service Board adopted the calendar plan year in order to be eligible for other funds, such as the Federal Retiree Drug Subsidies, and to streamline some compliance and administration functions. In order to implement the revised health plan year, the Board of Supervisors previously approved a short plan year from July 1, 2012 through December 31, 2012

(Files 12-0051 and 12-0050). The Health Service Board is now requesting approval for the City's calendar year (CY) 2013 health, vision, and dental plans as discussed in detail below.

DETAILS OF PROPOSED LEGISLATION

File 12-0754: The proposed ordinance would amend Administrative Code Section 16.703 to (a) approve the Health Service Systems' CY 2013 health, vision, and dental plans and premiums, and life insurance and long term disability insurance.

File 12-0755: The proposed resolution would approve the CY 2013 City's health plan premium contribution of $534.78 per member per month.

Proposed Health and Vision Plans

The Health Service Board approved the Health Service System's various proposed health, vision and dental plans and monthly premiums for CY 2013 on April 12, 2012, May 10, 2012, June 1, 2012, June 14, 2012 and July 3, 2012. The Health Service System will continue to offer in calendar year 2013 the three health plans currently offered, as follows.

Kaiser Foundation Health Plan (Health Maintenance Organization or HMO)[1]

The Health Service Board adopted no plan design changes to the Kaiser HMO.

Blue Shield of California (Blue Shield) HMO

The Health Service Board adopted no plan design changes to the Blue Shield HMO.

City Plan Preferred Provider Organization (PPO)[2]

The City Plan is a self-funded plan administered by United HealthCare (UHC). The Health Service Board adopted plan design changes to the City Plan in CY 2013, as follows:

(1) The Health Service Board extended the time period for plan participants to meet annual deductible and out-of-pocket cost limits in CY 2013 by three months, from October 1, 2012 through December 31, 2012. This allows plan participants to apply a portion of the deductibles and out-of-pocket costs incurred during the previous short plan year from July 1, 2012 through December 31, 2012 to costs incurred in CY 2013. Extending the time period to apply deductible and out-of-pocket costs results in estimated cost increases to the City Plan of $969,000, of which $740,000 will be paid by the employers, including the City, and $229,000 will be paid by plan participants.

(2) The Health Service Board approved changing the Medicare pharmacy plan to a Federal Centers for Medicare and Medicaid Services (CMS) subsidized Employer Group Waiver

[1] An HMO offers care through a closed panel of providers, in which members select a primary care physician, who coordinate care to direct access to medical services.
[2] Under a PPO, physicians, hospitals, and other providers contract with a third-party administrator or insurer to provide health care at reduced rates to members.

Plan (EGWP) from the current Retired Drug Subsidy plan. Health Service System is expected to achieve $2,325,000 in annual savings under the Employer Group Waiver Plan. Under the EGWP plan, the Health Service Board approved reducing the number of drugs eligible for reimbursement under the City Plan's formulary by 14. Current City Plan participants who use these 14 drugs would continue to be eligible for reimbursement.

Vision Plans

Members enrolled in one of the three health plans receive vision benefits through VSP, a third party insurer. Monthly premium costs for vision plans are included in the monthly health plan premiums shown in Table 1 below.

Health Plan Premium Increases

Total monthly premiums for single employees (with no dependents), participating in the three health plans in CY 2013 will increase by 1.3% to 6.4%, as shown in Table 1 below. Details of premium increases for all employees and retirees are contained in the July 9, 2012 memorandum to the Board of Supervisors, provided by the Health Service System Director.

Table 1
Total Monthly Health Plan Premium for Single Employees in CY 2013

	Proposed CY 2013	July 1, 2012 through December 31, 2012	Increase	Percent Change
City Health Plan	$1,258.97	$1,237.46	$21.51	1.7%
Kaiser	$537.02	$530.01	$7.01	1.3%
Blue Shield	$647.16	$608.43	$38.73	6.4%

The City's Monthly Premium Costs

The City's contribution per employee toward the total monthly health plan premium is based on a survey of California's 10 most populous counties, as required by the Charter. The City's contribution per employee toward the total monthly premium in CY 2013 is $534.78, which is $11.81 or 2.3% more than the City's contribution of $522.97 from July 1, 2012 through December 31, 2012. The Attachment provides the results of the 10-county survey.

Blue Shield Premium Stabilization

The Health Service System received a credit from Blue Shield of $18.9 million in 2012 as part of Blue Shield's 2 Percent Pledge program, in which Blue Shield credits customer's net income exceeding 2% of revenue. The Health Service Board approved use of $5.2 million of the $18.9 million credit to stabilize premiums for dependents and reduce the impact of Blue Shield premium increases from July 1, 2012 through December 31, 2012, leaving a balance of $13.7 million.

In order to reduce proposed Blue Shield premium increases in CY 2013 and stabilize membership, the Health Service Board has approved (1) using $5.0 million of the unexpended balance of $13.7 million to offset premium costs for dependents, and (2) moving active employees and non-Medicare retirees from a fully insured HMO to a “flex funded” health plan, as discussed in the Policy Consideration section below.

City Health Plan Premiums

The City Health Plan is self-funded. Premiums are deposited into the Health Service System Trust Fund and used to pay claims. Monthly premium amounts are based on claims experience for each type of plan member: active employees, retirees with Medicare, and retirees without Medicare. In CY 2013, City Health Plan premiums include the costs savings noted above, and cost increases due to the 3-month extension for deductibles and out-of-pocket costs, noted above.

Contingency and Stabilization Amounts

The Health Service System also sets aside a portion of the Health Service System Trust Fund balance[3] to (a) provide contingencies for the self-funded City Plan and self-funded dental plan, Delta Dental PPO; and (b) stabilize the City Plan and employees’ dental plan premium increases by including prior years’ premium revenue surpluses or shortfalls when calculating required premiums in the new plan year.

The CY 2013 contingency amount, as calculated by the Health Service System’s actuary, Aon Hewitt, is $10,900,000, of which $7,200,000 is the City Health Plan contingency and $3,700,000 is the Delta Dental PPO contingency.

The CY 2013 stabilization amount is $38,000.

Proposed Dental Plans

The Health Service System offers three dental plans, including one PPO, Delta Dental PPO, and two HMOs, Delta Care USA and Pacific Union Dental. The Health Service Board has recommended the following changes to the Delta Dental PPO plan:

(1) Members’ payments for dental exams, x-rays, and cleanings for providers not in the PPO network were increased from 0% to 20% of billed services;

(2) Members’ payments for extractions, fillings, endodontic/root canal procedures, and oral surgery for providers not in the PPO network were increased from 20% to 40% of billed services;

(3) Members’ payments for crowns and cast restorations for providers not in the PPO network were increased from 20% to 50% of billed services;

(4) Lifetime maximum benefits for child orthodontics were decreased from $2,500 to $2,000 for Premier network providers[4] and $1,500 for out-of-network providers; and

[3] As of May 2012 the Health Service System Trust Fund balance was $57.1 million.
[4] Delta Dental has three contracted networks: Premier, PPO, and PPO plus Premier.

(5) Lifetime maximum benefits for adult orthodontics were decreased from $2,500 to $1,500 for PPO network providers, $1,000 for Premier network providers, and $500 for out-of-network providers.

The changes above are expected to achieve $591,000 in annual savings. The City contributes the full monthly premium for active employees for the two HMOs. The City contributes a portion of the monthly premium for active employees for Delta Dental PPO, as shown in Table 2 below. The City does not contribute to the monthly dental premium for retired employees.

Table 2
Total Monthly Dental Premiums

	CY 2013	July 1, 2012 to December 31, 2012	Increase/ Decrease	Percent
Delta Care USA HMO				
Single Employee	$26.00	$26.00	$0.00	0.0%
Employee + One Dependent	$42.90	$42.90	$0.00	0.0%
Employee + Two or More Dependents	$63.45	$63.45	$0.00	0.0%
Pacific Union Dental HMO				
Single Employee	$27.80	$27.80	$0.00	0.0%
Employee + One Dependent	$45.90	$45.90	$0.00	0.0%
Employee + Two or More Dependents	$67.86	$67.86	$0.00	0.0%
Delta Dental PPO				
Single Employee (Total Premium)	$63.47	$64.35	($0.88)	(1.4%)
Less Employee Contribution	($5.00)	($5.00)	$0.00	0.0%
City's Contribution	$58.47	$59.35	($0.88)	(1.5%)
Employee + One Dependent (Total Premium)	$133.29	$135.14	($1.85)	(1.4%)
Less Employee Contribution	($10.00)	($10.00)	$0.00	0.0%
City's Contribution	$123.29	$125.14	($1.85)	(1.5%)
Employee + Two or More Dependents (Total Premium)	$190.42	$193.06	($2.64)	(1.4%)
Less Employee Contribution	($15.00)	($15.00)	$0.00	0.0%
City's Contribution	$175.42	$178.06	($2.64)	(1.5%)

Life and Long Term Disability Insurance

The Health Service System selected Aetna Life Insurance Company through a Request for Proposal (RFP) process to provide life and long term disability insurance to City employees eligible for coverage through the Memoranda of Understanding between the City and the respective unions.

FISCAL ANALYSIS

As shown in Table 3 below, the total City, employee, and retiree costs for the health, vision, and dental plans, and long-term disability and life insurance will increase by $8,040,874, or 1.4%, from $583,708,262 for July 1, 2012 through December 31, 2012 (annualized) to $591,749,136 in

CY 2013.[5] Attachment II, provided by the Health Service System, gives cost details for the City and for employees and retirees.

Table 3
Total Health and Other Plan Costs for the City, Employees, and Retirees in CY 2013 Compared to Annualized Costs for the Six-Month Period from July 2012 through December 2012

	2012 (July 1, 2012 through December 31, 2012 annualized)	CY 2013 (January 1, 2013 through December 31, 2012)	Total Costs Increase/ (Decrease)	Percent
Kaiser HMO	$232,160,501	$234,735,416	$2,574,914	1.1%
Blue Shield HMO	251,104,950	258,173,555	7,068,605	2.8%
City Plan	59,476,200	60,288,439	812,240	1.4%
Subtotal Health and Vision Plan	542,741,651	553,197,410	10,455,759	1.9%
Dental Plans	34,166,319	33,705,642	(460,678)	(1.3%)
Long Term Disability and Life Insurance	6,800,292	4,846,084	(1,954,208)	(28.7%)
Total City, Employees, and Retirees	**$583,708,262**	**$591,749,136**	**$8,040,874**	**1.4%**

POLICY CONSIDERATION

The Health Service Board has proposed changing the Blue Shield HMO plan from a fully insured plan to a flex funded plan.

The flex funded plan differs from the fully-insured plan in that (1) under the fully insured plan, Blue Shield pays all covered claims, while (2) under the flex funded plan, the Health Service System is responsible for paying aggregate claims that exceed Blue Shield premium payments made by the City and employees. Under the proposed flex funded plan, the Health Service System would pay for aggregate claims costs that are more than 100% of premium payments to Blue Shield up to a cap of 125%[6].

According to Dr. Catherine Dodd, Health Service System Director, the $5 million stabilization payment (see above) combined with the flex funded plan will reduce the amount of Blue Shield premium cost increases that the City and employees would have otherwise paid. The Health Service System estimates that CY 2013 total premium cost increases for the flex funded plan are $20.7 million less than for the fully-insured plan, as shown in Table 4 below.

[5] City costs are funded by General Fund and non-General Fund sources.

[6] For example, if the City's premium payments to Blue Shield, including employer and employee payments, were $200 million in CY 2013, the Health Service System would be responsible for paying aggregate claim costs that exceed $200 million up to a cap of $250 million.

Table 4
Comparison of Blue Shield Cost Increases under Fully Funded and Flex Funded Plan For All Health Service System Employers and Members

	Estimated CY 2013 Premium Increase[1]		
	Fully Funded Plan	**Flex Funded Plan**	**Savings Under Flex Funded Plan**
Employer Costs	$14,900,000	$2,000,000	$12,900,000
Member Costs	14,900,000	7,100,000	7,800,000
Total	$29,800,000	$9,100,000	$20,700,000

Source: Health Service System Report to the July 3, 2012 Health Service Board

[1] Includes $5 million stabilization amount

In order to meet potential claims costs that exceed premium payments, the Health Service System actuary, Aon Hewitt, has proposed reserves totaling $24 million, including a claim stabilization reserve of $7 million from the unexpended balance of the 2012 Blue Shield credit, and an additional reserve of $17 million that will be funded over time from excess premiums collected for the Blue Shield plan over claims.

The Health Service System previously offered a flex funded health plan through PacifiCare from July 1, 2007 through June 30, 2009, in which the City was responsible for paying claims that exceeded premium payments to PacifiCare. According to the Health Service System, PacifiCare underestimated the claims costs for active employees and non-Medicare retirees and set premiums too low. As a result, PacifiCare collected $83 million in premiums and spent $105 million in claims, a shortfall of $22 million from July 1, 2007 through June 30, 2009. Under the flex funded plan, the City was responsible for paying the $22 million shortfall in premiums compared to claims. In order to increase the Health Service System Trust Fund balance sufficiently to pay the $22 million shortfall when the City terminated the PacifiCare flex funded plan, the City increased premiums to Blue Shield, Kaiser and the City Health Plan members from 2009 to 2012.

According to Dr. Dodd, the Health Service System will be better able to manage the Blue Shield flex funded plan than the Health Service System was able to manage the PacifiCare flex funded plan because implementation of the Blue Shield Accountable Care Organizations[7] have resulted in decreased utilization and claims costs. Additionally, the Blue Shield flex funded plan will be the only HMO offered other than the Kaiser Health Plan HMO, whereas when PacifiCare was

[7] Under Accountable Care Organization programs, insurers provide incentives to providers through shared savings programs for improving the quality of care and reducing costs. Quality and costs of care are monitored through utilization data, case management, and other protocols.

the offered flex plan, the Health Service System also offered the Blue Shield HMO and the Kaiser Health Plan HMO.

Although the Blue Shield flex funded plan could result in savings to the Health Service System, the flex funded plan also transfers financial risk to the Health Service System if claims costs exceed premium payments to Blue Shield. Therefore, the Budget Analyst considers approval of the proposed Blue Shield flex funded plan in CY 2013 to be a policy matter for the Board of Supervisors.

RECOMMENDATIONS

- Approve Resolution 12-0755, setting the City's CY 2013 health plan premium contribution.
- Except for the Blue Shield flex funded plan, approve Ordinance 12-0754, establishing the Health Service System's plans and premiums for the Kaiser Health Plan, the City Health Plan, the vision plans, and the dental plans, and life insurance and long term disability payments.
- Approval of the Blue Shield flex funded plan under Ordinance 12-0754 is a policy matter for the Board of Supervisors.

Health Service System

CITY & COUNTY OF SAN FRANCISCO

2012-2013 10-COUNTY SURVEY

Average of Employer Contributions

Rank	County	2003 2004	2004 2005	2005 2006	2006 2007	2007 2008	2008 2009	2009 2010	2010 2011	2011 2012	2012 Jul–Dec	3 Yr Annual Trend	Trend Factor	2013 Result
1	Los Angeles	272.27	276.16	316.07	338.55	362.55	383.10	415.91	457.56	478.56	499.57	6.3%	1.03	515.07
2	San Diego	207.95	262.38	267.86	363.48	305.87	327.00	363.48	364.00	406.00	432.20	5.9%	1.03	444.86
3	Orange	383.50	395.83	374.13	380.63	387.92	338.64	372.44	383.75	434.41	485.10	9.2%	1.05	506.94
4	Riverside	275.61	317.55	364.69	391.53	462.05	469.65	491.27	488.44	513.02	537.43	3.0%	1.02	545.54
5	San Bernardino[1]	242.53	298.45	333.57	299.72	313.73	368.67	377.35	397.51	399.70	398.98	1.9%	1.00	398.98
6	Santa Clara[1]	288.18	342.10	382.32	438.49	479.93	515.52	563.19	608.44	655.97	643.13	4.5%	1.00	643.13
7	Alameda	265.38	276.28	316.40	342.11	398.35	440.58	497.76	521.89	541.06	575.00	4.9%	1.02	588.99
8	Sacramento	308.98	315.25	363.89	422.13	480.54	480.76	516.78	561.35	637.98	667.02	8.9%	1.04	696.00
9	Contra Costa	267.55	299.35	336.62	366.77	407.86	438.47	470.02	495.15	521.90	540.43	4.8%	1.02	553.15
10	Fresno	300.16	345.67	399.71	390.06	432.64	425.58	425.43	450.43	450.80	450.80	1.9%	1.01	455.17
	Average	**281.21**	**312.90**	**345.53**	**373.45**	**403.14**	**418.80**	**449.37**	**472.85**	**503.94**	**522.97**	**5.2%**	**1.02**	**534.78**

Increase Over Prior Year

Rank	County	2003 2004	2004 2005	2005 2006	2006 2007	2007 2008	2008 2009	2009 2010	2010 2011	2011 2012	2012 Jul–Dec	2013
1	Los Angeles	8.49%	1.43%	14.45%	7.11%	7.09%	5.67%	8.57%	10.01%	4.60%	4.39%	3.10%
2	San Diego	15.55%	26.17%	2.09%	35.70%	-15.85%	6.91%	11.16%	0.14%	11.50%	6.45%	2.93%
3	Orange	-1.89%	3.22%	-5.48%	1.74%	1.92%	-12.70%	9.98%	3.04%	13.20%	11.67%	4.50%
4	Riverside	23.19%	15.22%	14.84%	7.36%	18.01%	1.65%	4.60%	-0.57%	5.00%	4.76%	1.51%
5	San Bernardino[1]	8.59%	23.06%	11.77%	-10.15%	4.67%	17.51%	2.35%	5.34%	0.60%	-0.18%	0.00%
6	Santa Clara[1]	21.73%	18.71%	11.76%	14.69%	9.45%	7.42%	9.25%	8.04%	7.80%	-1.96%	0.00%
7	Alameda	21.57%	4.11%	14.52%	8.13%	16.44%	10.60%	12.98%	4.85%	3.70%	6.27%	2.43%
8	Sacramento	18.91%	2.03%	15.43%	16.00%	13.84%	0.05%	7.49%	8.62%	13.70%	4.55%	4.34%
9	Contra Costa	27.50%	11.89%	12.45%	8.96%	11.20%	7.51%	7.20%	5.35%	5.40%	3.55%	2.35%
10	Fresno	9.81%	15.16%	15.63%	-2.41%	10.92%	-1.63%	-0.03%	5.87%	0.10%	0.00%	0.97%
	Average	**13.99%**	**11.27%**	**10.43%**	**8.05%**	**7.98%**	**3.88%**	**7.30%**	**5.23%**	**6.57%**	**3.78%**	**2.26%**

[1]Plan year's for these counties are not calendar year. Contributions for these counties are for the last 6 months of the calendar year and first 6 months of the next year.

Calendar Year 2013 City and County of San Francisco (City) Employer, Employee, and Retiree Premium Costs

	2012 (July 1, 2012 through December 31, 2012 annualized)	2013 (January 1, 2013 through December 31, 2012)	Increase/ (Decrease)	Percent
City Costs				
Kaiser HMO	$210,568,789	$213,512,253	$2,943,463	1.4%
Blue Shield HMO	214,945,137	220,221,904	5,276,767	2.5%
City Plan	47,381,423	48,002,758	621,335	1.3%
Subtotal Health and Vision Plan	472,895,349	481,736,914	8,841,565	1.9%
Dental Plans	31,584,164	31,123,486	(460,678)	(1.5%)
Long Term Disability and Life Insurance	6,729,515	4,784,845	(1,944,670)	(28.9%)
Total City Costs	**$511,209,028**	**$517,645,245**	**$6,436,217**	**1.3%**
Employee and Retiree Costs				
Kaiser HMO	$21,591,712	$21,223,163	($368,549)	(1.7%)
Blue Shield HMO	36,159,813	37,951,651	1,791,838	5.0%
City Plan	12,094,777	12,285,682	190,905	1.6%
Subtotal Health and Vision Plan	69,846,301	71,460,496	1,614,194	2.3%
Dental Plans	2,582,155	2,582,155	0	0.0%
Long Term Disability and Life Insurance	70,777	61,240	(9,537)	(13.5%)
Total Employee and Retiree Costs	**$72,499,234**	**$74,103,891**	**$1,604,657**	**2.2%**
Total Costs				
Kaiser HMO	$232,160,501	$234,735,416	$2,574,914	1.1%
Blue Shield HMO	251,104,950	258,173,555	7,068,605	2.8%
City Plan	59,476,200	60,288,439	812,240	1.4%
Subtotal Health and Vision Plan	542,741,651	553,197,410	10,455,759	1.9%
Dental Plans	34,166,319	33,705,642	(460,678)	(1.3%)
Long Term Disability and Life Insurance	6,800,292	4,846,084	(1,954,208)	(28.7%)
Total Costs	**$583,708,262**	**$591,749,136**	**$8,040,874**	**1.4%**

Source: Health Service System

Item 10 **File 12-0407**	**Departments:** Treasurer/Tax Collector Police Department

EXECUTIVE SUMMARY

Legislative Objective

- The proposed ordinance would amend the City's Business and Tax Regulations Code Article 9, by adding Section 608 to exempt a limited number of special events operated by the volunteers of nonprofit organizations on San Francisco Unified School District (SFUSD) property for the sole benefit of San Francisco public schools that earn less than $10,000 in gross parking revenue per event, from paying the City's Parking Tax and related requirements, and establishing Special School Parking Event permits to be issued by the Tax Collector's Office. The proposed ordinance would also amend the City's Police Code Section 1215 to exempt said organizations from the requirement of obtaining commercial parking operator permits, and would establish a sunset date of December 31, 2015.

Key Points

- According to the Office of the Sponsor of the proposed ordinance, an Amendment of the Whole will be introduced at the July 18, 2012 Budget and Finance Committee meeting.
- Under the proposed Amendment of the Whole, Parking Taxes would not be required to be collected or remitted by operators of special school events if: (a) parking is conducted on SFUSD property; (b) the parking activity is provided by a volunteer-led Section 501(c)(3) nonprofit organization; (c) 100% of the parking earnings are for the sole benefit of SFUSD, and (d) gross revenues from the school parking event do not exceed $10,000.
- Under the proposed ordinance, the Tax Collector could issue a maximum of 150 Special School Parking Event permits annually, on a first-come, first-serve basis at no charge to the President, Chief Administrative Officer or equivalent official at the Second District PTA for distribution to qualifying organizations. Such qualifying organizations would also be exempt from (a) obtaining a Certificate of Authority from the Tax Collector, (b) a Parking Tax bond, (c) Tax Collector revenue control requirements, and (d) obtaining a commercial parking permit, as currently required.

Fiscal Impacts

- Assuming a maximum of 150 Special School Parking Event permits are issued annually and each Special School Parking Event generates the maximum $10,000, the City would forgo an estimated $300,000 of annual Parking Tax revenues. In addition, if the maximum 150 Special School Parking Event permits are issued each year, the proposed ordinance would result in the City forgoing an additional $189,300 of annual fee revenue. Together, this would result in a maximum forgone loss of $489,300 annually in revenues to the City.
- However, it should be noted that, fundraising events that are sponsored by the PTA to benefit the San Francisco Unified School District at SFUSD locations are not currently paying the above-noted Parking Taxes or fees to the City, although City Code provisions currently require that these Parking Taxes and fees be paid.

Recommendation

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

MANDATE STATEMENT/ BACKGROUND

Mandate Statement

In accordance with Charter Section 2.105, all legislative acts shall be by written ordinance, approved by the Board of Supervisors.

Background

In accordance with the City's Business and Tax Regulations Code, the City's Parking Tax rate is currently 25 percent. In accordance with Article 9, Section 604 of the City's Business and Tax Regulations Code, every operator maintaining a place of business in San Francisco that includes renting of parking spaces shall collect Parking Taxes from the occupants, or otherwise be liable to the City's Tax Collector for the amount of Parking Tax due each month. In addition, Article 6 of the City's Business and Tax Regulations Code requires each parking operator to obtain a Certificate of Authority (COA) from the City's Tax Collector in order to collect the City's Parking Taxes and to obtain a Parking Tax bond, and Article 22 imposes specified revenue control equipment requirements on parking operators.

In addition, in accordance with Article 17, Section 1215 of the City's Police Code, the Chief of Police is responsible for issuing commercial parking permits to operators of parking garages and parking lots, where vehicles are parked for a charge.

DETAILS OF PROPOSED LEGISLATION

According to the Office of the Sponsor of the proposed ordinance, an Amendment of the Whole will be introduced at the July 18, 2012 Budget and Finance Committee meeting. The following report reflects the proposed Amendment of the Whole ordinance.

The proposed ordinance would amend the City's Business and Tax Regulations Code Article 9, by adding Section 608 to exempt a limited number of special events operated by volunteer-led nonprofit organizations on San Francisco Unified School District (SFUSD) property for the sole benefit of San Francisco public schools that earn less than $10,000 in gross parking revenue per event, from paying the City's Parking Tax and other related requirements, and provide that such Special School Parking Event permits be issued by the Tax Collector's Office. The proposed ordinance would also amend the City's Police Code Section 1215 to exempt said organizations from the requirement of obtaining commercial parking operator permits. The proposed ordinance would expire on December 31, 2015, unless the Board of Supervisors or the voters extends the proposed Parking Tax exemption.

Specifically, the new Section 608 of the Business and Tax Regulations Code would provide that no Parking Taxes would be required to be collected and remitted by the operators of special school events if:

- Parking is conducted on San Francisco Unified School District (SFUSD) property;

- Parking activity is provided by a volunteer-led Section 501(c)(3) nonprofit organization;

- 100% of the parking revenues are for the sole benefit of San Francisco public schools and gross revenues from the school parking event do not exceed $10,000;

- The Tax Collector could issue a maximum of 150 Special School Parking Event permits annually, on a first-come, first-serve basis at no charge to the President, Chief Administrative Officer, or equivalent official at the Second District PTA[1] for distribution to eligible organizations for conducting the special school parking events.

- Each Special School Parking Event Permit would (a) be valid for one school parking event, (b) not be transferable, and (c) be valid only during the calendar year issued. Prior to the event, the organization must notify the Tax Collector regarding the specified date and location of the Special School Parking Event and have the permit publicly displayed and available for inspection on-site.

The proposed new Section 608 of the Business and Tax Regulations Code would also:

- Require the Tax Collector to prescribe the Special School Parking Event permit application, determine whether an organization meets the specified requirements and not charge any fees for applying for or obtaining such Special School Parking Event permits.

- Provide that such qualified nonprofit organizations would also be exempt from (a) obtaining a Certificate of Authority from the Tax Collector, (b) a Parking Tax bond, or (c) Tax Collector revenue control requirements, as currently required.

In addition, the proposed ordinance would amend Section 1215(d) of the Police Code to exempt those nonprofit organizations which have applied for and obtained Special School Parking Event permits from obtaining a commercial parking permit, as currently required.

Under the proposed ordinance, the Second District PTA would be required to (a) maintain and make available business and tax records for five years from the date the Special School Parking permit was issued, which would be available to the Tax Collector to determine the organization's eligibility and use of the special school parking permits, and (b) submit annual returns on a form prescribed by the Tax Collector that identifies the number of permits received, dates of the parking events conducted, parking rates charged for each event, and gross revenues collected for each event.

In addition, the Tax Collector would be required to annually submit a report to the Board of Supervisors that identifies (a) the number of permits issued, (b) total gross parking revenues realized by the nonprofit organizations, and (c) total Parking Tax revenues forgone.

[1] The Second District of the California State Parent Teacher Association (PTA) is the PTA umbrella organization for San Francisco and is the only nonprofit organization specifically identified in the proposed ordinance.

FISCAL ANALYSIS

According to Mr. Greg Kato, the Policy and Legislative Manager for the Treasurer/Tax Collector's Office, and as shown in Table 1 below, assuming the maximum 150 Special School Parking Event permits are issued annually and that each Special School Parking Event generates the maximum $10,000, the City would forgo an estimated $300,000 of annual Parking Tax revenues.

Table 1: Maximum Forgone Annual Parking Tax Revenues

Maximum Revenue Per Event*	$10,000
Current Parking Tax Rate	25%
Maximum Parking Tax Revenue Per Event	$2,000
Maximum Special School Parking Event Permits per Year	150
Maximum Forgone Annual Parking Tax Revenues	**$300,000**

* Based on total parking revenues of $10,000, $8,000 is assumed to be the actual parking rent, and $2,000 or 25% is assumed to be the Parking Tax.

The proposed ordinance would also exempt Special School Parking Event permit holders from (a) obtaining commercial parking operator permits from the Police Department, which are projected to cost $762[2] per year, and (b) paying revenue control equipment fees to the Tax Collector, which currently cost $500 per year. As shown in Table 2 below, if the maximum 150 Special School Parking Event permits are issued each year, the proposed ordinance would result in the City forgoing an additional $189,300 of annual fee revenue.

Table 2: Maximum Forgone Annual Commercial Parking Operator Permit Fees and Revenue Control Equipment Fees

Annual Commercial Parking Operator Permit Fees	$762
Maximum Special School Parking Event Permits per Year	150
Maximum Forgone Annual Commercial Parking Operator Fees	**$114,300**
Annual Revenue Control Equipment Fees	$500
Maximum Special School Parking Event Permits per Year	150
Maximum Forgone Annual Revenue Control Equipment Fees	**$75,000**
Total Annual Forgone Fees	**$189,300**

Together, the proposed ordinance is projected to result in a maximum forgone loss of $489,300 in revenues annually to the City ($300,000 plus $189,300). However, it should be noted that, fundraising events that are sponsored by the PTA to benefit the San Francisco Unified School District at SFUSD locations are not currently paying the above-noted Parking Taxes or fees to the City, although City Code provisions currently require that these Parking Taxes and fees be paid.

[2] An ordinance to increase commercial parking operator permit fees charged by the Police Department from $455 to $762 is currently pending before the Board of Supervisors (File 12-0597).

In addition, the Treasurer/Tax Collector's Office would be responsible for administering the proposed Special School Parking Event permit program, which Mr. Kato advises would result in minor additional operating expenses, which would be absorbed in the Tax Collector's Office existing budget.

RECOMMENDATION

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

Harvey M. Rose

cc: Supervisor Chu
Supervisor Avalos
Supervisor Kim
President Chiu
Supervisor Campos
Supervisor Cohen
Supervisor Elsbernd
Supervisor Farrell
Supervisor Mar
Supervisor Olague
Supervisor Wiener
Clerk of the Board
Cheryl Adams
Mayor Lee
Controller
Kate Howard