

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

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: July 8, 2020 Budget and Finance Committee Meeting

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<p>Items 2 & 3 Files 20-0479 and 20-0487 <i>(Continued from June 24, 2020)</i></p>	<p>Department: Office of Public Finance</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <p>File 20-0479 is a resolution determining and declaring that the public interest and necessity demand the acquisition or improvement of real property, including (1) facilities to deliver services for persons experiencing mental health challenges, substance use disorder, and/or homelessness; (2) parks, open space and recreation facilities, including green and climate resilient infrastructure; and (3) streets, curb ramps, street structures and plazas. An ordinance (File 20-0478) is pending before the Board of Supervisors, providing for a proposition to be submitted to the voters in November 2020 to approve \$487,500,000 in General Obligation bonds to fund the acquisition and improvement of real property referenced in File 20-0479.</p> <p>File 20-0487 is a resolution amending the City’s ten-year capital expenditure plan for FY 2020-2029 to amend the General Obligation bond program to include the proposed bonds of \$487,500,000</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The 2020 Health and Recovery General Obligation Bond report describes the projects to be acquired or constructed, using the proposed bond proceeds. • \$207 million would be allocated to (i) permanent supportive housing and shelter projects, and (ii) projects for mental health and substance use disorder services. • \$239 million would be allocated to two categories of open space and park projects: (i) neighborhood parks, and (ii) programmatic scopes. Neighborhood park projects were prioritized based on projects that had already undergone public review, design studies, and environmental review. Programmatic scope are broad categories for which specific projects have yet to be identified. • \$41.5 million would be allocated to address the capital needs in the public right of way and public space. Projects include (i) street resurfacing projects, which makes up the majority of proposed funding, (ii) curb ramps, and (iii) street structures and plazas. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • According to the Office of Public Finance, issuance of \$487.5 million in General Obligation bonds would result in estimated average annual debt service of \$39.4 million and total debt service over the life of the bonds of \$958.7 million. Estimated average annual property tax increase to a residential property owner, with an assessed valuation of \$600,000 and \$7,000 homeowner’s exemption, would be \$83.02. • According to the Office of Public Finance, the proposed \$487.5 million in General Obligation bonds falls within the Charter debt limit requirement and City policy to limit the impact of debt service on property tax rates. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed resolutions is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 9.106 states that the Board of Supervisors is authorized to provide for the issuance of general obligation bonds in accordance with the Constitution of the State of California. General obligation bonds may be issued and sold in accordance with state law or any local procedure adopted by ordinance. There shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County

DETAILS OF PROPOSED LEGISLATION

File 20-0479: The proposed resolution determines and declares that the public interest and necessity demand the acquisition or improvement of real property, including (1) facilities to deliver services for persons experiencing mental health challenges, substance use disorder, and/or homelessness; (2) parks, open space and recreation facilities, including green and climate resilient infrastructure; and (3) streets, curb ramps, street structures and plazas.

An ordinance (File 20-0478) is pending before the Board of Supervisors, providing for a proposition to be submitted to the voters in November 2020 to approve \$487,500,000 in General Obligation bonds to fund the acquisition and improvement of real property referenced in File 20-0479.

Under the proposed resolutions, the Board of Supervisors would find that:

1. The proposed bond-funded projects are necessary and in the public interest;
2. The proposed bond-funded projects with estimated costs of \$487.5 million cannot be funded from operating revenues;
3. The proposed General Obligation bonds were referred to the Planning Department, as required by the Charter and Administrative Code, conform to the Planning Code's priority policies, and are consistent with the General Plan; and
4. The approval time limits specified in Administration Code Section 2.34 are waived;¹ and
5. Prior eligible City expenditures are to be reimbursed by the bond proceeds, for which the procedures are defined on page 10 of the proposed resolution.

The proposed resolution also provides that the ordinance submitting the proposed General Obligation bonds to the voters (File 20-0478 pending before the Board) authorizes landlords to pass through 50 percent of the resulting property tax increase to residential tenants.

The proposed resolution further makes findings in compliance with the California Environmental Quality Act (CEQA), detailed on pages 7 through 9 of the proposed resolution;

In addition, a proposed resolution (File 20-0487) amends the City's ten-year capital expenditure plan for FY 2020-2029 to amend the General Obligation bond program to include the proposed bonds of \$487,500,000.

¹ Administrative Code Section 2.34 requires the Board of Supervisors to approve submitting General Obligation bonds to the voters no less than 141 days before the election.

Proposed Health and Recovery Bond

The 2020 Health and Recovery General Obligation Bond report describes the projects to be acquired or constructed, using the proposed bond proceeds. Total proposed General Obligation bond allocations are shown in Table 1 below.

Exhibit 1: Proposed Bond Allocation

Program Area	Amount
Behavioral Health and Homelessness	\$207.0 million
Parks and Open Spaces	\$239.0 million
Right of Way Repair	\$41.5 million
Total	\$487.5 million

Behavioral Health and Homelessness

The proposed bond funds would fund behavioral health and homeless facilities. Proposed behavioral health facilities include:

- A new centralized Behavioral Health Access Center;
- Behavioral health respite facilities, including detox and sobering; and
- Improvements to existing health facilities.

Proposed facilities to serve the homeless population include:

- Construction and acquisition of permanent supportive housing; and
- Acquisition of emergency shelter and transitional housing.

Parks and Open Spaces

The proposed bond funds would be allocated to two categories of projects, neighborhood parks and programs. According to the 2020 Health and Recovery Bond Report, neighborhood park projects were prioritized based on projects that had already undergone public review, design studies, and environmental review. Programmatic scope are broad categories for which specific projects have yet to be identified. According to the 2020 Health and Recovery Bond Report, the Recreation and Park Commission will review and approve funding allocated to specific projects; environmental review under the California Environmental Quality Act (CEQA) will be completed after project identification and development.

Exhibit 2: Proposed Bond Allocation to Parks and Open Spaces

Program Area	Amount
Neighborhood Parks	
Buchanan Mall	\$2 million
Gene Friend Recreation Center	\$30 million
Herz Playground Recreation Center (HOPE SF)	\$10 million
India Basin	\$29 million
Japantown Peace Plaza	\$25 million
Contingency	\$5 million
Subtotal Neighborhood Parks	\$101 million
Programmatic Scope	
Citywide Parks	\$18 million
Recovery Parks ^a	\$86 million
Playgrounds	\$9 million
Community Opportunity Fund	\$6 million
Sustainability	\$14 million
Trails	\$1 million
Community Gardens	\$0.6 million
Contingency	\$1.4 million
Subtotal Programmatic Scope	\$136 million
Administration	\$2 million
Total Neighborhood Parks and Programmatic Scope	\$239 million

Source: Capital Planning Program

^a Recovery Parks priorities are: Crocker Amazon (\$15 million), Jackson (\$10 million), Buena Vista (\$3 million), Richmond Senior Park (\$1 million), South Sunset (\$3 million), and Chinatown (\$54 million)

Right of Way

The proposed bond funds would be allocated to project to address the capital needs in the public right of way and public space. Street resurfacing projects would make up the majority of projects. The specific street resurfacing projects would be prioritized based on the pavement score, usage (such as transit corridors), project readiness, equitable geographic distribution, and public inquiries. The other two project areas are curb ramps, and street structures and plazas.

Table4: Proposed Bond Allocation to Right of Way Repairs

Program Area	Amount
Street resurfacing	\$31.5 million
Curb Ramps	\$5 million
Street Structures and Plazas	\$5 million
Total	\$41.5 million

FISCAL IMPACT*Debt Service and Property Taxes*

According to the Office of Public Finance, issuance of \$487.5 million in General Obligation bonds would result in estimated average annual debt service of \$39.4 million and total debt service over the life of the bonds of \$958.7 million. Estimated average annual property tax increase to a residential property owner, with an assessed valuation of \$600,000 and \$7,000 homeowner's exemption, would be \$83.02.

Debt Limit and Tax Rates

Charter Section 9.106 sets the City's debt limit at 3 percent of assessed valuation. According to the Office of Public Finance, based on the City's FY 2019-20 net assessed valuation of \$281.8 billion, the City's General Obligation bond debt capacity is \$8.4 billion. As of July 2020, the City's outstanding General Obligation bond debt is \$2.15 billion and authorized and unissued General Obligation bond debt is \$2.18 billion. If all authorized debt were to be issued, including the proposed \$487.5 million in General Obligation bonds, total City General Obligation bond debt would be \$4.82 billion, less than the \$8.4 billion debt limit.

The City's policy is to limit the impact of General Obligation bond debt on property tax rates; the policy defined in the Capital Plan sets the property tax rate at no more than the FY 2005-06 rate. According to the Office of Public Finance, approval of the proposed General Obligation bonds is consistent with City policy.

RECOMMENDATION

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

<p>Items 4 and 5 Files 20-0516 and 20-0582</p>	<p>Department: Office of Public Finance Municipal Transportation Agency (MTA)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • File 20-0516: The proposed ordinance would appropriate \$140,000,000 in Series 2020B bond proceeds to the San Francisco Municipal Transportation Agency for street and transit projects in FY 2020-21. • File 20-0582: The proposed resolution would authorize the sale of not-to-exceed \$140,000,000 of 2014 Transportation and Road Improvement Bonds (Series 2020B). 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • The proposed third bond sale is expected to occur in late July or early August 2020 upon Board of Supervisors approval of the bond issuance (File 20-0582). The projects to be funded through the proposed third bond sale include: Muni Forward Rapid Network improvements, Caltrain upgrades, accessibility improvements, and pedestrian safety improvements. With the proposed appropriation of \$140,000,000 in Series 2020B GO bond proceeds to the Municipal Transportation Agency (MTA), the sale and appropriation of 2014 Transportation and Road Improvement GO Bonds would total \$381,450,000. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • Based upon an estimated market interest rate of 3.75 percent, the Office of Public Finance projects an average annual debt service cost of approximately \$9,725,000. The total debt service over the 20-year life of the bonds is projected to be approximately \$193,313,860. Of this, \$136,090,000 represents the estimated par and the remainder of \$57,223,860 represents estimated interest. Repayment of the annual debt service of the bonds will be recovered through increases in the annual Property Tax rate, which is estimated to average \$0.00346 per \$100 of assessed value or \$3.46 per \$100,000 of assessed value over the anticipated 20-year term of the bonds. 	
<p style="text-align: center;">Policy Consideration</p>	
<ul style="list-style-type: none"> • Because there continues to be economic uncertainty as a result of the COVID-19 health crisis, the Office of Public Finance is monitoring the municipal bond market on a daily basis to optimally structure the sales of the bonds. • According to MTA, the projects chosen to be funded by the bonds are mostly already in construction or scheduled to go into construction in the coming months. If future delays occur, MTA is prepared to move funds to other bond eligible projects to prioritize bond expenditures, which must be reported to the Citizens’ General Obligation Bond Oversight Committee through the required quarterly reports. 	
<p style="text-align: center;">Recommendations</p>	
<ul style="list-style-type: none"> • Amend the proposed ordinance to require a report on bond projects and expenditures to the Board of Supervisors prior to December 31, 2020, and for the report to be included in the legislative file. • Approve the proposed resolution and the proposed ordinance as amended. 	

MANDATE STATEMENT

City Charter Section 9.106 states that the Board of Supervisors is authorized to provide for the issuance of general obligation bonds in accordance with the Constitution of the State of California. General obligation bonds may be issued and sold in accordance with state law or any local procedure adopted by ordinance. There shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County.

City Charter Section 9.105 states that amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval by ordinance after the Controller certifies the availability of funds.

BACKGROUND

On November 4, 2014, a two-thirds majority of voters of the City approved Proposition A, the San Francisco Transportation and Road Improvement General Obligation (GO) Bond to finance the construction, acquisition, and improvement of various transportation and transit-related improvements, and other related costs. Proposition A authorizes the City to issue \$500 million in GO bonds to implement various infrastructure repairs and improvements identified by the Transportation 2030 Task Force.

The proposed third bond sale is expected to occur in late July or early August 2020 upon Board of Supervisors approval of the bond issuance (File 20-0582). The projects to be funded through the proposed third bond sale include: Muni Forward Rapid Network improvements, Caltrain upgrades, accessibility improvements, and pedestrian safety improvements. Specific projects include the following:

- **19th Avenue Project:** The goal of this project is to improve pedestrian safety, transit reliability, and travel times through bus stop optimization, pedestrian and transit bulbs, and other enhancements along the 19th Street corridor.
- **22 Fillmore Project:** This Muni Forward project will upgrade transit reliability, reduce travel times, and enhance safety and accessibility along the Fillmore corridor by creating transit bulbs, dedicated transit lanes, expansion of the overhead wire system, updated bus shelters, streetscape improvements, and extension of bicycle routes.
- **L Taraval Improvement Project:** The L Taraval project will rehabilitate the Taraval corridor to replace infrastructure such as worn rails, overhead wires and poles, and create pedestrian safety enhancements such as high visibility crosswalks, boarding islands, and increased accessibility.
- **Western Addition Area Traffic Signal Upgrades:** This project will build pedestrian countdown signals and/or signal visibility improvements at 24 intersections and create pedestrian-activated flashing beacons at 9 intersections in the Western Addition Area.

- **Safer Taylor Street:** The Taylor Street project will help meet the City’s Vision Zero traffic fatality goals. The project will upgrade signals and improve pedestrian safety, widen sidewalks on Taylor from Turk to Ellis and reduce the number of travel lanes between Market Street and Sutter Street to improve transportation safety and livability along the corridor.
- **BART Canopies:** Some of the bond funding from this issuance will go toward the City’s contribution to the BART Canopies project, to help renovate escalators and build structures to cover entrances to BART stations which will protect people and equipment from weather, show train arrival times, and add security features such as lighting and cameras.
- **Caltrain Electrification:** Funds from this issuance will also help to fulfill the City’s contribution to the Caltrain electrification project, which will fund electrification at the northern terminal of the Caltrain Corridor, starting at San Francisco 4th and King Caltrain Station.

Table 1 below shows the details of previous bond issuances, as well as the 2020 GO Bond sale schedule.

Table 1: Transportation and Road Improvement GO Bond Sale Schedule

	Date	Amount	Series
Total Authorization		\$500,000,000	
First Bond Issuance	July 2015	67,005,000	Series 2015B
Second Bond Issuance	April 2018	174,445,000	Series 2018B
Proposed Third Bond Issuance	July or August 2020	140,000,000	Series 2020B
Total Issued and Proposed		\$381,450,000	
Future Fourth Bond Issuance	TBD	\$118,550,000	TBD
Total Issued, Approved, and Future Bonds		\$500,000,000	

DETAILS OF PROPOSED LEGISLATION

File 20-0582: The proposed resolution would:

1. Authorize the sale of not-to-exceed \$140,000,000 aggregate principal amount of 2014 Transportation and Road Improvement Bonds (Series 2020B);
2. Prescribe the form and terms of the bonds;
3. Authorize the execution, authentication, and registration of the bonds;
4. Provide for the appointment of depositories and other agents for the bonds;

5. Provide for the establishment of accounts related to the bonds;
6. Provide for the manner of sale of the bonds by competitive or negotiated sale;
7. Approve the forms of Official Notice of Sale and Intention to Sell Bonds;
8. Direct the publication of the Notice of Intention to Sell Bonds;
9. Approve the form of the Preliminary Official Statement and the form and execution of the Official Statement relating to the sale of the bonds;
10. Approve the form of the Continuing Disclosure Certificate;
11. Approve the form of the Placement Agent Agreement;
12. Approve the form of the Paying Agent Agreement;
13. Authorize and approve modifications to documents declaring the City's intent to reimburse certain expenditures;
14. Waive the deadline for submission of Bond Accountability Reports;
15. Adopt findings under the California Environmental Quality Act (CEQA);
16. Ratify certain actions previously taken; and
17. Grant authority to City officials to take necessary actions for the authorization, issuance, sale, and delivery of the bonds.

File 20-0516: The proposed ordinance would appropriate \$140,000,000 from the GO Bonds Transportation and Road Improvements, 2014 – Series 2020B bond proceeds to the San Francisco Municipal Transportation Agency for street and transit projects in FY 2020-21. The \$140,000,000 appropriation would be placed on Controller's Reserve pending receipt of proceeds of indebtedness.

The proposed resolution (File 20-0582) waives the deadline for submission of accountability reports required under Administrative Code Section 2.71(a). According to Mr. Vishal Trivedi, Financial Analyst in the Office of Public Finance, the waiver was to ensure that the sale would not be delayed if the bond accountability report was not submitted 60 days prior to appropriation of the bond proceeds.

Table 2 below outlines anticipated sources and uses for the Series 2020B bonds.

Table 2: Sources and Uses of Series 2020B Bond Proceeds

Estimated Sources:	
Par Amount	\$136,090,000
Reserve Proceeds	\$3,910,000
Total Estimated Sources:	\$140,000,000
Estimated Uses:	
<i>Administrative Costs</i>	
Costs of Issuance	\$704,860
Controller's Audit Fund	\$268,600
Underwriter's Discount	\$680,450
Citizens' GO Bond Oversight Committee Fee	\$136,090
Reserve for Market Uncertainty	\$3,910,000
Administrative Costs Subtotal	\$5,700,000
<i>Project Costs</i>	
Muni Forward Rapid Network Improvements	\$79,100,000
Caltrain Upgrades	\$11,220,000
Accessibility Improvements	\$21,120,000
Pedestrian Safety Improvements	\$21,885,429
Program Contingency ¹	\$974,571
Project Costs Subtotal	\$134,300,000
Total Estimated Uses:	\$140,000,000

Source: Office of Public Finance and Municipal Transportation Agency

As shown in Table 3 below, with the proposed appropriation of \$140,000,000 in Series 2020B GO bond proceeds to the Municipal Transportation Agency (MTA), the sale and appropriation of 2014 Transportation and Road Improvement GO Bonds would total \$381,450,000. The Attachment shows the specific projects funded by the Series 2015B, Series 2018B and proposed Series 2020B bond issuances. As noted above, of the \$500,000,000 in 2014 Transportation and Road Improvement GO Bonds, \$118,550,000 will be issued in amounts to be determined at a later date.

¹ According to MTA, adding program contingency was recommended to MTA from the Capital Planning Committee because other agencies in the City add this to their bond issuances to help manage for uncertainties (e.g. COVID-19 health crisis).

Table 3: 2014 Transportation and Road Improvement Funds Allocation

Projects	1st Bond Sale (Series 2015B)	2nd Bond Sale (Series 2018B)	Proposed 3rd Bond Sale (Series 2020B)	Remainder to be Allocated	Total
Muni Forward Rapid Network Improvements	\$23,474,342	\$49,736,011	\$79,100,000	\$37,000,000	\$189,310,353
Caltrain Upgrades	7,760,000	20,020,000	11,220,000	-	39,000,000
Accessibility Improvements		3,000,000	21,120,000	5,000,000	29,120,000
Muni Facility Upgrades	25,186,451	41,522,343	-	-	66,708,794
Major Transit Corridor Improvements	5,500,000	21,588,937	-	-	27,088,937
Pedestrian Safety Improvements	4,080,740	26,268,525	21,885,429	14,000,000	66,234,694
Traffic Signal Improvements		6,000,000		12,000,000	18,000,000
Complete Streets Improvements		4,607,184		43,680,000	48,287,184
Contingency			974,571		974,571
Project Subtotal	\$66,001,533	\$172,743,000	\$134,300,000	\$111,680,000	\$484,724,533
Cost of Issuance	\$503,606	\$493,189	\$704,860	TBD	TBD
Underwriter's Discount	300,853	688,880	680,450	TBD	TBD
Controller's Audit Fund	132,003	345,486	268,600	TBD	TBD
Citizens GO Bond Oversight Committee	67,005	174,445	136,090	TBD	TBD
Issuance and Oversight Subtotal	\$1,003,467	\$1,702,000	\$1,790,000	-	-
Reserve			3,910,000		
Total	\$67,005,000	\$174,445,000	\$140,000,000	\$111,680,000	\$493,130,000

Source: Office of Public Finance and Municipal Transportation Agency

Citizens' General Obligation Bond Oversight Committee Annual Report

Under the proposed resolution, the Citizens' General Obligation Bond Oversight Committee shall conduct an annual review of bond spending and shall provide an annual report on the management of the program to the Mayor and the Board. The most recent annual report on the 2014 Transportation and Road Improvement Bond, dated October 21, 2019, is for FY 2018-19 and submitted to the Board of Supervisors in November 2019.

According to the October 2019 Bond Oversight Committee report, an audit report for this bond was issued in January 2019 and found no abuse of bond funds. Specifically, the audit found that "all audited expenditures were spent in accordance with the ballot measure and that funds were not used for any administrative salaries or other general governmental operating expenses other than those specifically authorized in the ballot measure for such bonds."

FISCAL IMPACT**Annual Debt Service**

As shown above in Table 2, the Office of Public Finance expects to sell \$136,090,000 in par value Series 2020B Bonds. The proposed resolution authorizes the Director of Public Finance to determine the sale date, interest rates, principal amount, and maturity dates of the bonds, subject to the following conditions: (1) the true interest cost shall not exceed 12 percent; and (2) the Series 2020 B bonds shall have a final maturity date no later than 25 years after the date of issuance.

Based upon an estimated market interest rate of 3.75 percent, the Office of Public Finance projects an average annual debt service cost of approximately \$9,725,000. The total debt service over the 20-year life of the bonds is projected to be approximately \$193,313,860. Of this, \$136,090,000 represents the estimated par and the remainder of \$57,223,860 represents estimated interest.

According to Mr. Trivedi, the Office of Public Finance is evaluating, in consultation with the City's financial advisor, whether the method of sale for the Series 2020B Bonds should be sold as a negotiated or competitive sale. In the case of a competitive sale, the Series 2020B Bonds will be awarded to the bidder providing the lowest true interest cost to the City and that meets the terms as specified in the Official Notice of Sale. In the case of a negotiated sale, the City will select an underwriting team through a competitive process² prior to the sale of the Series 2020B Bonds. As a negotiated sale, the City and its finance team will review comparable sales of financings recently sold with comparable ratings and par amount size to the Series 2020B Bonds. The City and the financial advisor will negotiate the final interest rates with the underwriting team to achieve the lowest true interest cost to the City based on recent comparable sales, orders received during the order period and overall conditions of the market at the time of sale.

Debt Limit

Section 9.106 of the City Charter limits the amount of GO bonds the City can have outstanding at any given time to 3 percent of the total assessed value of property in San Francisco. The City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's general obligation debt limit for FY 2019-20 is approximately \$8.4 billion, based on a net assessed valuation of approximately \$281.1 billion. This net assessed valuation is based on the Controller's Certificate of Assessed Valuation, as of August 1, 2019.

² According to Mr. Trivedi, the City maintains a pre-qualified pool of underwriters. If the City were to pursue a negotiated transaction, the underwriter selection would be based on a holistic evaluation of written proposals submitted by underwriters in the pool. The pre-qualified underwriter pool was established in accordance with the City's contracting procedures through a competitive Request for Qualifications process, with an evaluation panel reviewing and scoring the submittals based on approved guidelines, and overseen by the Contract Monitoring Division.

As of July 2020, the City had outstanding approximately \$2.15 billion in aggregate principal amount of GO bonds, which equals approximately 0.76 percent of the net assessed valuation for FY 2019-20. If all of the City's voter-authorized and unissued general obligation bonds were issued, the total debt burden would be 1.5 percent of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the bonds, the debt ratio would increase by approximately 0.05 percent to 0.90 percent, which is within the 3 percent legal debt limit.

Property Tax Rates

For Series 2020B, repayment of the annual debt service will be recovered through increases in the annual Property Tax rate, which is estimated to average \$0.00346 per \$100 of assessed value or \$3.46 per \$100,000 of assessed value over the anticipated 20-year term of the bonds. The owner of a residence with an assessed value of \$600,000, assuming a homeowner's exemption of \$7,000, would pay average additional property taxes to the City of approximately \$20.52 per year if the anticipated \$136,090,000 of Bonds are sold.

Capital Plan

The Capital Planning Committee approved a financial constraint regarding the City's planned use of general obligation bonds such that debt service on approved and issued general obligation bonds would not increase property owners' long-term property tax rates above FY 2005-06 levels. The FY 2005-06 property tax rate for the GO bond fund was \$0.1201 per \$100 of assessed value. If the Board of Supervisors approves the issuance of the Series 2020B GO Bonds, the property tax rate for GO bonds for FY 2019-20 would be maintained at or below the FY 2005-06 rate and within the Capital Planning Committee's approved financial constraint.

POLICY CONSIDERATION

Impact of COVID-19 Health Crisis

Issuance of Bonds

According to Mr. Trivedi, at the start of the COVID-19 health crisis in early March 2020, the economy, financial markets and specifically, the municipal bond market experienced unprecedented volatility with dramatic swings in interest rates and widening of credit spreads. Many institutional investors were not participating in the market taking on a wait-and-see approach to interest rates, which caused the new issue market to come to a standstill with very few financings sold in the second and third weeks of March. Due to the unprecedented actions by the Federal Reserve in response to the COVID-19 health crisis,³ the municipal bond market has

³ These measures include cutting the Federal Reserve's policy rate to the zero lower bound, purchasing Treasury and mortgage-backed securities (MBS) to promote market functioning, and establishing several liquidity and credit

since normalized with new issue volume and interest rates back to pre-pandemic levels and currently holding relatively steady. However, investors remain cautious preferring higher rated general obligation and essential service credits over lower rated or more impacted credits like healthcare, transportation and bonds backed by sales, hotel and income taxes.

According to Mr. Trivedi, as the health crisis is a fluid situation and there continues to be economic uncertainty surrounding the COVID-19 health crisis, the Office of Public Finance is monitoring the municipal bond market on a daily basis to optimally structure the sales of the bonds. Additionally, in order to mitigate market risk and preserve flexibility, the City has included in the bond documents the ability to choose any of the following methods of sale: negotiated, competitive and/or private placement, depending on market conditions at the time of pricing the bonds.

MTA Projects

According to Ms. Charlotte Wu, Principal Budget Analyst at MTA, the projects chosen to be funded by the Series 2020B bonds are mostly already in construction or scheduled to go into construction in the coming months. Per the advice of the Capital Planning Committee and other peer agencies, the MTA has focused on a smaller number of projects that are actively in or starting construction with larger amounts of funds. The projects are considered high profile and essential projects that have been prioritized to move forward, despite the impact of the COVID-19 health crisis. Ms. Wu states that some of the projects' cash flow has been adjusted to reflect current delays. For example, the Western Addition Area Traffic Signal Upgrades project has experienced significant delays. Consequently, MTA has moved much of the original programming costs to the L Taraval Improvement Project. According to Ms. Wu, if future delays occur, MTA is prepared to move funds to other bond eligible projects to prioritize bond expenditures. Any movement of funds will be reported to the Citizens' General Obligation Bond Oversight Committee through the required quarterly reports. In order for the Board of Supervisors to be informed of changes and delays in MTA projects, the Budget and Legislative Analyst recommends amending the proposed resolution to provide for a report back on bond projects and expenditures to the Board of Supervisors prior to December 31, 2020, and for the report to be included in the legislative file.

In addition, as seen in the Attachment, there is approximately \$64.6 million in remaining balance from the second bond issuance. In an updated cash flow presented to the Capital Planning Committee in March 9, 2020, the MTA anticipates full expenditure of the issuance by mid-2022. As previously mentioned, project delays have slowed down spending. MTA anticipates further

facilities. For example, the Federal Reserve established the Municipal Liquidity Facility to help state and local governments better manage cash flow pressures in order to continue to serve households and businesses in their communities. The facility will purchase up to \$500 billion of short-term notes directly from U.S. states (including the District of Columbia), U.S. counties with a population of at least 500,000 residents, and U.S. cities with a population of at least 250,000 residents. Eligible state-level issuers may use the proceeds to support additional counties and cities.

potential delays because of the COVID-19 health crisis, but Ms. Wu states that the agency has prioritized spending the bond funds as soon as possible.

RECOMMENDATIONS

1. Amend the proposed ordinance to require a report on bond projects and expenditures to the Board of Supervisors prior to December 31, 2020, and for the report to be included in the legislative file.
2. Approve the proposed resolution (File 20-0582) and the proposed ordinance as amended (File 20-0516).

Attachment – File 20-0516

Projects	1st Bond Issuance	Expenditures	Balance	2nd Bond Issuance	Expenditures	Balance	Proposed 3rd Bond Issuance	Total Bond Issuances Combined
<i>Muni Forward Rapid Network Improvements</i>								
7 Haight-Noriega: Haight Street Rapid Project	\$1,560,917	\$1,198,604	\$362,313	\$6,766,975	\$2,078,905	\$4,688,070		\$8,327,892
10 Townsend: Sansome Contraflow Signals	1,665,839	1,589,460	76,379	-		-		1,665,839
9 San Bruno: 11th St and Bayshore Blvd Rapid Project	2,152,883	2,197,473	(44,590)			-		2,152,883
5 Fulton: East of 6th Ave (Inner) Rapid Project	2,582,424	2,829,115	(246,691)	244,000		244,000		2,826,424
N Judah: Arguello to 9th Ave Rapid Project	684,330	1,298,298	(613,968)	1,982,083	1,553,301	428,782		2,666,413
30 Stockton: East of Van Ness Ave Transit Priority Project	331,461	590,795	(259,334)	675,000	24,129	650,871		1,006,461
30 Stockton: Chestnut St (W of VN) Transit Priority Project	3,726,167	3,192,486	533,681			-		3,726,167
14 Mission: Division to Randall (Inner) Rapid Project	1,164,450	822,025	342,425	627,151	-	627,151		1,791,601
22 Fillmore: OCS on Church/Duboce (overhead lines)	80,000	80,000	-	1,127,000	133,405	993,596	25,000,000	26,207,000
19th Avenue: 19th Ave Rapid Project	13,631	13,631	0	2,000,000	20,839	1,979,161	18,100,000	20,113,631
14 Mission: Mission & S Van Ness Transit Priority Project	1,390,000	1,043,122	346,878			-		1,390,000
22 Fillmore Extension to Mission Bay	2,532,379	2,610,883	(78,504)	13,649,871	8,603,890	5,045,981		16,182,250
L-Taraval Transit Improvement Project	4,335,627	4,547,159	(211,532)	3,512,398	1,462,017	2,050,381	36,000,000	43,848,025
Mission Bay Loop	1,013,550	24,553	988,997	1,477,227	904,288	572,939		2,490,777
8 Bayshore: San Bruno				1,300,000	629,808	670,192		1,300,000
19 Polk: Polk Street Transit Priority Project				74,000	-	74,000		74,000
1 California: Laurel Village				1,200,000	720,464	479,536		1,200,000
Lombard Streetscape				2,293,416	1,925,733	367,683		2,293,416
Van Ness BRT Associated Improvements				2,317,072	-	2,317,072		2,317,072
UCSF Platforms				6,358,388	6,358,388	-		6,358,388
Muni Roadway Elevation Improvements				2,627,150	81,852	2,545,298		2,627,150
Bus Transit Signal Priority				1,357,040	824,597	532,443		1,357,040

Projects	1st Bond Issuance	Expenditures	Balance	2nd Bond Issuance	Expenditures	Balance	Proposed 3rd Bond Issuance	Total Bond Issuances Combined
Contingency	240,683			147,240		147,240		387,923
Total Muni Forward	23,474,341	22,037,602	1,196,055	49,736,011	25,321,616	24,414,395	79,100,000	152,310,352
<i>Caltrain Upgrades</i>								
CBOSS - San Francisco Contribution	7,760,000	7,731,970	28,030					7,760,000
Caltrain Electrification				20,020,000	19,784,772	235,228	11,220,000	31,240,000
Total Caltrain Upgrades	7,760,000	7,731,970	28,030	20,020,000	19,784,772	235,228	11,220,000	39,000,000
<i>Accessibility Improvements</i>								
BART Canopies				3,000,000	78,595	2,921,405	21,120,000	24,120,000
Total Accessibility Improvements	-	-	-	3,000,000	78,595	2,921,405	21,120,000	24,120,000
<i>Muni Facility Upgrades</i>								
1570 Burke Facility	10,079,730	9,923,792	155,938	32,220,270	30,302,392	1,917,878		42,300,000
Underground Storage Tanks	1,300,000	1,300,000	-	500,000	487,353	12,647		1,800,000
Muni Metro East Phase II	4,056,720	4,056,720	-	6,402,073	1,679,069	4,723,004		10,458,793
Islais Creek Phase II	9,750,000	8,316,612	1,433,388			-		9,750,000
MME HVAC & Boiler Improvement				2,400,000		2,400,000		2,400,000
Total Facility Upgrades	25,186,450	23,597,125	1,589,325	41,522,343	32,468,814	9,053,529	-	66,708,793
<i>Major Transit Corridor Improvements</i>								
Better Market Street	5,500,000	5,498,518	1,482	6,593,275	9,226,015	(2,632,740)		12,093,275
King Street Substation				10,002,337	4,662,744	5,339,593		10,002,337
L-Taraval Transit Improvements				4,993,325	3,781,888	1,211,437		4,993,325
Total Major Transit Corridor	5,500,000	5,498,518	1,482	21,588,937	17,670,647	3,918,290	-	27,088,937
<i>Pedestrian Safety Improvements</i>								
Mission Street & Trumbull Street Intersection Upgrade	205,995	177,007	28,988	70,000	-	70,000		275,995
Potrero Avenue Roadway Improvements	392,634	398,970	(6,336)	461,984	161,351	300,633		854,618
8th & Market Street Transit Boarding Island	335,800	259,250	76,550	186,000	186,000	-		521,800
Add PCS to High Injury Corridors (18 locations) Phase I	492,076	456,226	35,850	1,725,422	750,955	974,467		2,217,498
Geary Pedestrian Improvements	2,051,506	1,792,015	259,491	7,400,000	2,231,089	5,168,911		9,451,506

Projects	1st Bond Issuance	Expenditures	Balance	2nd Bond Issuance	Expenditures	Balance	Proposed 3rd Bond Issuance	Total Bond Issuances Combined
Arguello Boulevard Traffic Signals Upgrade	6,111	7,280	(1,169)			-		6,111
New Signals on High Injury Corridors (10 intersections)	596,620	691,209	(94,589)			-		596,620
6th Street Streetscape				3,235,000	653,864	2,581,136		3,235,000
Lombard Streetscape				4,508,000	4,620,486	(112,486)		4,508,000
4th Street I-80 Vision Zero Improvements				960,000	69,687	890,313		960,000
Gough (Signals)				243,889	-	243,889		243,889
New Signals on High Injury Corridors (10 intersections)				1,349,194	1,119,084	230,110		1,349,194
Western Addition Area - Traffic Signal Upgrades				1,100,000	80,295	1,019,705	1,693,259	2,793,259
Contract 64				1,100,000	323,646	776,354		1,100,000
Contract 65				260,000	-	260,000		260,000
Walk First Rectangular Rapid Flashing Beacons				497,036	233,038	263,998		497,036
Van Ness BRT: SFGo				352,000	1,475	350,525		352,000
7 Haight-Noriega: Haight Street Rapid Project				2,000,000	19,651	1,980,349		2,000,000
Elevator Modernization				820,000	-	820,000		820,000
Taylor Street Streetscape							20,192,170	20,192,170
Total Pedestrian Safety	4,080,742	3,781,956	298,786	26,268,525	10,450,621	15,817,904	21,885,429	52,234,696
<i>Traffic Signal Improvements</i>								
Better Market Street				6,000,000	2,069,722	3,930,278		6,000,000
Total Traffic Signal	-	-	-	6,000,000	2,069,722	3,930,278	-	6,000,000
<i>Complete Streets Improvements</i>								
Walkfirst Painted Safety Zone Conversion				300,349	7,278	293,071		300,349
Geneva Avenue Traffic Signals (Improvements)				500,000	135,916	364,084		500,000
Walk First Rectangular Rapid Flashing Beacons				77,964	36,554	41,410		77,964
Beale Street Bikeway Improvements				240,000	26,504	213,496		240,000
Alemanly Interchange Improvement Project - Phase I				186,890	53,654	133,236		186,890
Application-based Residential St Traffic Calming FY16/17				179,564	42,501	137,063		179,564

Projects	1st Bond Issuance	Expenditures	Balance	2nd Bond Issuance	Expenditures	Balance	Proposed 3rd Bond Issuance	Total Bond Issuances Combined
Elevator Modernization				3,122,417	-	3,122,417		3,122,417
Total Complete Streets	-	-	-	4,607,184	302,407	4,304,777	-	4,607,184
Program Contingency							974,571	974,571
Total	\$66,001,533	\$62,647,173	\$3,113,677	\$172,743,000	\$108,147,195	\$64,595,805	\$134,300,000	\$373,044,533

Source: MTA

Item 7 File 20-0605	Department: Department of Public Health (DPH)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve Amendment No. 1 to the contract between the Department of Public Health (DPH) and University of California San Francisco (UCSF) Division of Substance Abuse and Addiction Medicine (DSAAM) for behavioral health narcotic addiction treatment services, increasing the not-to-exceed amount by \$5,129,609, for a total not to exceed \$14,737,704, and extending the contract term by one year through June 2021, for a total term of three years from July 2018 through June 2021. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In September 2016, DPH issued a Request for Proposals (RFP) for substance use disorder treatment service providers. DPH received seven proposals, and all seven proposers were deemed to meet the minimum qualifications and were awarded contracts. DPH awarded DSAAM a two-year contract, from July 2018 through June 2020, for a total amount not to exceed \$9,608,095. Due to the City’s projected budget deficit from COVID-19, DPH has decided to only extend the contract by one year, through June 2021, and will seek a longer-term extension once there is greater budget clarity. • Under the contract, DSAAM provides Medication-Assisted Treatment (MAT) for opiate addiction through the following three programs: Opiate Treatment Outpatient Program (OTOP), Office-Based Buprenorphine Induction Clinic (OBIC), and Office-Based Opiate Treatment (OBOT). For FY 2018-19, DSAAM’s programs were scored 4/4 on performance, deemed to be commendable and exceeding standards. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed Amendment No. 1 would increase the not-to-exceed amount of the contract by \$5,129,609, for a total not to exceed \$14,737,704. • Actual and projected contract expenditures over the three-year term total \$13,998,945. Therefore, the Budget and Legislative Analyst recommends reducing the contract not-to-exceed amount by \$738,759 to match projected expenditures. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to reduce the not-to-exceed amount of the contract by \$738,759, for a total not to exceed \$13,998,945. • Approve the proposed resolution as amended. 	

MANDATE STATEMENT

Section 9.118(b) of the City’s Charter requires approval by the Board of Supervisors for contracts with an expected term longer than ten years or requiring expenditures of \$10 million or more.

BACKGROUND

In September 2016, the Department of Public Health (DPH) issued a Request for Proposals (RFP) for substance use disorder treatment service providers. DPH received seven proposals, and a selection panel reviewed the proposals and scored them, as shown in Table 1 below.

Table 1: RFP Proposals and Scores

Proposer	Score
UCSF Psychiatry Division of Substance Abuse and Addiction Medicine (DSAAM)	95.00
Bayview Hunters Point Foundation for Community Improvement (Jail Dosing)	94.04
Addiction Research & Treatment (ART) dba Bay Area Addiction Research & Treatment	89.66
Westside Community Services	87.07
BAART, Behavioral Health Services (separate entity from ART dba BAART)	86.20
Fort Help, Mission	83.97
Fort Help, LLC	81.44

All seven proposers were deemed to meet the minimum qualifications and were awarded contracts. The RFP stated that contracts would have an initial term of five years, from July 2017 through June 2022, with an option to extend for an additional five years through June 2027. Due to complexities in implementing the Drug Medi-Cal Organized Delivery System (DMC-ODS) program, which expanded the scope of substance abuse treatment services reimbursable by Medi-Cal, DPH did not begin awarding contracts until spring 2017. DPH awarded DSAAM a contract with a term of two years, from July 2018 through June 2020, for a total not to exceed \$9,608,095. According to Ms. Michelle Ruggels, Director of DPH Business Office, the contract term and amount were intended to align with the two-year budget projections for FY 2018-19 and FY 2019-20. The contract did not require Board of Supervisors approval because it did not exceed 10 years or \$10 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 1 to the substance abuse treatment service contract between DPH and DSAAM, extending the contract by one year through June 2021, and increasing the not-to-exceed amount by \$5,129,609, for a total not to exceed \$14,737,704.

According to Ms. Ruggels, DPH had intended to extend the contract by four years, through June 2024. Due to the City’s projected budget deficit from COVID-19, DPH has decided to only extend the contract by one year and will seek a longer-term extension once there is greater budget clarity.

Under the contract, DSAAM provides Medication-Assisted Treatment (MAT) for opiate addiction through the following three programs:

1. Opiate Treatment Outpatient Program (OTOP): Methadone and buprenorphine dosing with individual and group counseling, as well as case management, at San Francisco General Hospital and in the Bayview (with the methadone van).
2. Office-Based Buprenorphine Induction Clinic (OBIC): Continuing buprenorphine treatment as opiate replacement therapy, stabilizing patients, and then transitioning them to ongoing buprenorphine maintenance integrated with their community-based primary care or mental health care. Also, diagnosis and treatment of co-occurring mental health disorders in patients being seen for buprenorphine treatment.
3. Office-Based Opiate Treatment (OBOT): Medication-assisted treatment at the following sites: Tom Waddell, Potrero Hill, Positive Health Program, San Francisco General Hospital and Community Behavioral Health Services Pharmacies, and Opiate Treatment Outpatient Program Ancillary.

The proposed Amendment No. 1 does not change the contract scope of services.

DPH issues annual monitoring reports to track service provider performance. For FY 2018-19, the OTOP, and OBOT programs were each scored 4/4, deemed to be commendable and exceeding standards. The OBIC program did not have a stand-alone monitoring report.

FISCAL IMPACT

The proposed Amendment No. 1 would increase the contract by an amount not to exceed \$5,129,609, for a total not to exceed \$14,737,704. The sources and uses of funds are shown in Table 2 below.

Table 2: Budgeted Sources and Uses of Contract Funds

Sources	FY 2018-19	FY 2019-20	FY 2020-21	Total
Federal Substance Abuse Prevention and Treatment (SAPT) Discretionary	\$1,218,686	-	-	\$1,218,686
Federal Substance Abuse Block Grant (SABG) Discretionary	-	16,000	16,000	32,000
Federal Drug Medi-Cal	1,266,859	1,320,358	1,320,358	3,907,575
State Drug Medi-Cal	682,154	710,961	710,961	2,104,076
City General Fund	1,121,629	2,532,689	2,532,689	6,187,007
<i>Subtotal</i>	<i>\$4,289,328</i>	<i>\$4,580,008</i>	<i>\$4,580,008</i>	<i>\$13,449,344</i>
Contingency (12%)	514,720	224,040	549,601	1,288,360
Total Sources	\$4,804,048	\$4,804,048	\$5,129,609	\$14,737,704

Uses	FY 2018-19	FY 2019-20	FY 2020-21	Total
Opiate Treatment Outpatient Program (OTOP)	\$1,464,203	\$1,741,832	\$1,741,832	\$4,947,867
OTOP Bayview Van	282,130	302,689	302,689	887,508
OTOP HIV+	198,943	-	-	198,943
Office-Based Buprenorphine Induction Clinic (OBIC)	983,060	1,113,552	1,113,552	3,210,164
Office Based Opiated Treatment (OBOT) – Clinics	142,306	18,904	18,904	180,114
OBOT Pharmacies	-	127,671	127,671	255,342
OBOT Ancillary Services	1,218,686	1,275,360	1,275,360	3,769,406
<i>Subtotal</i>	<i>\$4,289,328</i>	<i>\$4,580,008</i>	<i>\$4,580,008</i>	<i>\$13,449,344</i>
Contingency (12%)	514,720	224,040	549,601	1,288,360
Total Uses	\$4,804,048	\$4,804,048	\$5,129,609	\$14,737,704

**Totals may not add due to rounding.*

Actual and projected contract spending in FY 2018-19 and FY 2019-20 is \$8,869,336, and budgeted expenditures, including the contingency, under the proposed extension are \$5,129,609, totaling \$14,737,704. The contingency for FY 2018-19 and FY 2019-20, totaling \$738,759 will not be utilized. Therefore, the proposed resolution should be amended to reduce the contract-not-to-exceed amount by \$738,759, from \$14,737,704 to \$13,858,587. This represents an increase in the contract not-to-exceed amount of \$4,390,850, rather than \$5,129,609 as stated in the proposed resolution.

The FY 2020-21 expenditure budget of \$4,580,008 (not including the contingency) includes \$2,532,689 in General Fund. The General Fund amount of \$2,532,689 in FY 2020-21 is unchanged from FY 2019-20. Given the Mayor's instruction to City departments to reduce the General Fund budget in FY 2020-21 by 10 percent, the amount of General Fund monies available for this contract in FY 2020-21 are not known. However, because the contract provides that the contract is subject to the budget and fiscal provisions of the Charter, and that the City's obligation does not exceed the amount appropriated, the Budget and Legislative Analyst recommends approval of the proposed resolution.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the total not-to-exceed contract amount by \$738,759, for a total not to exceed \$13,998,945.
2. Approve the proposed resolution as amended.

Item 13 Files 20-0603	Department: Airport
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve the first modification to the General Airport Security Services Contract No. 50178 between the San Francisco International Airport and Covenant Aviation Security, LLC, for a new contract amount not to exceed \$11,785,254 and extending the term by two years through June 30, 2022. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Board of Supervisors previously approved an emergency contract between the Airport and Covenant Aviation Security for airport security services in 2017. Subsequently, following a request for proposals, Covenant was awarded an approximate 21-month contract from October 2018 through June 2020, in the amount of \$5,500,000. The proposed resolution would approve the first of two (2) two-year options to extend the contract to June 2022 and increase the contract amount by \$6,285,254 to \$11,785,254. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • As of June 2020, the Airport has paid a total of \$5,209,502 to Covenant Aviation Security, LLC for Airport Security under this contract. Because the Airport may reduce the number of security posts in early FY 2020-21 due to decreased passenger travel during the COVID-19 pandemic, the Airport estimates that the FY 2020-21 budget may range from \$2,784,066 to \$3,012,768. Total estimated contract amounts through June 2022 range from \$11,270,207 to \$11,498,909. • According to Airport staff, because the contractor is only reimbursed for actual expenses, the Airport will not spend more than the actual services provided by the contractor if operations are reduced below the contracted amount in FY 2020-21. • The contract is funded by Airport operating revenues, and according to Airport staff, sufficient funds to pay for the contract will be included in the proposed FY 2020-21 and FY 2021-22 budget to be reviewed by the Board of Supervisors in August 2020. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

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

BACKGROUND

The Federal Transportation Security Administration (TSA) requires that all commercial service Airports have a TSA-approved Airport Security Program to provide trained security guard and inspection services throughout Airport terminals and exits.

In November 2016, the San Francisco International Airport Commission approved the issuance of a request for proposals for General Airport Security Services. The top scoring applicant of the eight that submitted proposals was HSS Inc. Accordingly, HSS Inc. was awarded the contract for an initial period of three years from July 1, 2017 through June 30, 2020, with one (1) two-year extension option, in an amount not to exceed \$6.5 million. The contract was approved by the Airport Commission on May 2, 2017.

Within the first year of contractual services, the Airport determined that HSS Inc. had defaulted on its contractual obligations by failing to provide sufficient staffing on at least 19 separate occasions.¹ The Airport Commission declared an emergency on April 6, 2018 and terminated the contract with HSS Inc. effective April 9, 2019. Covenant Aviation Security, LLC—the second highest scorer on the initial RFP—took over the contract with the Airport immediately.

The emergency contract with Covenant Aviation Security was retroactively approved by the Board of Supervisors on October 5, 2018 for an amount not to exceed \$1,700,000 over a six-month term from April 9, 2018, through October 8, 2018.²

Subsequently, following a new request for proposals, on September 18, 2018, the Airport Commission approved Resolution No. 18-0299 authorizing Airport staff to award Professional Services Contract No. 50178 to Covenant Aviation Security, LLC, to provide General Airport Security Services in an amount not to exceed \$5,500,000 for a period of 20 months, ending on June 30, 2020, with two (2) two-year options to extend, exercisable at the sole discretion of the Airport Commission. This contract did not appear before the Board of Supervisors at that time because it was under the \$10 million threshold. Today's proposed modification would exceed that threshold and so it is now under the Board's consideration.

¹ According to Ms. Teresa Scism, Aviation Security & Regulatory Compliance Manager Safety and Security Services, SFO.

² Resolution 313-18, File No 180494 retroactively approving Emergency Contract No. 50177 for General Airport Security Services between Covenant Aviation Security, LLC, and the City and County of San Francisco, acting by and through its Airport Commission.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution is the first modification to the contract between the Airport Commission and Covenant Aviation Security, LLC which would: a) increase the contract amount by \$6,285,254 for a new contract amount not to exceed \$11,785,254; and, b) extend the term by two years for a total of three years and eight months, from September 18, 2018 through June 30, 2022.

Services Provided

Covenant Aviation Security, LLC is to provide trained and supervised security guards to perform inspections of all goods, employee ID badge verifications, and guarding of specific security screening checkpoints, lanes, airfield operations access gates, and buildings. Post staffing and hours of operation are set forth in the contract.³

Performance Monitoring

The contract stipulates that Covenant Aviation Security, LLC is to submit written reports as requested by the Airport Commission. According to Ms. Teresa Scism, Aviation Security & Regulatory Compliance Manager: "Overall, the vendor is performing satisfactorily. We had some initial hiccups and the vendor made immediate corrective actions and acquired additional tools and resources as training aids that were not funded by the Airport in an effort to improve their performance which has proven to be successful. The management team partners with the Airport, is responsive, and provides information as requested in a timely manner. They are adaptable to the changing needs of the Airport operation and implement changes and adjustments as requested without hesitation or resistance according to the Airport's timelines."

FISCAL IMPACT

As of June 2020, the Airport has paid a total of \$5,209,502 to Covenant Aviation Security, LLC for Airport Security under this contract.⁴ Because the Airport may reduce the number of security posts in early FY 2020-21 due to decreased passenger travel during the COVID-19 pandemic, the Airport estimates that the FY 2020-21 budget may range from \$2,784,066 to \$3,012,768. The projected budgets for FY 2020-21 and FY 2021-22 depend on staffing levels which are uncertain due to COVID-19 operational adjustments. Monthly salaries and benefits could range from low end estimates of \$212,947 to high end estimates of \$251,064, according to Ms. Scism. Total estimated contract amounts through June 2022 range from \$11,270,207 to \$11,498,909, as shown in the Table below.

³ Appendix B to the Contract No. 50178 contains "Minimum Hourly Staffing Levels" for 15 cited locations throughout the Airport.

⁴ According to payroll data from November 2018 through June 10, 2020 provided to the Budget & Legislative Analyst's Office by Airport staff.

Table: Actual, Projected, and Budgeted Contract Expenditures October 2018 through June 2022

	Reduced Operations	Normal Operations
Actual Expenditures October 2018 to May 2020	5,209,502	5,209,502
Projected Expenditures June 2020	212,947	212,947
Subtotal Actual & Projected Expenditures	5,422,449	5,422,449
FY 2020-21 Budget	2,784,066	3,012,768
FY 2021-22 Budget	3,012,768	3,012,768
Subtotal Budget	5,796,834	6,025,536
Total	11,219,283	11,447,985

Source: Airport

According to Ms. Scism, because the contractor is only reimbursed for actual expenses, the Airport will not spend more than the actual services provided by the contractor if operations are reduced below the contracted amount in FY 2020-21.

The contract is funded by Airport operating revenues. According to Ms. Scism, sufficient funds to pay for the contract will be included in the proposed FY 2020-21 and FY 2021-22 budget to be reviewed by the Board of Supervisors in August 2020.

POLICY CONSIDERATION

Due to the financial impacts that the Airport and City are currently experiencing as a result of the COVID-19 pandemic, City requested that all service contractors reduce the management fees by at least 5% under their contracts. Accordingly, under this amended contract, the Monthly Management fee for the term July 1, 2020 to June 30, 2021 is reduced from \$49,576 per month to \$47,097.20 per month.

RECOMMENDATION

Approve the resolution.