CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: February 2, 2017 Special Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve the third amendments to each of the three Technology Marketplace Tier 1A contracts between the City and ComputerLand of Silicon Valley (ComputerLand), En Pointe Technologies Sales, LLC (En Pointe), and Xtech, JV (Xtech) and the third amendment to the Technology Marketplace Tier 1B contract between the City and InterVision Systems Technologies, Inc. (InterVision). The third amendments to the (a) ComputerLand contract increases the not-to-exceed amount by $14 million, from $44 million to $58 million, (b) En Pointe contract increases the not-to-exceed amount by $27 million, from $50 million to $77 million, and (c) Xtech contract increases the not-to-exceed amount by $38 million, from $56 million to $94 million. The third amendment to the InterVision contract increases the not-to-exceed amount by $14,501,000, from $15,499,000 to $30 million. The total increase in all four contracts is $93,501,000, from $165,499,000 to $259 million. The proposed resolutions extend the contracts by one year from the original end date of September 30, 2017 to a new end date of September 30, 2018, for a total contract term of October 1, 2014 through September 30, 2018.

Key Points

- The Office of Contract Administration (OCA) selects information technology firms through a competitive Request for Proposals (RFP) process to provide goods and services through the Technology Marketplace. City departments may purchase technology products and specialized services through the Technology Marketplace on an as-needed basis. OCA plans on rebidding these Technology Marketplace contracts after September 2017

Fiscal Impact

- The proposed third amendments to the four Technology Marketplace contracts would have a combined total not-to-exceed amount of $259 million for the four-year term from October 1, 2014 through September 30, 2018. During the first 26 months of the contracts, from October 2014 through November 2016, City departments expended or encumbered approximately 82 percent or $135,341,347 of the total combined contracts' existing not-to-exceed amount of $165,499,000. According to OCA, the requested increase in the not-to-exceed amount of each of the four contracts is projected to be sufficient for estimated contract expenditures through the end of the extended contract term in September 2018.

Recommendation

- Approve the proposed resolutions.

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 Office of Contract Administration (OCA) selects information technology firms through a competitive Request for Proposals (RFP) process to provide goods and services through the Technology Marketplace. City departments may purchase technology products and specialized services through the Technology Marketplace on an as-needed basis.

The Technology Marketplace offers technology products and services through the following three tiers of contracts. The Tier 1 contracts have amounts of more than $10 million and require the technology company to provide a wide selection of products, professional services, maintenance, and training for City departments. Tier 1 contracts consist of Tier 1A, which offer general services, and Tier 1B, which offer specialized services. Tier 2 contracts are for amounts of less than $10 million, and Tier 3 contracts are for services provided by Local Business Enterprises for amounts of $400,000 or less.

The City has 13 active Tier 1 contracts, six of which are Tier 1A and seven of which are Tier 1B.[1]

DETAILS OF PROPOSED LEGISLATION

File 17-0011 is a resolution to approve the third amendment to the Technology Marketplace Tier 1A contract between the City and ComputerLand of Silicon Valley (ComputerLand);

File 17-0012 is a resolution to approve the third amendment to the Technology Marketplace Tier 1A contract between the City and En Pointe Technologies Sales, LLC (En Pointe).

File 17-0013 is a resolution to approve the third amendment to the Technology Marketplace Tier 1A contract between the City and Xtech, JV (Xtech); and

File 17-0014 is a resolution to approve the third amendment to the Technology Marketplace Tier 1B contract between the City and InterVision Systems Technologies, Inc. (InterVision).

Technology Marketplace Contracts

OCA entered into contracts with ComputerLand, En Pointe, Xtech and InterVision based on a competitive RFP process, for a three-year term from October 1, 2014 through September 30, 2017, with two one-year options to extend the contract through September 30, 2019. The initial not-to-exceed amount of each contract was $12,000,000.

[1] The six Tier 1A technology companies are Central Computers, Inc., ComputerLand of Silicon Valley, En Pointe Technologies Sales, Inc., Technology Integration Group, World Wide Technology, Inc., and Xtech JV. The seven Tier 1B technology companies are InterVision Systems Technologies, Inc., Robert Half Technology, Stellar Services, Inc., CornerStone Technology, Learn iT!, SoftNet Solutions, Inc., and United Layer.

The Board of Supervisors approved the second amendments to the contracts with three of the four companies – Xtech, ComputerLand, and En Pointe – in June 2016 (Files 16-0412, 16-0413, 16-0415). The Board of Supervisors approved the first amendment to the contract with InterVision in June 2016 (File 16-0414), and the OCA approved the second amendment to the contract with InterVision on November 2016. The second amendments to the (a) Xtech contract increased the not-to-exceed amount by $24 million, from $32 million to $56 million, (b) ComputerLand contract increased the not-to-exceed amount by $12 million, from $32 million to $44 million, and (c) En Pointe contract increased the not-to-exceed amount by $19 million, from $31 million to $50 million. The second amendment to the InterVision contract increased the not-to-exceed amount by $499,000, from $15 million to $15,499,000.

The proposed resolutions increase the not-to-exceed contract amount for each of the four contracts, as shown in Table 1 below, and extend the contracts by one year from the original end date of September 30, 2017 to a new end date of September 30, 2018, for a total contract term of October 1, 2014 through September 30, 2018.

Table 1. Proposed Increase in Contract Not-to-Exceed Amount

Contract	Current	Proposed	Increase
ComputerLand (File 17-0011)	$44,000,000	$58,000,000	$14,000,000
En Pointe (File 17-0012)	50,000,000	77,000,000	27,000,000
Xtech (File 17-0013)	56,000,000	94,000,000	38,000,000
InterVision (File 17-0014)	15,499,000	30,000,000	14,501,000
Total	**$165,499,000**	**$259,000,000**	**$93,501,000**

Source: Office of Contract Administration (OCA)

FISCAL IMPACT

The proposed third amendments to the four Technology Marketplace contracts would have a combined total not-to-exceed amount of $259,000,000 for the four-year term from October 1, 2014 through September 30, 2018, as shown in Table 1 above. During the first 26 months of the contracts, from October 2014 through November 2016, City departments expended or encumbered approximately 82 percent or $135,341,347 of the total combined contracts' existing not-to-exceed amount of $165,499,000, as shown in Table 2 below.

OCA is requesting an increase of $93,501,000 in the total combined contracts' not-to-exceed amount to accommodate the Airport's information technology needs to complete capital improvement plans, the continued needs of City departments to facilitate the procurement of professional services work related to the citywide Financial System Project (F$P)[2], and other City department information technology needs. OCA projects expenditures of $124,519,600 over the remaining 22 months of the four contracts, resulting in total contract expenditures of approximately $259,000,000 as shown in Table 2 below.

[2] The Financial System Project (F$P) is a citywide initiative led by the Controller's Office to replace outdated financial legacy systems and includes financial, supply chain management and reporting and analytics functionality.

Table 2. Technology Marketplace Contracts Actual Expenditures and Encumbrances
(October 2014 through September 2018)

Contract	**Actual Contract Expenditures** (October 2014 through November 2016)	**Projected Expenditures**[3] (December 2016 through September 2018)	**Total Actual and Projected Expenditures** (October 2014 through September 2018)	**Proposed Contract Not-to-Exceed Amount**
ComputerLand (File 17-0011)	$30,143,604	$28,006,126	$58,149,730	$58,000,000
En Pointe (File 17-0012)	40,306,515	36,605,512	76,912,027	77,000,000
Xtech (File 17-0013)	49,776,759	44,618,796	94,395,555	94,000,000
InterVision (File 17-0014)	15,114,469	15,289,166	30,403,635	30,000,000
Total	**$135,341,347**	**$124,519,600**	**$259,860,947**	**$259,000,000**

Source: Office of Contract Administration (OCA)

According to Robert Henning, Assistant Director at OCA, the requested increase in the not-to-exceed amount of each of the four contracts is projected to be sufficient for estimated contract expenditures through the end of the extended contract term in September 2018. OCA plans on rebidding the contracts after September 2017. All expenditures under these contracts are subject to appropriation approval by the Board of Supervisors in the City department's annual budgets.

RECOMMENDATION

Approve the proposed resolutions.

[3] Projected expenditures include an anticipated Airport investment amount of approximately $2.5 million for each of the four contracts for a total amount of $10 million.

Item 5 **File 17-0010**	**Department:** Office of Contract Administration (OCA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Office of Contract Administration (OCA) to enter into the fourth amendment to the contract between the City and AdvanTel Networks to (i) increase the contract not-to-exceed amount by $5,100,000 from $9,900,000 to $15,000,000, and (ii) extend the contract by one year from the original end date of September 30, 2017 to a new end date of September 30, 2018, for a total contract term from October 13, 2011 through September 30, 2018.

Key Points

- In October 2011, the OCA entered into a contract with AdvanTel Networks based on a competitive, low-bid process for the supply of Avaya phone equipment and related services. The contract was for $9,900,000, which was less than the $10 million threshold established by City Charter Section 9.118(b) requiring Board of Supervisors approval.
- The equipment and software purchased from AdvanTel Networks support the City's telephone systems and call center operations.

Fiscal Impact

- The increase in the contract not-to-exceed amount of $5,100,000, from $9,900,000 to $15,000,000 is based on OCA's survey of City departments' expected expenditures in FY 2017-18. From October 2011 through December 2016, City departments expended or encumbered approximately 93 percent or $9,202,862 of the total contract's not-to-exceed amount of $9,900,000.

Policy Consideration

- The AdvanTel Networks contract had a term of three years from September 2011 through September 2014 with options to extend the term for up to one year, but did not specify the number of times that the contract could be extended. The proposed resolution would extend the contract through September 2018, a term of seven years. OCA's policy is to rebid any contract beyond seven years. Therefore, OCA plans on rebidding the AdvanTel Networks contract and awarding a new contract by September 30, 2018.

Recommendations

- Amend the proposed resolution to specify that (1) the contract between OCA and AdvanTel Networks will end by September 30, 2018, (2) OCA will issue a competitive bid to select a provider by September 30, 2018 for a new contract for phone equipment and related services, and (3) any future contract entered into by OCA for phone equipment and related 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

In October 2011, the Office of Contract Administration (OCA) entered into a contract with AdvanTel Networks based on a competitive, low-bid[1] process for the supply of Avaya phone equipment and related services. The contract was for $9,900,000, 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 through September 2014 with options to extend the term for up to one year through mutual agreement between the contracting parties, but did not specify the number of times that the contract could be extended (see Policy Consideration section below). OCA has modified the contract three times to extend the contract term through September 30, 2017 with no increase in the contract not-to-exceed amount.

Avaya is a multinational company that specializes in internet, telephone and wireless data communications. The equipment and software purchased from AdvanTel Networks support the City's telephone systems and call center operations.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the OCA to enter into the fourth amendment to the contract between the City and AdvanTel Networks to (i) increase the contract not-to-exceed amount by $5,100,000 from $9,900,000 to $15,000,000, and (ii) extend the contract by one year from the original end date of September 30, 2017 to a new end date of September 30, 2018, for a total contract term from October 13, 2011 through September 30, 2018.

FISCAL IMPACT

The increase in the contract not-to-exceed amount of $5,100,000, from $9,900,000 to $15,000,000 is based on OCA's survey of City departments' expected expenditures in FY 2017-18, as shown in Table 1 below.

[1] According to OCA, AdvanTel Networks won the bid because they offered the lowest pricing for Avaya equipment and commoditized services relative to the other bidders. A low-bid solicitation is structured differently from a Request for Proposals (RFP) process because no scoring criteria is used other than price, and a selection panel is not necessary. A pre-bid conference was held to answer any questions from interested parties.

Table 1. Projected Department Expenditures in FY 2017-18 for AdvanTel Networks Contract

Department	Projected Expenditures
Airport	$2,250,000
Public Utilities Commission	850,000
Human Services Agency	715,000
Department of Public Health	250,000
Child Support Services	175,000
Department of Emergency Management	170,000
Department of Technology	80,000
San Francisco 311	50,000
Department of Public Works	50,000
Health Service System	50,000
Retirement	50,000
San Francisco Police Department	20,000
Mayor's Office	15,000
Municipal Transportation Agency	15,000
City Planning	10,000
Department of Building Inspection	10,000
Human Rights Commission	10,000
Office of Citizen Complaints	10,000
Office of Emergency Services	10,000
Public Defender’s Office	10,000
San Francisco Rent Board	10,000
San Francisco Fire Department	10,000
Department on the Status of Women	10,000
City Attorney	5,000
District Attorney	5,000
San Francisco Public Library	5,000
Subtotal	4,845,000
Contingency	255,000
Total Projected Expenditures	**$5,100,000**

From October 2011 through December 2016, City departments expended or encumbered approximately 93 percent or $9,202,862 of the total contract's not-to-exceed amount of $9,900,000, as shown in Table 2 below. OCA projects expenditures of $5,797,138 over the remaining 21 months of the contract, resulting in total contract expenditures of approximately $15,000,000, as shown in Table 2 below.

Table 2. AdvanTel Networks Contract Actual Expenditures and Encumbrances

(October 2011 through September 2018)

Contract	**Actual Contract Expenditures** (October 2011 through December 2016)	**Projected Expenditures** (January 2017 through September 2018)	**Total Actual and Projected Expenditures** (October 2011 through September 2018)
AdvanTel Networks	$9,202,862	$5,797,138	$15,000,000

Source: Office of Contract Administration (OCA)

According to OCA, the requested increase of $5,797,138 in the not-to-exceed amount of the contract is projected to be sufficient for estimated contract expenditures through the end of the contract term in September 2018. All expenditures under the AdvanTel Networks contract are subject to appropriation approval by the Board of Supervisors in the City's annual budgets.

POLICY CONSIDERATION

Contract Extension

As previously stated, the AdvanTel Networks contract had a term of three years through September 2014 with options to extend the term for up to one year through mutual agreement between the contracting parties, but did not specify the number of times that the contract could be extended. OCA has extended the contract three times through September 2017, and the proposed resolution would extend the contract for the fourth time through September 2018, for a total contract term of seven years from September 2011 to September 2018. According to Ms. Jaci Fong, OCA Director, OCA's policy is to rebid any contract beyond seven years. Therefore, OCA plans on rebidding the AdvanTel Networks contract and awarding a new contract by September 30, 2018.

However, given that the existing contract between OCA and AdvanTel Networks does not specify the number of times that the AdvanTel contract could be extended, the Budget and Legislative Analyst recommends that the proposed resolution be amended to specify that (1) the contract between OCA and AdvanTel Networks will end by September 30, 2018, (2) OCA will issue a competitive bid to select a provider by September 30, 2018 for a new contract for phone equipment and related services, and (3) any future contract entered into by OCA for phone equipment and related 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) the contract between OCA and AdvanTel Networks will end by September 30, 2018, (2) OCA will issue a competitive bid to select a provider by September 30, 2018 for a new contract for phone equipment and related services, and (3) any future contract entered into by OCA for phone equipment and related 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 8 **File 16-1266**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the third modification to the existing contract between the Airport and Bombardier to (a) exercise the first of two (2) one-year options to extend the contract from March 1, 2017, through February 28, 2018, in order for Bombardier to provide operation and maintenance services for the AirTrain System, and (b) increase the contract not-to-exceed amount by $14,901,134 from $100,543,834 to $115,444,968.

Key Points

- In March 1998, The Airport entered into a two-phase contract with Bombardier Transportation (Holdings) USA Inc. (Bombardier), based on a competitive Request for Proposals process, to (a) design, construct, and install the light rail air train system (AirTrain) and (b) operate and maintain the AirTrain system through February 2009. In November 2008, the Board of Supervisors approved a new five-year contract from March 2009 through February 2014, which included one option to extend the term of the contract by three years through February 2017, and two additional one-year options to extend the term of the contract through February 2019.
- Two modifications to the contract were subsequently approved by the Board of Supervisors; one in December 2013 to extend the contract by three years until February 2017, and a second in September 2014, which increased the not-to-exceed amount of the contract to $100,543,834.

Fiscal Impact

- The proposed resolution would increase the existing not-to-exceed contract amount by $14,901,134 from $100,543,834 to $115,444,968. The contract is funded from the Airport's Operating Funds and Capital Funds, as previously appropriated by the Board of Supervisors. The Airport's Operating Funds will cover the AirTrain operations and maintenance and contingency fund. The Airport has budgeted $15,100,000 for the AirTrain operations and maintenance through FY 2017-18.

Policy Consideration

- As part of the 2008 lawsuit settlement, Bombardier must hit target average availability of 99.5 percent. Bombardier has maintained an average availability of 99.69 percent since start of operations in March 2003, and 99.70 percent since 2008.

Recommendation

- 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

In March 1998, The Airport entered into a two-phase contract with Bombardier Transportation (Holdings) USA Inc. (Bombardier), based on a competitive Request for Proposals process, to (a) design, construct, and install the light rail air train system (AirTrain) (Phase I) and (b) operate and maintain the AirTrain system through February 2009 (Phase II).

In December 2004, the Airport filed a lawsuit against Bombardier for contract delays and property damages. Parties to the lawsuit settled their dispute in April 2008. The settlement included a provision that allowed the Airport to recover costs if Bombardier did not meet performance incentives in the service contract for operations and maintenance. Per the settlement, the Airport would approve a five-year contract that would begin in March 2009 through February 2014.

In November 2008, the Board of Supervisors approved an ordinance (File 08-0942) that approved a new five-year contract, from March 2009 through February 2014, for Bombardier to operate and maintain the AirTrain system. The Board of Supervisors also exempted the contract from a competitive request for proposal process because the contract was awarded as a result of a legal settlement.

The new five-year contract included one option to extend the term of the contract by three years through February 2017, which was mandatory if Bombardier met performance benchmarks, and two additional one-year options to extend the term of the contract through February 2019 at the sole discretion of the Airport. The new five-year contract was for an amount not-to-exceed $56,500,000.

In December 2013, the Board of Supervisors approved the first modification to the contract (File 13-0879) to exercise the option to extend the term of the contract by three years, from March 2014 through February 2017 and increase the total not-to-exceed contract amount by $42,200,000 from $56,500,000 to $98,700,000.

In September 2014, the Board of Supervisors approved the second modification to the contract to increase the not-to-exceed amount by $1,843,834 from $98,700,000 to $100,543,834 to replace outdated equipment and provide a contingency for equipment replacement and repair (File 14-0742).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third modification to the existing contract between the Airport and Bombardier to (a) exercise the first of two (2) one-year options to extend the contract from March 1, 2017, through February 28, 2018, in order for Bombardier to continue to provide operation and maintenance services for the AirTrain System, and (b) increase the contract not-to-exceed amount by $14,901,134 from $100,543,834 to $115,444,968.

Under the proposed third modification to the contract between the Airport and Bombardier, Bombardier will continue to operate and maintain the AirTrain system, including the maintenance and replacement of equipment within the train and stations.

FISCAL IMPACT

The proposed resolution would increase the existing not-to-exceed contract amount by $14,901,134 from $100,543,834 to $115,444,968 in order to: (1) pay for AirTrain operations and maintenance through February 28, 2018; (2) replace old stanchions (support handles) in train cars; (3) replace obsolete station auto-locks; and (4) provide a $100,000 contingency fund for unexpected expenditures. All of these tasks are detailed in Table 1 below.

Table 1: AirTrain Proposed Increased Modification

AirTrain Operations and Maintenance (Including contractual escalation, bonuses, and passenger count data management)	$14,295,521
Replace old stanchions with new Tri-handle Stanchions	291,659
Replace obsolete station auto-locks with newly designed auto-locks	213,954
Contingency fund for replacement of unexpected items	100,000
Total	**$14,901,134**

AirTrain Operations and Maintenance

The budget for operations and maintenance from March 1, 2017 through February 28, 2018 is $14,295,521, which is $475,021 or 3.4 percent more than the current operations and maintenance budget of $13,820,500. The operations and maintenance budget consists of (a) base cost of $11,300,000, which has been the same since FY 2009-10; (b) annual escalation ;[1] (c) bonuses;[2] and (d) passenger count data management.

[1] The escalation rate in FY 2016-17 is 3.29 percent and in FY 2017-18 is 2.27 percent.

[2] The proposed third modification budget of $14,901,134 includes $139,326 for bonuses, which is the maximum bonus amount if Bombardier achieves all performance targets. Since FY 2009-10, Bombardier has not achieved the maximum bonus amount.

The contract is funded from the Airport's Operating Funds and Capital Funds, as previously appropriated by the Board of Supervisors. The Airport's Operating Funds will cover the AirTrain operations and maintenance and contingency fund. The Airport has budgeted $15,100,000 for the AirTrain operations and maintenance through FY 2017-18.

POLICY CONSIDERATION

As part of the 2008 lawsuit settlement, Bombardier must hit target average availability of 99.5 percent, meaning the AirTrain system must be available to passengers 99.5 percent of the time as averaged over a monthly period.[3] System availability is managed by an automated computer system called SIMS (Site Information Management System). Bombardier has maintained an average availability of 99.69 percent since start of operations in March 2003, and 99.70 percent since 2008.

RECOMMENDATION

Approve the proposed resolution.

[3] If Bombardier exceeds an average of 99.8 percent or higher for the month they receive a bonus; if they fall below 99.5 percent for the month they are penalized.

Item 9 **File 17-0015**	**Department:** Office of Labor Standards and Enforcement

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would set the prevailing wage rates for individuals engaged in loading or unloading on City property of materials, goods or products into or from a commercial vehicle, and individuals engaged in driving a commercial vehicle in connection with a show or special event.

Key Points

- On October 10, 2016, the Board of Supervisors voted to amend the Administrative Code to add Section 21C.10 to require that prevailing wages be paid workers who load and unload commercial vehicles for shows and special events on City property and to drivers of these commercial vehicles within the City.
- The rates are identified in the Civil Service Commission's report to the Board of Supervisors.

Fiscal Impact

- This is the first time that the Board of Supervisors will be setting this prevailing wage for loaders, unloaders and drivers of commercial vehicles. Although the proposed resolution could potentially increase the wage costs to produce shows or hold special events on City property, it is unknown as to whether or not these increased costs to the show or special events sponsors would reduce the number of shows or special events on City property, and consequently reduce contract, lease, franchise or permit revenues to the City.

Recommendation

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

MANDATE STATEMENT

Administrative Code Section 21C.7 requires the City to pay prevailing wages to workers under covered contracts. The Board of Supervisors must annually fix and determine the prevailing rate of wages, including fringe benefits, overtime and holiday work. The Civil Service Commission is required to provide information to the Board of Supervisors by the first Monday in November of each year on prevailing wage rates. In determining the prevailing wage rates, the Board of Supervisors may consider information in addition to that information provided by the Civil Service Commission.

Administrative Code Section 21C.10 requires the payment of prevailing wages to workers under covered contracts for (1) loading or unloading commercial vehicles for shows and special events on city property, and (2) driving commercial vehicles within the City limits in connection with shows and special events on City property.

BACKGROUND

On October 10, 2016, the Board of Supervisors voted to amend the Administrative Code to add Section 21C.10 to require that prevailing wages be paid workers who load and unload commercial vehicles for shows and special events on City property and to drivers of these commercial vehicles within the City. The prevailing rate of wages for loaders, unloaders, and drivers of commercial vehicles, covered under Section 21.C.10, was not included in the previous proposed resolution as the Office of Labor Standards and Enforcement had not yet presented the Board of Supervisors data for setting the prevailing rate of wages. The Civil Service Commission had 120 days from November 13, 2016, the effective date of the ordinance, to submit to the Board of Supervisors data as to the Prevailing Wage. The Civil Service Commission submitted the data on December 5, 2016.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would set the prevailing wage rates for individuals engaged in loading or unloading on City property of materials, goods or products into or from a commercial vehicle, and individuals engaged in driving a commercial vehicle in connection with a show or special event. These rates are identified in the Civil Service Commission’s December 5, 2016 report to the Board of Supervisors. The rates were agreed upon by the Teamsters Locals 2785, 287, and 70, and Freeman Exposition, Inc., GES/Global Experience Specialists, Curtin Convention & Exposition Services, Inc., and other employers.

FISCAL IMPACT

Table 1 below summarizes the hourly wage rate and fringe benefits recommended by the OLSE report to the Board of Supervisors. The rates are currently in effect from April 1, 2014 through March 31, 2017.

Table 1: Prevailing Wages for Loaders, Unloaders and Drivers of Commercial Vehicles

Craft (Journey Level)	Basic Hourly Wage	Fringe Benefits	Total Compensation Hourly
Drivers	$35.02	$25.83	$60.85
Forklift Operators	34.27	25.79	60.06
Helpers	33.95	25.77	59.72
Foremen	39.41	26.08	65.49

Potential Impacts on Special Events Located in San Francisco

The proposed resolution would set prevailing wages for employers to pay to workers who drive commercial vehicles, or load and unload materials, goods or products from commercial vehicles for shows and special events on City property. This is the first time that the Board of Supervisors will be setting this prevailing wage for these workers. Although the proposed resolution could potentially increase the wage costs to produce shows or hold special events on City property, it is unknown as to whether or not these increased costs to the show or special events sponsors would reduce the number of shows or special events on City property, and consequently reduce contract, lease, franchise or permit revenues to the City.

RECOMMENDATION

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

Item 11 **File 16-1363**	**Departments:** Human Services Agency (HSA) and Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the exercise of an eight-year, three-month option to extend the sublease of office space at 1440 Harrison Street between the City, on behalf of the Human Services Agency (HSA) as the sublessee, and 1440 Harrison Street Development Group LLC, as sublessor, from July 1, 2017 through September 30, 2025.

Key Points

- 1440 Harrison Street is owned by the San Francisco Unified School District (SFUSD) and leased to a master tenant, 1440 Harrison Street Development Group, LLC. The City has subleased 1440 Harrison Street since 1983 for HSA's Medi-Cal and Food Stamps programs.
- Under the current sublease agreement, which expires on June 30, 2017, HSA pays annual rent of $1,215,216 or $23.28 per square foot per year.[1] Under the proposed eight-year sublease extension, the City would pay annual rent of $3,577,644 or $63 per square foot per year for the first year, an increase of 194 percent. After the first year, monthly rent would increase by 3 percent per year.
- The proposed sublease extension would have three additional five-year options to extend. Therefore, the proposed resolution should be amended to state that the existing sublease has three remaining extension options rather than two.

Fiscal Impact

- Including the costs of utilities, janitorial services, and security services, over the eight-year term of the proposed sublease extension, the total estimated costs to HSA would be $38,905,456, which would be funded from 18.5 percent in Federal funds, 18.5 percent in State funds, and 63 percent from the City's General Fund.

Policy Consideration

- The market value of office space could flatten over the next eight-year period, resulting in market rents for office space of less than the rent provided in the proposed sublease in the final year. The current sublease includes three five-year options and a final eight-year option to renew. Because the proposed sublease extension would commit the City to an eight-year, three-month term, rather than the five-year extension term provided in the existing sublease, the Budget Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

Recommendations

- Amend the proposed resolution to state that the existing sublease has three remaining extension options rather than two.
- Approval of the proposed resolution as amended is a policy matter for the Board of Supervisors.

[1] The current sublease is measured at 52,200 square feet; and was re-measured for the proposed sublease at 56,788 square feet.

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

Since 1983, the City has subleased an office building located at 1440 Harrison Street, between 10th and 11th Streets, from the 1440 Harrison Street Development Group, LLC, for the Human Services Agency's (HSA) Medi-Cal and Food Stamps programs.[2] The building is owned by the San Francisco Unified School District, which has leased the space to the 1440 Harrison Street Development Group, LLC under a long-term master lease.[3]

In 2005, the Board of Supervisors approved renewing the sublease agreement with 1440 Harrison Street Development Group, LLC for 52,200 square feet of office space at 1440 Harrison Street for HSA for seven years from August 12, 2005 through June 30, 2012 (File 05-1124), which had four additional options to extend the sublease by five years, totaling 20 years to August 2032, plus one final additional extension of 8 years, 3 months to October 2040. In 2012, the Board approved extending the existing sublease through June 30, 2017 by exercising the first five-year option (File 12-0585). The extended sublease expires June 30, 2017.

The 1440 Harrison Street building is one of two major sites for Medi-Cal and Cal-Fresh[4] eligibility screenings and serves more than 330 clients per day. In addition to performing Medi-Cal and Cal-Fresh eligibility screenings, staff also assists clients with Cash Assistance Linked to Medi-Cal (CALM) applications and Covered California applications if they are not eligible for Medi-Cal.

According to Mr. Robert Walsh, Director of Facilities and Operations at HSA, HSA serves approximately 195,000 clients at the 1440 Harrison Street building, with 263 HSA employees. Since 2012, the number of clients served has increased by approximately 88,000 (82 percent) from 107,000 to 195,000 clients, and the number of employees has increased by 79 (43 percent) from 184 employees to 263 employees at the site due to implementation of the Affordable Care Act. After the sublease was extended in 2012, new cubicles were added, and the size of cubicles was reduced to accommodate the additional staff.

[2] HSA's housing and homeless services were previously located on this site but have since been relocated.

[3] According to Mr. Charlie Dunn, Senior Real Property Officer in the Real Estate Division, the property was master leased in 1985 for a term of 55 years (30 years plus options to extend) to a developer with the expertise and capital to renovate the building. The master lease provides for reappraisal based on fair market rent and expires in 2040.

[4] Federally known as the Supplemental Nutrition Assistance Program (SNAP), or food stamps.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an eight-year, three-month extension of the existing sublease from July 1, 2017 through September 30, 2025 for 56,788 rentable square feet[5] of office space at 1440 Harrison Street between the City, on behalf of HSA as the sublessee, and 1440 Harrison Street Development Group, LLC, as the sublessor. The proposed eight-year and three-month sublease provides for:

- Monthly rent of $298,137 for the first year and an annual increase of 3 percent beginning July 1, 2018 over the term of the sublease
- Utilities, janitorial services, and security services to be paid by the City
- Two five-year options to extend the sublease at rent levels equal to 95 percent of the fair market value
- All other lease obligations in the sublease agreement remain the same as the current sublease provisions

The effective date of the sublease would be July 1, 2017, such that the rent for July 2017 would be at the new higher rental rate. Table 1 describes the current sublease and the proposed sublease.

[5] The property was re-measured in 2016 using Building Owners and Managers Association (BOMA) standards. The change in BOMA standards allowed more common area space to be included in the building's rentable square footage, resulting in a higher square footage estimate. The previous estimate was 52,200 square feet.

Table 1: Current and Proposed Sublease Details

	Current Sublease	Proposed Sublease	Change
Premises	52,200 square feet plus 31 car parking	56,788 square feet* plus 31 car parking	Increase of 4,588 square feet
Base Rent (monthly)	$101,268	$298,137	Increase of $196,868 (194%)
Operating Expenses (monthly)	$54,275	$54,275	No change
Base Rent Increase Date	N/A	Annually on July 1	
Base Rent Increase Amount	None	3% (annually)	
Term	June 30, 2017 (five years)	September 30, 2025 (eight years and three months)	
Options to Extend	Three (3) five-year options and one eight-year, 3 month, 15 day option at 95% FMR**	Two (2) five-year options at 95% FMR[6]	

Source: Real Estate Division

* The property was re-measured in 2016 using Building Owners and Managers Association (BOMA) standards.

** Fair Market Rent

FISCAL IMPACT

The monthly rent for the proposed eight-year, three-month term would be $298,137 per month or $5.25 per square foot per month for the first year, which reflects an increase of $196,869 per month or 194 percent. After the first year, monthly rent would increase by 3 percent on an annual basis.

The proposed monthly rent represents 95 percent of the current fair market rent[7] established by an independent appraisal conducted by CBRE, Inc. and confirmed as recommended under an appraisal review by John Clifford Advisory. The 3 percent annual increase provision reflects typical lease agreements in the commercial real estate market. According to Mr. Charlie Dunn, Senior Real Property Officer in the Real Estate Division, the increase in sublease rent reflects increases in the commercial real estate market over the last five years due to a lack of new construction and high demand from tech, tech-related, and tech-serving businesses. Mr. Dunn states that the Real Estate Division considered the only three other available properties with square footage of at least 55,000, but none of these was open to renting to HSA.

[6] There should be three five-year options remaining, rather than two. Therefore, the proposed resolution should be amended to correctly reflect the remaining extensions.

[7] As of July 1, 2017, the fair market rent for the property was $66.30 per square foot per year according to the appraisal.

In addition to the annual rent, HSA is responsible for paying annual utilities, janitorial services, and security services, at an estimated cost of $651,300 as of November 2016. According to Mr. Dunn, such costs are estimated to increase by approximately 3 percent annually. The total estimated cost of the proposed eight-year and three-month sublease extension to the City would be $38,905,456, as shown in Table 2 below.

Table 2: Total Costs by Year under Proposed Sublease Extension

Year	Annual Rent	Annual Operating Costs*	Total Cost
FY 2017-18	$3,577,644	$651,300	$4,228,944
FY 2018-19	3,684,973	670,839	4,355,812
FY 2019-20	3,795,522	690,964	4,486,486
FY 2020-21	3,909,388	711,693	4,621,081
FY 2021-22	4,026,670	733,044	4,759,714
FY 2022-23	4,147,470	755,035	4,902,505
FY 2023-24	4,271,894	777,686	5,049,580
July 2024 - Sept 2025**	5,500,063	1,001,271	6,501,334
Total	**$32,913,624**	**$5,991,832**	**$38,905,456**

Source: Addendum to Sublease Agreement, Budget and Legislative Analyst calculation
*Assumes annual increase of 3%
**Period of one year and three months

According to Mr. Walsh, the funding sources for the proposed sublease are comprised of approximately 18.5 percent from Federal funds, 18.5 percent from State funds, and 63 percent from the City's General Fund, and would be included in HSA's annual operating budgets.

POLICY CONSIDERATION

The City would pay rent of $63 per square foot under the proposed sublease extension, increasing by 3 percent per year over the eight-year, three-month term of the sublease, resulting in rent per square foot in the final year of the sublease of approximately $77.50. While the sublease rent of $63 per square foot represents 95 percent of fair market value, based on an independent appraisal, the market value of office space could flatten over the next eight-year period, resulting in market rents for office space of less than $77.50 per square foot in the final year, as provided by the proposed sublease.

According to the City's Five Year Financial Plan for FY 2017-18 through FY 2021-22, "signs emerged in 2016 that [the City's economic performance] may be reaching a plateau", including a potential slow-down in the technology industry that is independent of the availability of office space. The report states, "Technology is a high-paying industry that has a greater capacity than other local industries to absorb high housing and labor costs, and high office rents. If it were only a matter of capacity constraints and high rents driving out employment, we would expect tech to withstand it better than other industries, yet the data suggests tech employment growth is slowing more than other industries."

A recent Jones Lang LaSalle report[8] showed a flattening in commercial rents in 2016 compared to prior years and categorized the real estate market for office space as "a peaking market", rather than a "rising market." The report also states that an additional 5.8 million square feet of office space will be completed in the next five years. A slow-down in the technology industry, combined with an increase in office space, could put downward pressure on commercial rents in future years.

The existing sublease between the City and 1440 Harrison Development Group provides for three five-year extension options and one final eight-year, three-month extension option. The City is choosing to exercise the eight-year, three-month extension option at this time, rather than the five-year option, based on negotiations between the City and 1440 Harrison Development Group.

According to Mr. John Updike, Director of Real Estate, the proposed rent of $63 per square foot is based on an extension term of eight years and three months. Reducing the extension term to five years would require new negotiations and could result in a higher rent per square foot. In the event that the City and 1440 Harrison Development Group cannot agree on the rent per square foot, the existing sublease provides for additional appraisals to determine the fair market rent.[9] Mr. Updike states that an alternative appraisal could show a greater fair market value, resulting in rent greater than the $63 per square foot in the proposed sublease.

However, because the proposed sublease extension would commit the City to an eight-year, three-month term, rather than the five-year extension term provided in the existing sublease, the Budget Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

RECOMMENDATIONS

1. Amend the proposed resolution to state that the existing sublease has three remaining extension options rather than two.[10]
2. Approval of the proposed resolution as amended is a policy matter for the Board of Supervisors.

[8] San Francisco Office Insight Report, fourth quarter 2016.
[9] The City and 1440 Harrison Development Group can each submit an appraisal, and the fair market rent will be the average of the two appraisals if the appraisals are within 10 percent. If the appraisals differ by more than 10 percent, a third appraisal will determine which of the first two appraisals represents fair market rent.
[10] The proposed resolution states that there are two remaining five-year extension options. The existing sublease provides for three five-year extension options and one final eight-year, three month extension option, totaling four extension options; exercise of an extension option would result in three remaining extension options.