

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

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

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TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: February 4, 2015 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File		Page
3	14-1296	Appropriation – Water Enterprise Fund Balance for the Cleanup of Contaminated Soil at Lake Merced - \$9,500,000 – FY 2014-2015	1
4	15-0032	Real Property Lease Amendment – SFOC, LLC – 711 Van Ness Avenue - \$352,800 per Year Base Rent.....	8
5	14-1180	Contract Agreement – State Department of Health Care Services – Substance Use Disorder Services – FYs 2014-2017 - \$33,250,026	13

Item 3 File 14-1296	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objective</p> <ul style="list-style-type: none"> • Ordinance (a) adopting findings under the California Environmental Quality Act (CEQA) regarding a Final Mitigated Negative Declaration, (b) adopting a Mitigation Monitoring and Reporting Program, (c) making findings of consistency with the priority policies in Planning Code Section 101.1, and (d) appropriating \$9,500,000 from the Water Enterprise fund balance in the Public Utilities Commission Water Enterprise Department budget to support the cleanup of contaminated soil at Lake Merced in FY 2014-15. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In, 1934, the City and the Pacific Rod and Gun Club (Club), a nonprofit organization, entered into a month-to-month lease agreement for use of City property at Lake Merced for skeet and trap shooting and fly casting. The Club has operated continuously at this site since 1934. • On June 12, 2013, the San Francisco Bay Regional Water Quality Control Board (RWQCB) issued an Order to both the Club and the PUC, requiring site investigations and a plan for corrective measures to address soil contamination on the site leased by the City to the Club. This Order requires the Club and the PUC to clean up and remediate the upland soil area. The PUC prepared a Remedial Action Plan, specifying the cleanup plans for the site, which was approved by the RWQCB in November, 2014. • The construction contract for the cleanup and removal of the contaminated soil and the replacement with clean soil on the site was advertised on December 24, 2014, and bids are due to the PUC on February 5, 2015. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The PUC's total estimated cost to clean up the contaminated soil and replace with clean soil at the Lake Merced site is \$22,005,000. To date, \$12,505,000 has been appropriated from PUC's Water Enterprise revenues. The remaining requested \$9,500,000 supplemental appropriation would also be funded by the PUC's Water Enterprise revenues. • Because the activities of the Club clearly resulted in the environmental damage and soil contamination on the City's Lake Merced property, the Club should be fully liable for the \$22,005,000 cost to clean up and replace the soil on the City's property. The City filed a complaint against the Club for damages, nuisance and breach of contract on February 14, 2014, to attempt to recover the Lake Merced clean-up and replacement costs. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed ordinance to place the requested \$9.5 million of PUC Water Enterprise revenues on Budget and Finance Committee reserve pending the receipt of the bids and selection of the contractor to complete the work related to the cleanup of the contaminated soil at Lake Merced. • Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors. 	

MANDATE STATEMENT & BACKGROUND**Mandate Statement**

Charter Section 9.105 specifies that amendments to the appropriation ordinance, as finally adopted, may be initiated by a member of the Board of Supervisors and adopted in the same manner as other ordinances.

Background

On January 1, 1934, the City¹ and the Pacific Rod and Gun Club (Club), a nonprofit organization, entered into a month-to-month lease agreement for use of approximately four acres of City property at 520 John Muir Drive on Lake Merced for skeet and trap shooting and fly casting at a rental rate of \$10 per month. The Club constructed facilities and has operated continuously at this site since 1934, primarily providing skeet and trap shooting in which shotguns are used to shoot pellets at clay targets, and occasionally subletting the site for recreational purposes. The original lease stated that “the lessee shall hold the City free and harmless from all claims of damage arising directly or indirectly out of its use of said land during the term of this lease”. Over the course of the lease term, the premises occupied and used by the Club increased to approximately ten acres of City-owned land.

In 2007, the Board of Supervisors approved a resolution urging the Public Utilities Commission (PUC) to manage the City’s approximately 811 acre Lake Merced Tract according to urban watershed standards and assume a greater role in the protection of water quality, as Lake Merced was an emergency back-up water supply for the City (Resolution No. 14-07). The Lake Merced Tract included the Club’s entire lease area. In May 2012, the Club’s lease was transferred from RPD to the PUC.

After numerous efforts by the PUC to negotiate amended lease provisions with the Club failed, on September 28, 2012, the City filed an unlawful detainer in San Francisco Superior Court to evict the Club from the premises, under the existing lease provisions. In December 2012, the Board of Supervisors approved a settlement with the Club for the PUC and the Club to enter into an amended lease to (a) improve the insurance, indemnity and other provisions for the protection of the City, (b) provide for a 90-day, instead of 30-day, advance notice of termination, and (c) allow for entry of a stipulated judgment without trial such for the City to acquire the property if the Club defaulted on the amended lease or failed to vacate the property following a notice of termination from the PUC (File 12-1106; Ordinance 249-12).

Under the amended lease, the PUC renegotiated the Club’s rent from \$4,250 per month to \$5,000 per month, or \$60,000 annually, with annual 4% increases, based on an appraisal of the

¹ The initial lease was between the City’s Water Department and the Club. Under a Memorandum of Understanding (MOU) approved in the 1950s, the Recreation and Park Department (RPD) took over management of all recreational uses at Lake Merced, including the Gun Club lease.

property. Currently, the Club is paying \$5,408 per month to the PUC, which deposits these revenues into the PUC's Water Department income account².

On June 12, 2013, the San Francisco Bay Regional Water Quality Control Board (RWQCB) issued an Order (Order No R2-2013-0023) to both the Club and the PUC, as joint dischargers, requiring site investigations and a plan for corrective measures to address soil contamination in most of the site leased by the City to the Club. In addition, this Order requires the Club and the PUC to clean up and remediate the upland soil area and evaluate if remediation of lake sediment is necessary to meet ecological risk standards. In response to this Order, the PUC prepared a Remedial Action Plan, specifying the cleanup plans for the site, which was approved by the RWQCB in November, 2014.

The Order cites a cleanup dredging effort in 1985-86, in which the City removed 128 tons of lead pellets and larger fragments from Lake Merced. The Order also estimates 27 tons of lead have fallen onto the property each year, based on the number of shells fired in 1989. Historical use of lead shot and clay pigeons from the skeet and trap shooting activities by the Club have resulted in deposits of lead (prohibited by the RWQCB in 1994), arsenic and polyaromatic hydrocarbons³ (prohibited by the RWQCB in 2000) at concentrations that significantly exceed acceptable levels.

To undertake the required corrective cleanup actions, the PUC requires a development permit from the California Coastal Commission. The PUC applied for a permit from the Coastal Commission, which the Club appealed, alleging that the proposed cleanup action was inconsistent with the Coastal Commission's policies. On January 7, 2015 the Coastal Commission heard the Club's appeal, denied the appeal and granted the development permit to the PUC.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (a) adopt findings under the California Environmental Quality Act (CEQA) regarding a Final Mitigated Negative Declaration, (b) adopt a Mitigation Monitoring and Reporting Program, (c) make findings of consistency with the priority policies in Planning Code Section 101.1, and (d) appropriate \$9,500,000 from the Water Enterprise fund balance in the Public Utilities Commission Water Enterprise Department budget to support the cleanup of contaminated soil at Lake Merced in FY 2014-15.

The proposed findings state that the PUC approved a project to clean up contaminated soil on PUC property leased to the Club at Lake Merced, in response to the RWQCB Order. In addition, the findings state that on July 25, 2014, the Planning Commission in accordance with CEQA issued a Preliminary Negative Declaration, which was appealed by the Club, which argued that an environmental impact report was required. On October 23, 2014, the Planning Department

²Based on RPD's records dating back to 2000, the Club paid RPD \$3,500 per month, or \$42,000 annually in 2000. In June of 2003, the Club's rent increased to \$4,250 per month or \$51,000 annually, and remained at that rate until the lease was transferred to the PUC.

³ Polyaromatic hydrocarbons are hazardous waste that is created when products like coal, oil, gas and garbage are burned but the burning process is not complete. The material originated in targets made of asphaltic material.

considered and denied the appeal and directed the issuance of a Final Mitigated Negative Declaration for this project to clean up the contaminated soil in compliance with CEQA. On October 28, 2014, the PUC adopted the CEQA findings, the Final Mitigated Negative Declaration, the Mitigation Monitoring and Reporting Program, and the subject project to clean up the contaminated soil at Lake Merced and committed to all required mitigation measures for this project (PUC Resolution No. 14-0171).

The soil contamination is the result of lead from the former use of lead shot (which was prohibited by the RWQCB in 1994) and polyaromatic hydrocarbons from older asphalt and clay targets at the skeet and trap shooting ranges at Lake Merced operated by the Pacific Rod and Gun Club. In accordance with the Remedial Action Plan, prepared by the PUC and approved by the Regional Water Quality Control Board, the PUC will retain a contractor to excavate the contaminated soil up to seven feet below the ground level, transfer an estimated 46,500 cubic yards of contaminated soil from the site to an approved landfill site and replace the excavated areas with clean soil.

According to Ms. Noreen Ambrose of the City Attorney's Office, the City initially issued a 90-day notice of termination to the Club, such that the existing lease would terminate in mid-March, 2015. However, on December 15, 2014, the PUC authorized the General Manager to grant a lease extension to the Club through April 8, 2015, to facilitate the Club in vacating the property.

According to Mr. Obiajulu Nzewi, PUC Project Manager, the construction contract for the cleanup and removal of the contaminated soil and the replacement with clean soil on the site was advertised on December 24, 2014, and bids are due on February 5, 2015. A contractor is projected to be selected shortly after the bids are received, such that the PUC could approve a contract on March 10, 2015. The selected contractor is projected to commence work in early April, 2015, when the Club would be required to vacate the site.

The cleanup work related to the contaminated site is estimated to extend approximately one year, to be completed by the spring of 2016. Following the clean-up of the site, the PUC plans to determine potential reuses of the Lake Merced property based on an open public process, through the issuance of a Request for Proposal.

FISCAL IMPACT

The PUC's total estimated cost to clean up the contaminated soil and replacement with clean soil at the Lake Merced site is \$22,005,000. To date, \$12,505,000 has been appropriated from PUC's Water Enterprise revenues, including \$1,400,000 in FY 2013-14 and \$11,105,000 in FY 2014-15. As shown in the Table below, the remaining requested \$9,500,000 supplemental appropriation from the PUC's Water Enterprise revenues will allow the PUC to complete the environmental review, construction management and construction required to clean up and replace with clean soil and comply with the Regional Water Quality Control Board's Cleanup Order.

Table: Total Cost of Project and Remaining \$9,500,000 to be Appropriated

Activity	Total Estimated Cost	Appropriated to Date	Remaining Funds Required
Planning	\$1,005,000	\$1,005,000	\$0
Environmental Review	1,200,000	700,000	500,000
Design	400,000	400,000	0
Construction Management	900,000	500,000	400,000
Construction Contract	18,500,000	9,900,000	8,600,000
Total Cost	\$22,005,000	\$12,505,000	\$9,500,000

As shown in the Table above, of the total \$22,005,000 cost, the construction contract is estimated to cost \$18,500,000, or 84% of the total costs. Mr. Nzewi advises that over 200 samples of soil were collected from the Pacific Rod and Gun Club site for the Remedial Action Plan, approved by the RWQCB. The PUC then retained an outside engineering firm who reviewed the Remedial Action Plan and project scope to develop the estimated \$18,500,000 construction contract cost for the proposed cleanup and replacement of the contaminated soil, which includes an 18% contingency and 5.4% cost escalation.

However, the construction bids will not be received until February 5, 2015, such that these estimates are not based on the actual construction bids. Until the construction bids are received, the cost to complete the work is not known. Therefore, the proposed \$9,500,000 request to approve should be placed on Budget and Finance Committee reserve, pending the receipt of the construction bids and selection of the contractor to complete the work.

Source of Funding

The requested \$9,500,000 would be paid from the PUC's Water Enterprise Fund, which is funded by revenues from both retail and wholesale water customers. According to Mr. Carlos Jacobo, PUC's Budget Director, PUC's Water Enterprise has a current fund balance of approximately \$177 million.

Ms. Ambrose advises that the City filed a complaint against the Club for damages, nuisance and breach of contract on February 14, 2014, to attempt to recover the costs for the clean-up and replacement of the contaminated soil. Ms. Ambrose notes that this complaint is currently pending. Ms. Ambrose reports that the Club is currently cooperating with the City Attorney's Office to search for potential historic insurance policies that the Club purchased that may permit some recovery of insurance proceeds to contribute to the funding of the cleanup. All efforts should be employed by the City to research, identify and secure any assets and funds from the Club to offset the City's estimated \$22,005,000 cost to complete the subject cleanup and recovery of the City's Lake Merced property.

POLICY CONSIDERATION

Somewhat similar to the existing Pacific Rod and Gun Club issue at Lake Merced, in 1994, or approximately 20 years ago, the Bay Area Regional Water Quality Control Board issued a cleanup and abatement order (Order No. 94-031) to the Peninsula Sportsmen's Club, and secondarily to the PUC, as the property owner. This Order required the (a) cessation of activities causing environmental damage, (b) development of a remedial action plan and (c) cleanup of the contaminated area. The PUC's Water Department was leasing approximately 33 acres of PUC watershed property in the City of Menlo Park to the Peninsula Sportsmen's Club since 1967, for trap and skeet shooting ranges. The 1994 RWQCB Order was primarily concerned with the lead shot and clay deposits which had accumulated and were being ingested by waterfowl and endangered species adjacent to the City's water supply. In 1996, the PUC evicted the Peninsula Sportsmen's Club and shortly afterward, the Peninsula Sportsmen's Club declared bankruptcy, leaving no recoverable assets. As a result, the PUC expended approximately \$25 million of PUC Water Enterprise funds to clean up that contaminated PUC-owned site.

As noted above, the original lease with the Pacific Rod and Gun Club at Lake Merced specified "the lessee shall hold the City free and harmless from all claims of damage arising directly or indirectly out of its use of said land during the term of this lease". In addition, as noted in the 2013 RWQCB Order, the major soil contamination of the City's Lake Merced property was caused by the lessee, the Gun Club, from the historical use of lead shot and clay pigeons from skeet and trap shooting activities, which resulted in deposits of lead, arsenic and polyaromatic hydrocarbons on the Lake Merced property.

Because the activities of the Club clearly resulted in the environmental damage and soil contamination on the City's Lake Merced property, the Club should be fully liable for the \$22,005,000 cost to clean up and replace the soil on the City's property. All efforts should be employed by the City to recover payment from the Club to offset the City's costs for the cleanup and replacement of the soil at Lake Merced.

However, as the property owner, the PUC is also subject to the RWQCB Order and is ultimately responsible for stewardship of the Lake Merced watershed lands.

In January 2015 the PUC reaffirmed and updated Real Estate Guidelines which specifies land use policies for the PUC's watershed lands, including PUC land under lease and license agreements. Specifically, the PUC Guidelines disallow any use that risks contamination of the PUC's land or water with hazardous materials or would increase the PUC's potential liability, as well as various other limitations on the use of PUC's property. In addition, the City's Risk Management Division is currently available to review individual City leases to ensure that the insurance requirements are appropriate, based on the size, use, and terms of the City lease.

RECOMMENDATIONS

1. Amend the proposed ordinance to place the requested \$9.5 million of PUC Water Enterprise revenues on Budget and Finance Committee reserve pending the receipt of the bids and selection of the contractor to complete the work related to the cleanup of the contaminated soil and replacement with clean soil at Lake Merced.
2. Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors.

<p>Item 4 File 15-0032</p>	<p>Department: Emergency Management Assessor-Recorder’s Office San Francisco Public Utilities Commission</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve a second amendment to the 711 Van Ness Avenue lease agreement between SFOC LLC as landlord and the City as tenant to provide office space for the Department of Emergency Management (Emergency Management), the Assessor-Recorder’s Office (Assessor), and the San Francisco Public Utilities Commission (SFPUC). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Board of Supervisors approved the original 711 Van Ness Avenue lease in July 2012 for 9,800 square feet of office space for Emergency Management and the Assessor. The original lease was for 20.5 months from August 1, 2012 through April 14, 2014 with annual base rent of \$215,600 (\$22.00 per sq. ft.) with no increases over the term of the lease. The Board of Supervisors approved the first amendment in June 2013 to extend the lease through June 30, 2015 with no rent increase. Emergency Management ceded 2,000 square feet of space to SFPUC in October 2014. • Under the proposed second amendment, the lease term would be revised to extend by 36 months from February 1, 2015 through January 31, 2018. The rent would increase on February 1, 2015 to \$41.25 per square foot, including base rent of \$36 per square foot and operating costs of \$5.25 per square foot. According to the City’s Real Estate Division, the increased rent is in line with market trends for office space in the Civic Center. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The City’s rent costs will increase by \$189,250 in the first year from \$230,000 to \$419,250. Total rent will increase by \$1.3 million over the three-year term. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • Under the proposed second amendment, the City will pay rent, parking, utility and janitorial service costs of \$175,688 from February 1, 2015 to June 30, 2015 which is \$78,854 more than the \$95,833 that the City would otherwise pay under the existing lease. The Real Estate Division negotiated an amended date of February 1, 2015 through January 31, 2018 because the landlord required a minimum of 36 months under the amended lease. The Real Estate Division did not want to negotiate a 36-month lease term beginning on July 1, 2015, after the expiration of the existing lease, through June 30, 2018 because the Assessor-Recorder’s Office does not have a need for leased space through June 30, 2018. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT**Mandate Statement**

City Administrative Code 23.27 states that any lease with a term of one year or longer or with rent of \$5,000 or more and where the City is the tenant is subject to Board of Supervisors approval.

BACKGROUND

The Board of Supervisors approved the original lease at 711 Van Ness Avenue between the City and SFOC, LLC on July 24, 2012 for office space for the Department of Emergency Management and the Assessor-Recorder's Office (Assessor). The original lease was for 20.5 months from August 1, 2012 through April 14, 2014 for 9,800 square feet of office space. The annual base rent was \$215,600 (\$22.00 per sq. ft.) with no increases over the term of the lease.

Three City departments are currently located at 711 Van Ness Avenue. The Department of Emergency Management occupies 5,000 square feet to house the Bay Area Urban Area Security Initiative (BAUASI), a federally funded program designed to finance and manage projects that advance risk management within the region. The Assessor occupies 2,800 square feet for temporary staff assigned to process assessment appeals. Finally, the Department of Emergency Management ceded 2,000 square feet of office space to the San Francisco Public Utilities Commission (SFPUC) in October 2014, so that SFPUC could house fragile historical documents with strict HVAC (heating, ventilation, and air conditioning) and security requirements.

The Board of Supervisors authorized the first amendment to the lease on June 21, 2013 to extend the expiration date by 14.5 months from April 14, 2014 to June 30, 2015 at the same annual base rent of \$22 per square foot.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the second amendment to the lease between the City as tenant and SFOC LLC as landlord to:

- (1) Revise the lease term, which currently ends on June 30, 2015, to a new 36-month lease term from February 1, 2015 through January 31, 2018;
- (2) Increase the annual base rent to \$352,800 per year (\$36 per square foot) as of February 1, 2015; and
- (3) Make the City rather than the landlord responsible for utility and janitorial service costs as of February 1, 2015.

Table 1 below summarizes the major lease terms under the proposed second amendment.

Table 1. Key Changes in Lease Agreement

Terms of Agreement	Current Lease Terms	New Lease Terms
Lease Term	July 15, 2012 –June 30, 2015	February 1, 2015 – January 31, 2018
Area	9,800 square feet	9,800 square feet
Base Rent per year	\$215,600	\$352,800
Rent per square foot per year	\$22	\$36
Annual Rent Increase	None	\$1 per square foot per year
Utilities and Janitorial	“Any utility costs above those of a typical tenant”	“Reimburse Landlord for the actual utility usage and janitorial expenses within the Premises and to reimburse Landlord for the City’s pro-rate share of increases to common area expenses over and above Base Year 2015”; estimated at \$51,450 per year
Parking (per month)	\$1,200 for 5 spaces	\$1,250 for 5 spaces
Additional Tenant		The SFPUC as an additional City Department

FISCAL IMPACT

Under the proposed second amendment, the City will pay an annual rent of approximately \$41.25 per square foot in the first year, including base rent of \$36 per square foot and estimated utility and janitorial costs of \$5.25 per square foot. Table 2 shows the increased rent paid by the City for 711 Van Ness Avenue under the proposed second amendment.

Table 2. Increase in Total Costs for First Year of New Lease

	Original Lease	New Lease	% Change	Change in Annual Cost
Base rent	\$215,600	\$352,800	64%	\$137,200
Operational costs	0	51,450	100%	51,450
Parking	14,400	15,000	4%	600
Total	\$230,000	\$419,250	82%	\$189,250

According to Mr. Joshua Keene, Real Estate Division Property Manager, the increased rental costs are competitive and in line with market trends, given the higher current rental rates of comparable office spaces in the Civic Center area, which range from approximately mid-\$40s per square foot for 1145 Market Street to mid-\$50s per square foot for 1390 Market Street.

Total lease costs over the 36-month term are estimated to be \$1,304,300 as shown in Table 3 below.

Table 3. Total Annual Costs of Second Amendment during Lease Period

	Sq. Ft.	Base Rent Costs	Operational Costs	Parking Costs	Total Costs
Emergency Management	5,000	\$555,000	\$87,500	\$45,000	\$687,500
Assessor	2,800	310,800	49,000	0	359,800
SFPUC	2,000	222,000	35,000	0	257,000
Total	9,800	\$1,087,800	\$171,500	\$45,000	\$1,304,300

Funding sources to pay the lease costs in FY 2014-15 include federal grant funds in the Department of Emergency Management's budget, General Fund monies in the Assessor's budget, and SFPUC funds.

POLICY CONSIDERATION

Under the proposed second amendment, the start date for the amended lease begins on February 1, 2015, rather than at the end of the existing lease on June 30, 2015. Under the proposed second amendment, the City will pay rent, parking, utility and janitorial service costs of \$175,688 from February 1, 2015 to June 30, 2015 which is \$78,854 more than the \$95,833 that the City would otherwise pay under the existing lease.

According to Mr. Keene, the Real Estate Division negotiated an amended date of February 1, 2015 through January 31, 2018 because the landlord required a minimum of 36 months under the amended lease. The Real Estate Division did not want to negotiate a 36-month lease term beginning on July 1, 2015, after the expiration of the existing lease, through June 30, 2018 because the Assessor-Recorder's Office does not have a need for leased space through June 30, 2018.

According to Ms. Gigi Whitley, Assessor-Recorder's Office Deputy Director of Finance and Administration, the Assessor uses the space at 711 Van Ness Avenue for temporary positions that process the backlog in assessment appeals, and intends to the use space for new grant-funded positions that assess new construction. The Assessor projects the need for office space for these temporary and grant-funded positions through approximately December 2017. Therefore, the Assessor did not want to commit to paying for office space with General Fund monies significantly beyond the projected December 2017 date.

According to Mr. Keene, the proposed second amendment is a total compensation package negotiated by the City and the landlord. If the City were to renegotiate a new lease start date of July 1, 2015, the City is unlikely to achieve cost savings because the landlord would likely require rent that is more than \$36 per square foot for the shorter term lease. As noted above, the proposed rent of \$36 per square foot is less than comparable office space in the Civic Center that currently ranges from mid-\$40s to mid-\$50s per square foot.

RECOMMENDATION

Approve the proposed resolution.

Item 5 File 14-1180	Department: Department of Public Health (DPH)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed legislation will retroactively authorize the Department of Public Health (DPH) to enter into a new agreement with the California Department of Health Care Services (DHCS) to receive compensation for providing Substance Abuse Disorder Services to Medi-Cal beneficiaries. The term of the agreement is July 1, 2014 through June 30, 2017. Total compensation to DPH for this agreement is \$33,250,026 for the three-year term, or \$11,083,342 per year. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In September 2010, the Board of Supervisors approved the contract between the County of San Francisco and the California Department of Alcohol and Drug Programs (now DHCS) to accept funding for substance abuse services. The term of the agreement was three years, commencing on July 1, 2010 and ending on June 30, 2013, for total compensation of \$60,402,780, or \$20,134,260 per year. In July 2013, the Board of Supervisors approved an amendment to the original agreement to extend the term through June 30, 2014 and increased total contract compensation to \$69,008,529. • The proposed legislation will retroactively authorize DPH to enter into a new agreement with DHCS to receive compensation for providing Substance Abuse Disorder Services to Medi-Cal beneficiaries. The term of the agreement is July 1, 2014 through June 30, 2017. Total compensation for this agreement is \$33,250,026 for the three-year term, or \$11,083,342 per year. Table 1 below shows the sources of funds for each year of the contract. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed contract with DHCS will reimburse DPH for \$11,083,342 of the total DPH substance abuse disorder services FY 2014-15 budget of \$69,420,583. Funding from DHCS from this contract represents 16 percent of the DPH substance abuse FY 2014-15 budget. <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 a contract entered into by a department, board or commission having anticipated revenue to the City and County of one million dollars or more, or the modification, amendment or termination of any contract which when entered into had anticipated revenue of one million dollars or more, shall be subject to approval of the Board of Supervisors by resolution.

BACKGROUND

Under California State law, San Francisco is reimbursed by the California Department of Health Care Services (DHCS) for the County's costs associated with providing various substance abuse services. In order to receive this reimbursement, the City must enter into a Multi-Year Contract for Substance Use Disorder Services with the State. This contract is a combined agreement that includes pass-through funding from State and Federal governments for Drug Medi-Cal services, and the Federal Substance Abuse Prevention and Treatment block grant.

The Department of Public Health (DPH) Community Behavioral Health Services currently funds approximately 100 different substance abuse treatment and prevention programs provided by 45 community based organizations. Counties negotiate with the State to determine rates for different types of substance abuse services, and these rates are then incorporated into the multi-year contract between the State and the County.

In September 2010, the Board of Supervisors approved the contract between the County of San Francisco and the California Department of Alcohol and Drug Programs¹ (now DHCS) to accept funding for substance abuse services. The term of the agreement was three years, commencing on July 1, 2010 and ending on June 30, 2013, for total compensation of \$60,402,780, or \$20,134,260 per year. In July 2013, the Board of Supervisors approved an amendment to the original agreement to extend the term through June 30, 2014 and increased total contract compensation to \$69,008,529.

¹ This contract replaces the contract formerly known as the Net Negotiated Amount administered by the California Department of Alcohol and Drug Programs. Due to a reorganization of these programs in 2013, the Department of Alcohol and Drug Programs was eliminated and its functions, including the Substance Use Disorder Services, were transferred to DHCS.

DETAILS OF PROPOSED LEGISLATION

The proposed legislation will retroactively authorize DPH to enter into a new agreement with DHCS to receive compensation for providing Substance Abuse Disorder Services to Medi-Cal beneficiaries. The term of the agreement is July 1, 2014 through June 30, 2017. Total compensation for this agreement is \$33,250,026 for the three-year term, or \$11,083,342 per year. Table 1 below shows the sources of funds for each year of the contract.

Table 1: Sources of Funds for DHCS Contract

Funding Source	Annual Distribution	3-Year Total
California State General Fund, Drug Medi-Cal	\$490,930	\$1,472,790
Federal Share, Drug Medi-Cal	744,462	2,233,386
Federal Block Grant, Substance Abuse Prevention and Treatment	9,847,950	29,543,850
Total	\$11,083,342	\$33,250,026

The County of San Francisco will continue to subcontract with non-profit organizations to deliver substance abuse disorder services through this contract. The following services will be delivered through this contract:

- 1) Outpatient drug-free treatment;
- 2) Narcotic replacement therapy;
- 3) Naltrexone treatment;
- 4) Intensive Outpatient Treatment;
- 5) Perinatal Residential Substance Abuse Services.

The proposed resolution allows DPH to approve amendments to the agreement for less than 10 percent of the contracted amount without further Board of Supervisors approval.

FISCAL IMPACT

The proposed contract with DHCS will reimburse DPH for \$11,083,342 of the total DPH substance abuse disorder services FY 2014-15 budget of \$69,420,583. Funding from DHCS from this contract represents 16 percent of the DPH substance abuse FY 2014-15 budget. Table 2 below shows total sources of funds for DPH FY 2014-15 substance abuse disorder services.

Table 2: Source of Funds for DPH Substance Abuse Disorder Services budget

Funding Source	Amount
California State General Fund, Drug Medi-Cal	\$490,930
Federal Share, Drug Medi-Cal	744,462
Federal Block Grant, Substance Abuse Prevention and Treatment	<u>9,847,950</u>
Subtotal, DHCS Contract Funds	\$11,083,342
Other Drug Medical Federal Share	3,854,761
Public Safety Realignment Funds	8,515,285
Other Substance Abuse Prevention and Treatment Block Grant Carryforward Funds	792,844
Grant and Project Funds	<u>1,415,160</u>
Subtotal, Other State and Federal Funds	\$14,578,050
Work Order Funds	4,420,185
City General Fund	<u>39,339,007</u>
Subtotal, City Funds	\$43,759,192
Total Substance Abuse Disorder Services Funds	<u>\$69,420,583</u>

Funding to support the DHCS contract is subject to appropriation by the State and Federal governments, and is not guaranteed for any future years. Any reductions to these amounts would require supplemental funding from the San Francisco General Fund or a reduction in substance abuse services.

RECOMMENDATION

Approve the proposed resolution.