

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

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February 17, 2017


TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: February 23, 2017 Budget and Finance Committee Meeting

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Item 2 File 17-0048	Department: First 5 San Francisco
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve the sixth amendment to the existing contract between First 5 San Francisco and WestEd, a nonprofit agency, to continue providing citywide Quality Rating and Improvement System (QRIS) services for early care and education programs. The sixth amendment increases the contract's amount by \$888,911 from not-to-exceed \$9,992,115 to \$10,881,026. The existing contract term of five years from July 1, 2012 to June 30, 2017 is unchanged. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • A Quality Rating and Improvement System (QRIS) is a set of ratings graduated by level of quality and used to assess licensed early care and education settings. WestEd, the contractor, providing QRIS services to First 5 San Francisco, was selected through a competitive process in 2012. The contract has been amended five times, extending the term to June 2017, and increasing the contract amount by \$5,350,610 from the original amount of \$4,641,505 to a total not-to-exceed amount of \$9,992,115. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The total FY 2016-17 contract budget is \$2,638,911, which includes the increase of \$888,911. This budget of \$2,638,911 is \$350,355 or 15 percent more than the FY 2015-16 budget of \$2,288,566. According to First 5, the contract increase of \$888,911 for the last contract year from July 1, 2016 through June 30, 2017 is needed to provide QRIS technical assistance, coaching and training services to an additional 70 new sites from the Family Child Care Quality Network. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The existing contract between First 5 and WestEd to provide QRIS services, which began in 2012 and has been extended to June 2017, does not specify the number of times that the contract may be extended. According to First 5, the QRIS contract will undergo a competitive selection process in March 2017. The proposed resolution should be amended to specify that (1) First 5 San Francisco will issue a Request for Proposals for QRIS services prior to June 2017, and (2) the new contract will specify the total contract term, including extensions. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to specify that (1) First 5 San Francisco will issue a competitive request for proposals to select a provider by June 30, 2017 for a new contract to provide citywide technical assistance, coaching, training, and rating services for publicly funded early care and education providers serving low-income children and children with special needs, and (2) any future contract entered into by First 5 San Francisco for these services must specify the original term, the number of extension options, and the term of each extension option. • Approve the proposed resolution as amended. 	

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

First 5 San Francisco's Quality Rating and Improvement System (QRIS)

A Quality Rating and Improvement System (QRIS) is a set of ratings graduated by level of quality and used to assess licensed early care and education settings. It is based upon early childhood research identifying the quality elements that are critical to support positive child development outcomes. QRIS's ratings aim to assist families to identify quality programs, guide providers in continuous program improvements, inform the delivery of technical assistance to early childhood educators, and provide policymakers information to assess program performance. San Francisco's QRIS includes training, technical assistance, coaching and rating services through assessment tools that assist early care educators in improving quality.

WestEd, the contractor providing quality improvement services to First 5 San Francisco, is responsible for providing citywide QRIS technical assistance, coaching, training and rating services for early care and education providers in the City, with initial priority for services given to low performing early care and education programs serving low income children and/or children with special needs. Table 1 below details the number of sites that receive QRIS improvement and assessment services, as well as rating services, from FY 2013-14 to FY 2016-17.

Table 1. Number of QRIS Sites from FY13-14 to FY16-17

Type of QRIS Participation	FY 2013 – 14	FY 2014 – 15	FY 2015 – 16	FY 2016 – 17
Sites Receiving Improvement and Assessment Services Only	119 Child Care Centers ¹ 220 Family Child Care ²	131 Child Care Centers 199 Family Child Care	137 Child Care Centers 233 Family Child Care	144 Child Care Centers 250 Family Child Care
Rated Sites	119 Child Care Centers 19 Family Child Care	131 Child Care Centers 34 Family Child Care	137 Child Care Centers 40 Family Child Care	144 Child Care Centers 108 Family Child Care

Source: First 5 San Francisco

¹ Child Care Centers (or Day Care Centers) are usually located in a commercial building or school. Non-medical care and supervision are provided for infant to school-age children in a group setting for periods of less than 24 hours.

² Family Child Care (or Family Day Care) means regularly provided care, protection and supervision of children, in the care giver's own home, for periods of less than 24 hours per day, while the parents or authorized representatives are away.

Existing Agreement

In 2012, First 5 San Francisco entered into a contract with WestEd, a nonprofit agency, based on a competitive Request for Proposals (RFP) process³ to provide quality improvement services for publicly funded early care and education providers serving low income children and children with special needs. The contract was for \$4,641,505, which was less than the \$10 million threshold established by City Charter Section 9.118(b) requiring Board of Supervisors approval. The contract had a term of three years from July 1, 2012 to June 30, 2015 but did not specify the number of times that the contract could be extended (see Policy Consideration section below). First 5 San Francisco has amended the contract five times, extending the contract term through June 2017 and increasing the contract's amount by \$5,350,610 from the original amount of \$4,641,505 to a total not-to-exceed amount of \$9,992,115.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the sixth amendment to the existing contract between First 5 San Francisco and WestEd, a nonprofit agency, to continue providing citywide QRIS technical assistance, coaching, training, and rating services for publicly funded early care and education settings serving low-income children and children with special needs. The sixth amendment increases the contract's amount by \$888,911 for the last contract year from July 1, 2016 through June 30, 2017 from not-to-exceed \$9,992,115 to \$10,881,026. The existing contract term of five years from July 1, 2012 to June 30, 2017 is unchanged.

FISCAL IMPACT

FY 2016-17 WestEd Contract Budget

According to Ms. Lisa Lee, Senior Program Officer at First 5 San Francisco, the contract increase of \$888,911 for the last contract year from July 1, 2016 through June 30, 2017 is needed to provide QRIS technical assistance, coaching and training services to an additional 70 new sites from the Family Child Care Quality Network (FCCQN)⁴, as well as additional rating and assessment services for the new sites. Table 2 below shows the total contract budget in FY 2016-17, including the increase of \$888,911.

³ The QRIS contract bid was part of a joint funder solicitation involving the Department of Children, Youth and their Families (DCYF), Human Services Agency (HSA) and First 5 San Francisco.

⁴ The Family Child Care Quality Network (FCCQN), an initiative created and funded by the San Francisco Office of Early Care and Education (OECE) in collaboration with the Department of Children, Youth, and Their Families (DCYF), offers family child care providers personalized coaching and consultation to improve the quality of early care and education for San Francisco children.

Table 2. FY 2016-17 WestEd QRIS Contract Budget

Category	Original Budget	Sixth Amendment	Total Budget
Personnel	\$470,463	\$320,566	\$791,029
Fringe Benefits	158,211	100,022	258,233
Professional Services ⁵	64,901	28,887	93,788
Subcontracts ⁶	6,000	150	6,150
Program Materials	69,292	46,498	115,790
Other Program Expenses ⁷	833,845	309,154	1,142,999
Administrative Costs	147,288	83,633	230,921
Total FY 2016-17 Contract Budget	\$1,750,000	\$888,911	\$2,638,911

The total FY 2016-17 budget of \$2,638,911 is \$350,355 or 15 percent more than the FY 2015-16 budget of \$2,288,566. As noted above, WestEd will increase services in FY 2016-17 to approximately 70 new sites.

Funding for the FY 2016-17 WestEd contract would come from the Office of Early Care and Education's Public Education and Enrichment Fund (PEEF), which is a General Fund set-aside, and the Department of Children, Youth and their Families (DCYF), as previously appropriated by the Board of Supervisors in First 5's FY 2016-17 budget. Funding will also come from the Proposition 10 Tobacco Tax funds. Table 3 below details the proposed funding sources of the FY 2016-17 budget,⁸ which includes the requested additional \$888,911, to be expended in FY 2016-17.

Table 3. WestEd Contract Proposed Funding Sources in FY 16-17

Source	Amount	Approximate Percentage
Public Education and Enrichment Fund (PEEF)	\$2,177,957	82.5%
Department of Children, Youth and their Families (DCYF)	370,954	14.1%
Prop 10 – Tobacco Tax	90,000	3.4%
Total	\$2,638,911	100%

According to First 5 San Francisco, the requested increase of \$888,911 is projected to be sufficient for estimated contract expenditures through the end of the contract term of June 30, 2017.

⁵ This includes Spanish and Chinese translation services, fees for presenters and providers to support developing quality environments, state certified trainings, report translations, and website maintenance and upkeep.

⁶ This is a subcontract with City College of San Francisco to participate in the Program for Infant/Toddler Care (PITC) Course.

⁷ This includes Environment Rating Scale (ERS) assessments, Classroom Assessment Scoring System (CLASS) assessments, CLASS recertification, travel, technology/equipment including data plans, occupancy, general program support, Teaching Pyramid Model training, fees (registration, certification and trainer institute), project support, and communications/outreach.

⁸ The FY 2016-17 budget of \$2,638,911 is \$350,355 or 15 percent more than the FY 2015-16 budget of \$2,288,566, as noted above, WestEd will increase services in FY 2016-17 to approximately 70 new sites.

Contract Expenditures

From July 2012 through January 2017, WestEd has expended approximately 87 percent or \$8,701,132 of the total contract's existing not-to-exceed amount of \$9,992,115, as shown in Table 4 below. First 5 San Francisco projects expenditures of \$2,179,894 over the remaining five months of the contract,⁹ resulting in total contract expenditures of approximately \$10,881,026, as shown in Table 4 below.

Table 4. WestEd Contract Actual and Projected Expenditures
(July 2012 through June 2017)

Contract	Actual Contract Expenditures (July 2012 through January 2017)	Projected Expenditures (February 2017 through June 2017)	Total Actual and Projected Expenditures (July 2012 through June 2017)
WestEd QRIS	\$8,701,132	\$2,179,894	\$10,881,026
Total	\$8,701,132	\$2,179,894	\$10,881,026

POLICY CONSIDERATION

Contract Extension

As previously stated, the WestEd contract had a term of three years from July 1, 2012 through June 30, 2015, but did not specify the number of times that the contract could be extended. First 5 San Francisco has extended the contract three times through June 30, 2017. According to Ms. Tracy Fong, Fiscal Officer at First 5 San Francisco, First 5 agreed to extend the contract as a result of the transfer of administration of PEEF funds to the Office of Early Care and Education (OECE) in order to not disrupt services. According to Ms. Fong, OECE was not prepared to directly administer the contract in 2015 because the office's first priorities were hiring an OECE Director and undergoing a mandated community planning process. Consequently, First 5 and OECE agreed to have First 5 continue to administer and oversee the contract through 2020. The QRIS contract will undergo a competitive selection process in March 2017.

However, given that the existing contract between First 5 San Francisco and WestEd does not specify the number of times that the WestEd contract could be extended, the Budget and Legislative Analyst recommends that the proposed resolution be amended to specify that (1) First 5 San Francisco will issue a competitive request for proposals to select a provider by June 30, 2017 for a new contract to provide citywide technical assistance, coaching, training, and

⁹ Under the contract, First 5 San Francisco reimburses WestEd on a quarterly basis, with most reimbursements occurring at the end of the year. Of the \$2.6 million budget in FY 2016-17, approximately \$460,000 has been reimbursed, which reflects the first three months of expenses; the balance of \$2.2 million will be reimbursed on a quarterly basis through the end of the fiscal year. According to Ms. Tracy Fong, Fiscal Officer at First 5 San Francisco, the majority of QRIS assessments will be conducted during the last half of the fiscal year, which will spend down the balance.

rating services for publicly funded early care and education providers, and (2) any future contract entered into by First 5 San Francisco for these services must specify the original term, the number of extension options, and the term of each extension option.

RECOMMENDATIONS

1. Amend the proposed resolution to specify that (1) First 5 San Francisco will issue a competitive request for proposals to select a provider by June 30, 2017 for a new contract to provide citywide technical assistance, coaching, training, and rating services for publicly funded early care and education providers serving low-income children and children with special needs, and (2) any future contract entered into by First 5 San Francisco for these services must specify the original term, the number of extension options, and the term of each extension option.
2. Approve the proposed resolution as amended.

Item 5 File 17-0064	Department: Sheriff's Department (Sheriff) Real Estate Division (RED)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • The proposed resolution would authorize the (i) exercise of the final five-year option to extend the 120 14th Street lease between the Sheriff's Department, as tenant, and 120 14th Street, LLC, as landlord, from July 1, 2017 through June 30, 2022, and (ii) increase the annual rent from \$550,392 to \$882,560 in FY 2017-18, an increase of \$332,168 or 60.4 percent. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • The Sheriff's Department has an existing lease for 18,862 square feet of space at 120 14th street for use as (i) the Sheriff's Department's Operation Center for use in an emergency, (ii) a consolidated training facility to provide State-mandated annual training to members of the Sheriff's Department, and (iii) office space for the Sheriff's Department's Training Unit, Background Unit, and Field Support Services Unit. The Board of Supervisors previously approved the original ten-year lease from 2002 to 2012 and a five-year lease extension to June 30, 2017. • The proposed resolution approves the final five year option for the 120 14th Street lease from July 1, 2017 to June 30, 2022. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • The Sheriff's Department's annual rent for 120 14th Street in FY 2016-17 is \$550,392, equal to \$29.18 per square foot per year for 18,862 square feet. Under the proposed lease extension, the rent would increase to an annual rent rate of (i) \$46.08 per square foot for the first six months of FY 2017-18; and (ii) \$47.50 per square foot for the second six months of FY 2017-18. • The proposed annual rent rate of \$47.50 per square foot represents 95 percent of the current fair market rent established by an independent appraisal. The annual rent increase of 3 percent per year, beginning on July 1, 2018, reflects current typical lease agreements in the commercial real estate market. 	
<p style="text-align: center;">Policy Consideration</p>	
<ul style="list-style-type: none"> • According to Mr. Dunn, plans for the lease after the proposed five-year lease extension expires in 2022 are currently undetermined and are largely dependent on the possible vacancy and renovation or replacement of the Hall of Justice. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> • Approve the proposed resolution 	

MANDATE STATEMENT

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

Administrative Code Section 23.27 requires Board of Supervisors approval of leases that are longer than one year where the City is the tenant.

BACKGROUND

In May 2002, the Board of Supervisors approved a ten-year lease (Resolution 356-02) from July 1, 2002 through June 30, 2012, between the Sheriff's Department, as tenant, and Mark Nelson Development & New California Land Company (Mark Nelson), as landlord, at 1740 Folsom Street (also known as 120 14th Street) for approximately 18,862 square feet of space for use as (i) the Sheriff's Department's Operation Center for use in an emergency, (ii) a consolidated training facility to provide State-mandated annual training to members of the Sheriff's Department, and (iii) office space for the Sheriff's Department's Training Unit, Background Unit, and Field Support Services Unit.

The lease included two options to extend for a term of five years each through 2022 with rent adjusted to 95 percent of the fair market rent at the beginning of each term.

In February 2012, the Board of Supervisors approved a resolution (File 12-0038) authorizing the Director of Real Estate to exercise the first of two five-year options to extend the lease term for an additional five years from July 1, 2012 through June 30, 2017.

120 14th Street was subsequently sold by Mark Nelson and the lease was transferred by Mark Nelson to the new property owner, 120 14th Street LLC.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the (i) exercise of the final five-year option to extend the 120 14th Street lease between the Sheriff's Department, as tenant, and 120 14th Street, LLC, as landlord, from July 1, 2017 through June 30, 2022, and (ii) increase the annual rent from \$550,392 to \$882,560 in FY 2017-18, an increase of \$332,168 or 60.4 percent. Table 1 below summarizes the terms and conditions of the current and proposed lease extension.

Table 1. Summary of Proposed Lease Details

	Proposed Lease
Premises	18,862 square feet plus a parking lot for 19 vehicles
Base Rent (monthly)	\$72,427 for the first six months and \$74,667 for the next six months
Operating Expenses (monthly)	\$3,142 for utilities. Janitorial services, maintenance and all other operating costs to be paid by the landlord.
Base Rent Increase Date	Annually on July 1
Base Rent Increase Amount	3% (annually)
Term of five year extension	July 1, 2017 to June 30, 2022

Source: Real Estate Division

FISCAL IMPACT

The Sheriff's Department's existing annual rent for 120 14th Street in FY 2016-17 is \$550,392, equal to \$29.18 per square foot per year for 18,862 square feet. Under the proposed lease extension, the rent would increase to an annual rent rate of (i) \$46.08 per square foot for the first six months from July 1, 2017 to December 31, 2017; and (ii) \$47.50 per square foot for the second six months from January 1, 2018 to June 30, 2018. As noted above, the total rent will increase from \$550,392 in FY 2016-17 to \$882,560 in FY 2017-18, an increase of \$332,168 or 60.4 percent.

The proposed annual rent rate of \$47.50 per square foot (effective as of January 1, 2018) represents 95 percent of the current fair market rent¹ established by an independent appraisal conducted by Watts, Cohn and Partners, Inc.² According to Mr. Charles Dunn, Senior Real Property Officer at the Real Estate Division, the annual rent increase of 3 percent per year, beginning on July 1, 2018, reflects current typical lease agreements in the commercial real estate market.

As shown in Table 2 below, over the five-year term of the lease extension from July 1, 2017 through June 30, 2022, total rent to be paid by the Sheriff's Department is \$4,743,546 and the total cost for utilities is estimated at \$200,181, resulting in a total cost of \$4,943,727 for the proposed five-year lease extension. This total cost, including utilities, would be paid from the

¹ As of November 1, 2016, the fair market rent for the property was \$47.50 per square foot per year according to the appraisal. According to Mr. Dunn, the landlord agreed to the lower annual rental rate of \$46.08 per square foot for the first six months of the lease extension in response to requested departmental budget cuts as a result of the Proposition K sales tax initiative's failure to pass in November 2016.

² Per City Charter Section 23.27, if the consideration to be paid by the City for the lease as base rent is more than \$60 per square foot per year, the Director of Property, on behalf of the department concerned shall obtain an Appraisal Review for such appraisal. Because the fair market rent for the 1740 Folsom Street property was \$47.50 per square foot per year according to the appraisal, an Appraisal Review was not required.

City's General Fund, subject to Board of Supervisors appropriation approval in the Sheriff's Department's annual budget.

Table 2: Total Costs by Year under Proposed Lease Extension

Lease Year	Annual Rent	Annual Operating Costs³	Total Cost
FY 2017-18 ⁴	\$882,560	\$37,705	\$920,265
FY 2018-19	922,880	38,836	961,716
FY 2019-20	950,566	40,001	990,568
FY 2020-21	979,083	41,201	1,020,285
FY 2021-22	1,008,456	42,437	1,050,893
Total	\$4,743,546	\$200,181	\$4,943,727

Source: Real Estate Division

POLICY CONSIDERATION

According to Mr. Dunn, the Real Estate Division inquired about purchasing the property but the property owner had no interest. In addition, the Real Estate Division conducted a search for other properties that could be purchased, but did not find other properties that could serve the Sheriff Department's needs.

According to Mr. Dunn, plans for the lease after the proposed five-year lease extension expires in 2022 are currently undetermined and are largely dependent on the possible vacancy and renovation or replacement of the Hall of Justice.

RECOMMENDATION

Approve the proposed resolution.

³ Assumes annual increase of 3 percent.

⁴ This reflects the 3 percent rental abatement for the first six months of FY 2017-18 or \$72,427 monthly for the first six months totaling \$434,560, and \$74,667 monthly for the next six months totaling \$448,000.