

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

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February 8, 2013

TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst
SUBJECT: February 13, 2013 Budget and Finance Committee Meeting

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| Item 2 File 12-1191 | Department: San Francisco International Airport (Airport) |
| EXECUTIVE SUMMARY | |
| <p>This item was continued from the February 6, 2013 Budget and Finance Committee meeting.</p> | |
| Legislative Objective | |
| <ul style="list-style-type: none"> • The proposed resolution approves a new seven-year lease between the Airport and the Avila Retail Development and Management, LLC (Avila) for a 947 square-foot specialty retail store in Boarding Area F, Terminal 3 (Space F.2.055A) for sale of travel products, retroactive from January 1, 2013 through December 31, 2019. | |
| Key Points | |
| <ul style="list-style-type: none"> • The Airport awarded the lease to Avila based on a competitive Request for Proposal (RFP) process. Space F.2.055A has been occupied by Avila since September 10, 2012, and rent collection commenced on December 28, 2012. | |
| Fiscal Impact | |
| <ul style="list-style-type: none"> • Under the proposed new seven-year lease between the Airport and Avila, the rent for the space would be the higher of (a) the Minimum Annual Guarantee (MAG), currently set at \$162,000 per year, or (b) percentage rent, as set by the Airport. The MAG would be adjusted annually based on the Consumer Price Index (CPI) formula used by the Airport. • Avila's projected annual gross revenues from the space in Terminal 3 are estimated at \$1,584,000 per year. This would result in percentage rent being paid by Avila to the Airport of \$223,440 per year, which is \$61,440 more than the MAG of \$162,000 per year. | |
| Recommendations | |
| <ul style="list-style-type: none"> • Amend the proposed resolution for retroactive approval. • Approve the proposed resolution as amended. | |

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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

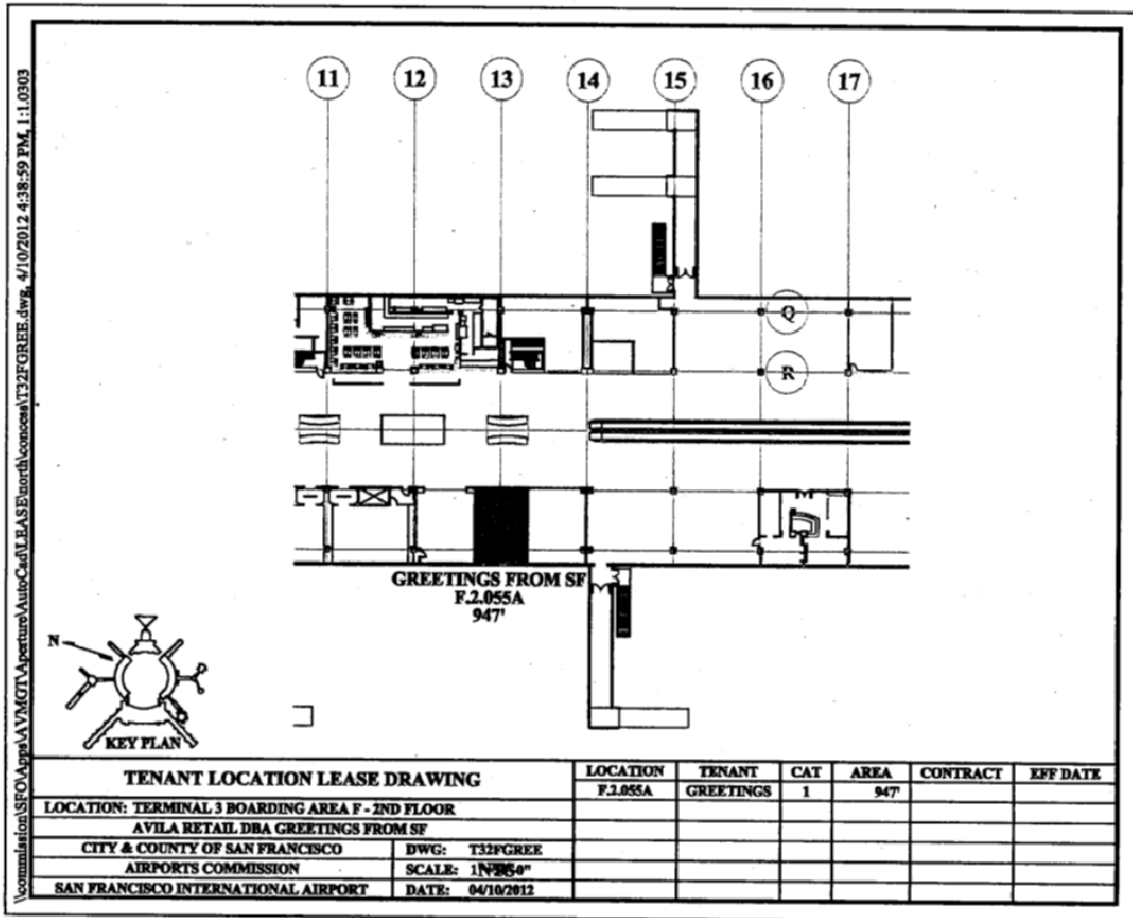
Background

The proposed new lease between the Airport and Avila Retail Development and Management, LLC (Avila) is for 947 square feet of retail space in Terminal 3, Boarding Area F, identified as Space F.2.055A. The space was previously occupied by a PGA Tour Shop operated by The Paradises Shops.

In October 2011, the Airport issued a new Request for Proposal (RFP) for Space F.2.055A in Terminal 3. The Airport Commission approved the award of the proposed lease for Space

F.2.055A to Avila in April 2012 (see Details of Proposed Legislation below). Figure 1 below, provided by the Airport, shows the location of Space F.2.055A in Terminal 3, Boarding Area F.

Figure 1: Space F.2.055A



According to Mr. John Reeb, Airport Senior Property Manager for Retail, three companies responded to the RFP for Space F.2.055A. The Airport selected Avila as the highest ranking, responsive, and responsible proposer to provide the outlined services at the four locations, based on criteria that included: (a) the proposed concept and site visit, (b) design intent and capital investment, (c) the business plan, (d) customer service and quality control, and (e) the proposed Minimum Annual Guarantee (MAG) amount, as shown in Table 1.

Table 1: RFP Results

| Criteria | Possible Points | Proposer | | |
|-------------------------------------|-----------------|--------------|--------------|--------------|
| | | Avila | Brookstone | Marilla |
| Proposed Concept & Site Visit | 30 | 24.90 | 18.65 | 23.50 |
| Design Intent & Capital Investments | 20 | 16.20 | 13.90 | 16.25 |
| Business Plan | 20 | 16.50 | 16.35 | 16.50 |
| Customer Service & Quality Control | 20 | 15.05 | 14.45 | 12.70 |
| MAG/Proposal Amount | <u>10</u> | <u>9.26</u> | <u>10.00</u> | <u>7.14</u> |
| Total | 100 | 81.91 | 73.35 | 76.09 |

The RFP required a minimum MAG proposal of \$125,000. The three MAG proposals were: (1) \$162,000 (Avila); (2) \$175,000 (Brookstone); and (3) \$125,000 (Marilla). According to Mr. Reeb, the Airport selected Avila, although Avila's proposed MAG of \$162,000 was less than Brookstone's proposed MAG of \$175,000 because Avila's overall proposal, including capital investments in the leased space, ranked higher.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new seven-year lease between the Airport and the Avila Retail Development and Management, LLC for one location, Space F.2.055A, of 947 square feet in Terminal 3, Boarding Area F. The lease and proposed retail space is for the sale of apparel, gifts/home décor, souvenir items, regional foods, fashion jewelry, regional books/calendars/cards, kids toys, among other items.

The lease term is retroactive for seven years, from January 1, 2013 through December 31, 2019. Space F.2.055A has been occupied by Avila since September 10, 2012, and rent collection commenced on December 28, 2012. The proposed lease does not have the option to renew.

According to Mr. Reeb, the Airport did not submit the lease to the Board of Supervisors for approval prior to the lease commencement date because the Airport delayed processing the four lease agreements that were awarded through the Airport's October 2011 RFP for retail locations in the International Terminal and Terminal 3 due to delays in construction for one of the four locations. According to Mr. Reeb, the Airport wanted all four lease agreements awarded through the October 2011 RFP to follow the same schedule.

FISCAL IMPACTS

Under the proposed lease, the rent payable by Avila to the Airport is the higher of (a) the MAG of \$162,000 per year or \$13,500 per month,¹ or (b) percentage rent, which was set by the Airport, at:

- 12 percent of gross revenues up to and including \$500,000, plus
- 14 percent of gross revenues of \$500,000.01 up to and including \$1,000,000, plus

¹ The MAG would be adjusted annually based on the standard Consumer Price Index (CPI) formula used by the Airport.

- 16 percent of gross revenues over \$1,000,000.

The proposed lease also requires:

- (a) One-time tenant improvements by Avila of \$350 per square foot, or \$331,450 for the 947 square feet; and
- (b) A Promotional Charge of \$1 per square foot per year, or \$947 per year, payable by Avila to the Airport to reimburse the Airport for marketing and advertising costs.

The Airport commenced collecting rents on the space on December 28, 2012, and based on the lease provision that the rent commencement date is the first day of the first calendar month following the date on which initial tenant improvements are completed, the formal rent commencement date is January 1, 2013. Thus the lease term is from January 1, 2013 through December 31, 2019.

Under the proposed lease, Avila would be responsible for the cost of utilities, janitorial, and any other operating expenses.

According to Mr. Reeb, Avila's projected annual gross revenues from the proposed lease are \$1,584,000 per year. Based on these estimated annual gross revenues, Avila would pay the Airport annual percentage rent of \$223,440, as shown in Table 2 below, which exceeds the MAG of \$162,000 by \$61,440.

Table 2: Calculation of Percentage Rent for Avila

| Revenue Brackets | Percent Added to Percentage Rent | Anticipated Revenues for Avila | Total Percentage Rent |
|----------------------------------------|-----------------------------------------|---------------------------------------|------------------------------|
| Up to and including \$500,000 | 12% | \$500,000 | \$60,000 |
| \$500,001 to and including \$1,000,000 | 14% | 500,000 | 70,000 |
| Over \$1,000,000 | 16% | 584,000 | 93,440 |
| | Total | \$1,584,000 | \$223,440 |

The estimated revenues to be generated from the proposed concessions lease are considered in the Airport's residual rate setting methodology (breakeven policy), which sets the schedule of all rental rates, landing fees, and related fees to a level which ensures that Airport revenues received from the airlines, plus the non-airline concession and other revenues received by the Airport, are equal to the Airport's total annual costs, including debt service and operating expenditures. Thus the Airport's budget will remain fully balanced by the revenues paid by the airlines to the Airport, after considering the Airport's budgeted expenditures and all non-airline revenues.

RECOMMENDATIONS

1. Amend the proposed resolution to provide for retroactive approval.
2. Approve the proposed resolution as amended.

**Items 3
Files 12-1225**

Department:
Office of Contract Administration (OCA)

EXECUTIVE SUMMARY

Legislative Objectives

Resolution authorizing the Office of Contract Administration (OCA) to enter into the Seventh Amendment between the City and Xtech to increase the agreement limit by \$30,090,000 from \$60,490,000 to \$90,580,000.

Key Points

- The subject agreement is one of several agreements administered by OCA for as-needed technology products and services for all City departments, through the City's Technology Store.
- On December 9, 2008, subsequent to a competitive request for proposals (RFP) process, the Board of Supervisors approved four technology product and service purchase agreements (File 0814-16), each in the amount not-to-exceed \$12,000,000, including one with Xtech. The agreements were for terms of three years, from January 1, 2009 through December 31, 2011, with options to extend the terms by two additional years, or through December 31, 2013.
- The Xtech agreement has been amended six times to-date, and the current not-to-exceed limit is \$60,490,000. Based on actual expenditures of \$56,549,357 from January 1, 2009 through November 30, 2012, OCA projects that the agreement with Xtech will reach its existing not-to-exceed limit in March 2013.
- OCA is conducting a competitive solicitation process and will recommend new agreements for Board of Supervisors approval in Fall 2013 to replace this Xtech agreement and the other technology product and service agreements that will expire on December 31, 2013.

Fiscal Impacts

- The proposed resolution would authorize OCA to increase the not-to-exceed amount for the Xtech agreement by \$30,090,000, from \$60,490,000 to \$90,580,000.
- The \$30,090,000 increase amount was estimated by OCA based on (a) average monthly spending of \$1,203,178 (\$12,031,780 for the 10-month period from March 2013 through December 2013); (b) large pending information technology projects (\$15,648,063), and (c) two months contingency (\$2,406,356), which would allow for variability and uncertainty with regard to departmental spending. The Budget and Legislative Analyst finds OCA's estimate to be reasonable.
- All expenditures for technology product purchases under the Xtech agreement are subject to separate appropriation approval by the Board of Supervisors.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT/ BACKGROUND

Mandate Statement

In accordance with Section 9.118(b) of the City's Charter, any contract or agreement that has a term in excess of ten years or exceeds \$10,000,000 in expenditures or the modification of such agreement exceeds \$500,000, is subject to Board of Supervisors approval.

Background

The Office of Contract Administration (OCA) administers a number of agreements with various private firms for as-needed technology products and services for all City departments, through the City's Technology Store. City departments requiring technology products and services are required to purchase such items through the City's Technology Store's vendors, who were previously pre-qualified under a competitive Request for Proposals (RFP) process, without undergoing another separate independent competitive process, except for products and services which are only sold directly through specific manufacturers, federally funded purchases, or specific projects which are large enough to require a separate RFP process. In addition, for purchases in excess of \$100,000, City departments are required to request bids from no fewer than three pre-qualified vendors from the City's Technology Store, and then purchase such technology products and services from the lowest bidding vendor.

Original Agreements and Amendments

On April 8, 2008, OCA issued a RFP to pre-qualify various vendors for the City's Technology Store. On December 9, 2008, subsequent to this competitive RFP process, the Board of Supervisors approved the award of \$48,000,000 for four technology product and service purchase agreements (File 0814-16), each in an equal amount not-to-exceed \$12,000,000, with Xtech, En Pointe Technologies, ComputerLand of Silicon Valley, and Cornerstone Technology Partners. The Agreements were for terms of three years, from January 1, 2009 through December 31, 2011, with options to extend the terms by two additional years, or through December 31, 2013.

The Xtech technology product and service purchase agreement has previously been amended six times. A summary of the past amendments is shown in Table 1, below.

City departments spent \$56,549,357 against the Xtech technology product and service purchase agreement for the 47-month period from January 1, 2009 through November 30, 2012, or an average spend rate of \$1,203,178 per month. Based on average monthly spending of \$1,203,178, the agreement with Xtech is estimated to reach its not-to-exceed limit of \$60,490,000 in March 2013.

Table 1. Amendment History for Xtech Product and Service Purchase Agreement

| Amendment No. | Resolution No. | Adoption/ Amendment Date | Agreement End-Date | Agreement Increase Amount | Revised Not-to-Exceed Amount |
|--------------------|----------------|-----------------------------|--------------------|---------------------------|------------------------------|
| Original Agreement | 508-08 | 12/9/2008 | 12/31/2011 | N/A | \$12,000,000 |
| 1 | N/A* | 10/9/2009 | 12/31/2011 | \$475,000 | \$12,475,000 |
| 2 | 451-09 | 11/10/2009 | 12/31/2011 | \$27,525,000 | \$40,000,000 |
| 3 | N/A* | 11/21/2011 | 12/31/2012 | N/A | \$40,000,000 |
| 4 | 004-12 | 1/10/2012 | 12/31/2012 | \$20,000,000 | \$60,000,000 |
| 5 | N/A* | 10/10/2012 | 12/31/2012 | \$490,000 | \$60,490,000 |
| 6 | N/A* | 12/19/2012 | 12/31/2013 | N/A | \$60,490,000 |
| 7 (proposed) | 12-1225 | - | 12/31/2013 | \$30,090,000 | \$90,580,000 |

* Amendment was executed by the OCA Director and did not require Board of Supervisors approval.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Office of Contract Administration (OCA) to enter into the Seventh Amendment between the City and Xtech to increase the agreement limit by \$30,090,000, from \$60,490,000 to \$90,580,000. The increase would allow for City departments to continue to make technology purchases from Xtech through the City's Technology Store.

According to Mr. Bill Jones of OCA Purchasing, OCA is in the process of assembling a team to develop and conduct a new RFP competitive solicitation process with the goal of awarding new agreements to replace the expiring Xtech agreement and similar technology product and service purchase agreements. Mr. Jones notes that the tentative schedule would have OCA issue an RFP by June 2013 and bring the proposed new agreements before the Board of Supervisors for approval by October 2013.

FISCAL IMPACTS

The \$30,090,000 requested increase for the existing agreement between the City and Xtech was estimated by OCA based on (a) average monthly spending of \$1,203,178 (\$12,031,780 for the 10-month period from March 2013 through December 2013); (b) large pending information technology projects described in the Attachment to this report (\$15,648,063), and (c) a two-month contingency (\$2,406,356), which would allow for variability and uncertainty with regard to departmental spending. The existing agreement with Xtech is expected to reach its existing not-to-exceed limit of \$60,490,000 in March 2013. The total costs are summarized in Table 2 below. The Budget and Legislative Analyst finds OCA's cost estimates to be reasonable.

Table 2. Summary of the Proposed \$30,090,000 Increase to the Xtech Agreement

| Cost Component | Description | Amount |
|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|---------------------|
| 10-Months of Agreement Spending | Based on historic monthly spending rate of \$1,203,178 per month, for 10-month period of March 2013 through December 2013. | \$12,031,780 |
| 2-Month Contingency | Calculated on historic monthly spending rate of \$1,203,178 per month, for two months. | 2,406,356 |
| Large Pending Projects | Five large information technology projects, described in the Attachment to this report. | 15,648,063 |
| Total Requested Increase (rounded to nearest \$10,000) | | \$30,090,000 |

All expenditures for technology product and service purchases under the Xtech agreement are subject to separate appropriation approval by the Board of Supervisors.

RECOMMENDATION

Approve the proposed resolution.

Technology Store XTech Cat 1 Estimate for Five Large Information Technology Projects December 2012

The Table below lists major projects for which only the initial forecasts have been made for large dollar projects.

| Purchase Order # Department | Project Name | Funded Amount | Estimated Purchase Order Cap | Amount remaining on project | Project description |
|--------------------------------|---------------------------------------|------------------|------------------------------------|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| POTX1300006 Tax Collector | Manatron Business Tax | \$2,340,723 | \$3,500,000 | \$1,159,277 | Replacement to Treasurer/Tax Collector's (TTX's) Business Tax System (BTS) which calculates, bills and captures payments for all City taxes processed by the department. |
| POPO11000053 Port | Oracle Enterprise Asset Mgmt | \$1,913,890 | \$3,000,000 | \$1,086,110 | Replacement system to the Avantis asset management system. System tracks all department inventory (Capital and Consumable), as well as linear assets such as piers, shortline, etc. Integrates to the Port's Oracle ERP system to maintain inventory stocking levels. |
| POUC12000306 PUC | SOLIS (online invoicing system) | \$1,206,953 | \$5,000,000 | \$3,793,047 | Online invoicing system for PUC's vendors. Integrates with FAMIS/ADPICs to offer a greater level of detail for all procurements, deliverables and payments to Prime Vendors, Sub-Vendors and LBEs. Tracks LBE participation based on actual payments made by Primes to their LBEs. |
| POUC12000204 PUC | SharePoint Implementation | \$930,000 | \$2,200,000 | \$1,270,000 | Implementation of PUC's SharePoint for Collaboration with workflow capabilities inside and outside of SharePoint. Future enhancements include document management. |
| POUC12000042 PUC | Customer Care and Billing | \$1,560,371 | \$9,900,000 | \$8,339,629 | System to capture revenue the PUC's revenue generating services (water, power, etc.) and generates invoices and tracks payments for these services. |
| | | | Total | \$15,648,063 | |

Item 4
File 12-1184
(Continued from January 16, 2012)

Departments:
 San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve a new lease agreement between the City and County of San Francisco and Japan Center Garage Corporation, a non-profit corporation, for the Japan Center Public Parking Garage, with an initial term of ten years with two five-year options to extend.

Key Points

- The San Francisco Municipal Transportation Agency (SFMTA) has an existing lease with the Japan Center Garage Corporation for the Japan Center Garage from July 1, 2002 through June 30, 2017. SFMTA proposes to terminate the existing lease and enter into a new lease in order to (a) incorporate provisions of the July 2012 SFMTA Parking Revenue Bonds, (b) standardize provisions of SFMTA's two leases with parking garage corporations (Japan Center Garage Corporation and Uptown Parking Corporation, File 12-1185), and (c) improve operational requirements.

Fiscal Impact

- The FY 2013-14 Japan Center Garage budget includes expenditures of \$2,786,684 and revenues of \$4,250,415, resulting in estimated net revenues to SFMTA of \$1,463,731. The proposed lease contains the following changes as compared to the existing lease: (a) annual expenditures of \$12,215 for the Japan Center Garage share of debt service on \$5,000,000 of the \$43,050,000 SFMTA Parking Revenue Bonds, which are allocated for the capital assessment of SFMTA public parking facilities; (b) discontinuation of the annual set aside of 25 percent of net income for capital improvements that is replaced by an annual set aside of \$450,000 for capital improvements beginning in the fourth year of the proposed lease; and (c) transfer of the \$2,000,000 balance of the Japan Center Garage Corporation's Capital Improvement Account to the SFMTA to support SFMTA operating expenditures.

Policy Consideration

- Although the Controller's June 9, 2011 finding that "leasing garages to nonprofit corporations is unnecessarily costly to the City", SFMTA is proposing to enter into new garage leases with two nonprofit corporations (Japan Center Garage Corporation and Uptown Parking Corporation, File 12-1185). According to SFMTA, the provisions in the proposed lease address specific recommendations that the Controller made in its report, including (a) the option to terminate the lease with a 90-day notice for convenience and (b) the incorporation of updated SFMTA parking facility operation and management regulations which govern all day-to-day garage operations administered by the SFMTA.
- The subject resolution was continued from the January 16, 2013 Budget and Finance Committee. Attached to Item 5, File 12-1185 of this report is a memorandum from the Director of Transportation to the Chair of the Budget and Finance Committee in response to the Budget and Finance Committee's continuation of the subject resolution.

Recommendation

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

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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

Background

The Japan Center Garage is a City-owned off-street parking facility under the jurisdiction of the San Francisco Municipal Transportation Agency (SFMTA), located at 1610 Geary Street with a Japan Center Garage Annex at 1650 Fillmore Street. The Japan Center Garage has approximately 745 parking spaces and the Japan Center Garage Annex has approximately 175 parking spaces, or a combined total of 920 parking spaces.

The Japan Center Garage Corporation is a non-profit corporation, formed in 1998 to replace the Western Addition Parking Corporation (WAPC) which was dissolved after full payment of its bonds. WAPC was formed in 1961 for the sole purpose of assisting the City by financing the costs of the Japan Center Garage through the sale of bonds. The Japan Center Garage Corporation has managed the Garage since 1998, which primarily requires oversight of a day-to-day parking operator agreement, including ensuring that the operator is providing sufficient staffing and cleanliness levels, and that all equipment is in proper working order. The Japan Center Garage Corporation currently contracts with IMPCO Parking to provide day-to-day parking garage operations at both, the Japan Center Garage and the Japan Center Garage Annex.

In July 2012, the SFMTA issued \$43,050,000 in Parking Revenue Bonds for the SFMTA public parking facility portfolio to refinance the existing garage debt and to perform necessary garage capital improvements. According to Mr. Steven Lee, Manager, SFMTA Financial Services/SFpark, \$5,000,000 of the \$43,050,000 Parking Revenue Bonds were allocated for a capital assessment of the SFMTA public parking facilities. This assessment will be used to determine the size of the next bond issuance for the actual capital improvement work anticipated to begin in FY 2013-14.

At the time of the revenue bond issuance, the Japan Center Garage did not have any outstanding debt and the SFMTA Parking Revenue Bond issuance did not activate the termination of the existing lease with the Japan Center Garage Corporation. However, SFMTA is negotiating proposed new leases with the Uptown Parking Corporation for the Sutter Stockton Garage (see File 12-1185) and the Union Square Garage¹ and wanted to standardize the leases.

The existing lease between the City and the Japan Center Garage Corporation has an initial term of 15 years from July 1, 2002 through June 30, 2017 and includes one option to extend the lease for an additional 15-year term. The existing lease requires that the Japan Center Garage Corporation pay the SFMTA \$1 in annual rent and requires an annual set aside of 25 percent of the Garage's net income for capital improvements. The Japan Center Garage Corporation historically collected all garage revenues on behalf of SFMTA and then deducted the annual

¹ The proposed lease between SFMTA and Uptown Parking Corporation for the Union Square Garage, which is located on Recreation and Park Department property, is expected to be heard by the Recreation and Park Commission, and subsequently sent to the Board of Supervisors if approved.

expenses of operating and managing the Japan Center Garage from those revenues. The remaining net income was remitted by the Japan Center Garage Corporation to SFMTA. As shown in Table 1 below, the Japan Center Garage Corporation paid the SFMTA \$1,291,555 which represents the net income (revenues less expenditures) from the Japan Center Garage in FY 2011-12.

Table 1: Japan Center Garage Actual Expenditures & Revenues for FY 2011-12

| Expenditures | Actual |
|-------------------------------------------------------------|--------------------|
| Operating Expense | \$1,559,418 |
| Parking Tax | 817,473 |
| Corporation Expense | 25,552 |
| Total Expenditures | \$2,402,443 |
| Revenue | |
| Parking Revenue | 4,087,367 |
| Non-Parking Revenue | 37,150 |
| Total Revenues | \$4,124,517 |
| Net Income | \$1,722,074 |
| 25% retained by corporation for capital improvements | 430,519 |
| Total Balance Paid to SFMTA | \$1,291,555 |

Mr. Lee advises that the Japan Center Garage Corporation is reimbursed for its actual costs to manage the Japan Center Garage. As shown in Table 2 below, Japan Center Garage Corporation incurred management costs of \$276,782 in FY 2011-12, which are included in the \$1,559,418 in operating expenses (See Table 1).

Table 2: Japan Center Garage Corporation's FY 2011-12 Management Costs

| Corporation Expenditures | Estimated Amount |
|---------------------------------|-------------------------|
| Corporate Manager | \$126,000 |
| Attorney Fees | 17,000 |
| Corporation Accounting Staff | 125,000 |
| Corporate Insurance | 8,782 |
| TOTAL | \$276,782 |

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease agreement between the City and County of San Francisco and Japan Center Garage Corporation to continue to manage the garage operations for the Japan Center Public Parking Garage, with an initial term of ten years with two five-year options to extend. The proposed lease requires that the Japan Center Garage Corporation pay the SFMTA \$1 in annual rent and requires an annual set aside of \$450,000 for capital improvements beginning in the fourth year of the initial ten-year term. The proposed lease incorporates updated SFMTA parking facility operation and management regulations which govern all day-to-day garage operations administered by the SFMTA. Additionally, under the proposed lease, both the City and the Japan Center Garage Corporation can terminate the lease with a 90-day notice.

Under the proposed lease, at the time of execution, the \$2,000,000 balance of the Japan Center Garage Corporation's Capital Improvement Account will be transferred to the SFMTA to support SFMTA operating expenditures.

Mr. Lee advises that although the existing lease does not expire until June 31, 2017, SFMTA determined that a new lease would benefit the SFMTA and the Japan Center Garage Corporation through the (a) standardization of leases with the non-profit garage corporations, (b) improvements of operational requirements, (c) inclusion in the SFMTA garage improvement plan, and (d) the transfer of capital funds to SFMTA.

FISCAL IMPACTS

Currently, the Japan Center Garage Corporation pays \$1 in annual rent to SFMTA for the Japan Center Garage and would continue to be required to pay \$1 in annual rent to SFMTA under the proposed lease. In addition, as discussed above, the Japan Center Garage Corporation currently collects all garage revenues on behalf of SFMTA and then deducts the annual expenses of operating and managing the Japan Center Garage, with the remaining balance of net income being remitted to SFMTA.

As shown in Table 3 below, the FY 2013-14 Japan Center Garage budget, which is the first full-year budget under the proposed new lease, includes expenditures of \$2,786,684 and revenues of \$4,250,415, resulting in estimated net revenues to SFMTA of \$1,463,731.² The proposed new lease contains the following changes as compared to the existing lease:

- (a) Annual expenditures of \$12,215³ for the Japan Center Garage share of debt service on \$5,000,000 of the \$43,050,000 in SFMTA Parking Revenue Bonds, which are allocated for the capital assessment of SFMTA's public parking facilities;

² The FY 2012-13 Japan Center Garage budget, which includes approximately 5 months of the proposed lease, includes expenditures of \$2,715,205 and revenues of \$4,174,555, resulting in net revenues to SFMTA of \$1,459,350.

³ Annual debt service is expected to increase to \$15,626 in Fiscal Year 2022-23, the final year of the initial term of the proposed lease.

- (b) Discontinuation of the annual set aside of 25 percent of net income for capital improvements to be replaced by an annual set aside of \$450,000 for capital improvements beginning in the fourth year of the initial ten-year term of the proposed new lease; and
- (c) Transfer of the \$2,000,000 balance of the Japan Center Garage Corporation's Capital Improvement Account to the SFMTA to support SFMTA operating expenditures.

Table 3: Budgeted Japan Center Garages Expenditures & Revenues for FY 2013-14

| Expenditures | Budgeted |
|------------------------------------|--------------------|
| Operating Expense | \$1,909,930 |
| Parking Tax | 843,239 |
| Corporation Expense | 21,300 |
| Debt Service ¹ | 12,215 |
| Total Expenditures | \$2,786,684 |
| Revenue | |
| Parking Revenue | \$4,216,193 |
| Non-Parking Revenue ² | 34,222 |
| Total Revenues | \$4,250,415 |
| Total Balance Paid to SFMTA | \$1,463,731 |

¹ The Japan Center Garage's share of debt service on \$5,000,000 of the \$43,050,000 SFMTA Parking Revenue Bond that was allocated for the capital assessment of SFMTA's public parking facilities.

² Non-parking revenues are from retail concessions and storage space leases located in the Japan Center Garage.

The Japan Center Garage Corporation's FY 2013-14 budgeted management costs are \$319,000, or 11.4 percent, of the expenditure budget of \$2,786,684. According to Mr. Lee, Uptown Parking Corporation's management costs allocated to the Japan Center Garage are 11.4 percent of operating expenses, compared to Uptown Parking Corporation's management costs allocated to the Sutter Stockton Garage, of 2.8 percent (File 12-1185), because the Uptown Parking Corporation's management costs are distributed between the Sutter Stockton and Union Square Garages, resulting in greater efficiencies. Also, according to Mr. Lee, the Japan Center Garage has an extensive validation program that requires higher than usual accounting oversight.

POLICY CONSIDERATIONS**The Controller's June 9, 2011 report found that "leasing garages to nonprofit corporations is unnecessarily costly to the City"**

On June 9, 2011 the Controller's Office issued a report which found that "leasing garages to nonprofit corporations is unnecessarily costly to the City". This Controller's report found that the City's practice of leasing City-owned garages to special-purpose nonprofit corporations, such as the Japan Center Garage Corporation, added a total of approximately \$551,070 in additional annual costs to the City. Specifically, the Controller found that (a) based on the results of a survey, the City is the only municipality in California which leases City-owned parking garages to nonprofit corporations who then subcontract the day-to-day operations of those City-owned garages, (b) nonprofit parking corporations do not appear to offer tangible operational advantages, and (c) the City is unlikely to need nonprofit parking corporations to help construct or expand parking garages in the future.

Mr. Lee advises that the SFMTA has addressed specific recommendations which the Controller made, including (a) the option to terminate the lease with a 90-day notice for convenience and (b) the incorporation of updated SFMTA parking facility operation and management regulations which govern all day-to-day garage operations administered by the SFMTA.

The leases of two non-profit corporations, (a) Ellis O'Farrell Parking Corporation which manages the Ellis O'Farrell Garage, and (b) Downtown Parking Corporation, which manages the Fifth & Mission Garage, whose debt was redeemed in July 2012, have been terminated as their leases required. In contrast, the SFMTA is requesting that the Japan Center Garage Corporation and the Uptown Parking Corporation be the only two nonprofit corporations that would continue to manage City-owned garages, on behalf of the SFMTA, even though these two garages have no outstanding debt. According to Mr. Lee, when considering alternatives to day-to-day management by non-profit corporations, the actual value of the corporation board oversight is difficult to quantify.

Given (a) the Controller's June 9, 2011 report findings, (b) and that the Japan Center Garage Corporation would be one of two remaining nonprofit corporation to continue in its current role of managing City-owned garages on behalf of the SFMTA, and (c) that SFMTA reports that the actual value of the corporation board oversight is difficult to quantify, approval of the proposed resolution is a policy decision for the Board of Supervisors.

The proposed resolution was continued by the Budget and Finance Committee at the January 16, 2013 meeting. The Budget and Finance Committee directed SFMTA to return to the SFMTA Board of Directors for further information to be provided to the Budget & Finance Committee on:

- (1) The costs and benefits to the City of maintaining two nonprofit parking corporations while dissolving two other nonprofit corporations;
- (2) Reasons that the nonprofit parking corporation structure is necessary to support the merchants and communities, rather than alternative structures such as advisory committees;
- (3) SFMTA's long term goals for managing the garages; and

(4) SFMTA's reasons for not implementing the Controller's audit recommendations and the lease provisions to dissolve the nonprofit corporations.

Attached to this report is a memorandum from the Director of Transportation to the Chair of the Budget and Finance Committee in response to the Budget and Finance Committee's continuation of the subject resolution.

RECOMMENDATION

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

Item 5
File 12-1185
(Continued from January 16, 2012)

Departments:
 San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve a new lease agreement between the City and County of San Francisco and Uptown Parking Corporation, a non-profit corporation, for the Sutter Stockton Public Parking Garage, with an initial term of ten years with two five-year options to extend.

Key Points

- The San Francisco Municipal Transportation Agency (SFMTA) has an existing month-to-month lease with the Uptown Parking Corporation for the Sutter Stockton Garage. SFMTA proposes to terminate the existing lease and enter into a new lease in order to (a) incorporate provisions of the July 2012 SFMTA Parking Revenue Bonds, (b) standardize provisions of SFMTA's leases with parking garage corporations (Uptown Parking Corporation – Sutter Stockton Garage and Union Square Garage and Japan Center Garage Corporation – Japan Center Garage, File 12-1184), and (c) improve operational requirements.

Fiscal Impact

- The FY 2013-14 Sutter Stockton Garage budget includes expenditures of \$5,073,705 and revenues of \$12,416,000, resulting in estimated net revenues to SFMTA of \$7,342,295. The proposed lease contains the following changes as compared to the existing lease: (a) annual expenditures of \$22,060 for the Sutter Stockton Garage share of debt service on \$5,000,000 of the \$43,050,000 SFMTA Parking Revenue Bonds, which are allocated to the capital assessment of SFMTA public parking facilities; (b) discontinuation of the annual set aside of 15 percent of net income for capital improvements that is replaced by an annual set aside of \$550,000 for capital improvements beginning in the fourth year of the proposed lease.

Policy Consideration

- Although the Controller's June 9, 2011 finding that "leasing garages to nonprofit corporations is unnecessarily costly to the City", SFMTA is proposing to enter into new garage leases with two nonprofit corporations (Uptown Parking Corporation and Japan Center Garage Corporation, File 12-1184). According to SFMTA, the provisions in the proposed lease to address specific recommendations that the Controller made in its report, including (a) the option to terminate the lease with a 90-day notice for convenience and (b) the incorporation of updated SFMTA parking facility operation and management regulations which govern all day-to-day garage operations administered by the SFMTA.
- The subject resolution was continued from the January 16, 2013 Budget and Finance Committee. Attached to this report is a memorandum from the Director of Transportation to the Chair of the Budget and Finance Committee in response to the Budget and Finance Committee's continuation of the subject resolution.

Recommendation

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

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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

Background

The Sutter Stockton Garage (Garage) is a City-owned off-street parking facility under the jurisdiction of the San Francisco Municipal Transportation Agency (SFMTA), located at 444 Stockton Street. The Sutter Stockton Garage has approximately 1,865 parking spaces and provides over 30,000 square feet of retail space, currently leased to various tenants.

The Uptown Parking Corporation a non-profit corporation, has managed the Sutter Stockton and Union Square Garages for decades, which primarily requires oversight of a day-to-day parking operator agreement, including ensuring that the operator is providing sufficient staffing and cleanliness levels, and that all equipment is in proper working order. The Uptown Parking Corporation currently contracts with Central Parking SF to provide day-to-day parking garage operations at the Sutter Stockton and Union Square Garages.

The Uptown Parking Corporation was formed in 1956 for the sole purpose of assisting the City with the design and construction of the Sutter Stockton Garage through the sale of bonds. In 1959, the City leased the Garage to the Uptown Parking Corporation through a lease agreement, which was subsequently amended and extended in 1973 for garage expansion with an expiration date of 2023 or upon repayment of debt¹. Under the lease, the Corporation managed the day-to-day operations of the Garage with oversight and policy direction from the SFMTA. In April 2001, a second amendment and extension of the lease was approved by the Board of Supervisors to allow the Uptown Garage Corporation to issue \$19,000,000 in parking revenue bonds to finance the renovation of the Union Square Garage and Plaza, which expired on the earlier of either (a) May 5, 2035 or (b) full repayment, retirement, or earlier redemption of the debt. The lease stipulated that the City has “buyback” rights, such that the City may pay off the bonds for the Union Square Garage. In accordance with this lease provision, if the City exercises these buyback rights, the leases between Uptown Parking Corporation and the City for the Sutter Stockton and the Union Square Garages would terminate, and Uptown Parking Corporation must vacate the premises of each garage within 90 days.

In June 2012, in advance of the July 2012 SFMTA issuance of \$43,050,000 in Parking Revenue Bonds for the SFMTA public parking facility portfolio, the Corporation’s Board of Directors executed an amendment to the lease with the SFMTA for the Sutter Stockton Garage to continue the term of the lease on a month-to-month basis following the retirement of the parking revenue bonds until the City and Uptown Parking Corporation either (a) execute a new lease to replace the existing lease, or (b) terminate the lease and create a new advisory body in place of Uptown Parking Corporation. Under the existing lease amendment, “the City’s redemption and/or defeasance of the Bonds shall not effect a termination of the Lease or require the Corporation to

¹ Repayment of debt not only includes debt of the Union Square Garage but also the Downtown Parking Corporation’s debt from the Fifth & Mission Garage.

vacate the premises”, as was required under the previous lease. Rather, under the existing lease amendment, upon payment and retirement of the bonds, the term of the lease would continue on a month-to-month basis unless and until terminated by agreement of the parties or replacement by approval and execution of a new lease.

In July 2012, the SFMTA issued \$43,050,000 in Parking Revenue Bonds for the SFMTA public parking facility portfolio to refinance the existing garage debt and to perform necessary garage capital improvements. According to Mr. Steven Lee, Manager, SFMTA Financial Services/SFpark, of the \$43,050,000 Parking Revenue Bonds issued by SFMTA, \$15,905,000 was allocated to retire Uptown Parking Corporation’s outstanding debt for the Union Square Garage and \$5,000,000 was allocated for a capital improvement assessment of the SFMTA public parking facilities. This assessment will be used to determine the size of the next bond issuance for the actual capital improvement work anticipated to begin in FY 2013-14.

The existing month-to-month lease between the City and the Uptown Parking Corporation for the Sutter Stockton Garage requires that the Uptown Parking Corporation pay the SFMTA \$1 in annual rent and requires an annual set aside of 15 percent of the Garage’s net income for capital improvements. The Uptown Parking Corporation historically collected all garage revenue on behalf of SFMTA and then deducted the annual expenses of operating and managing the Sutter Stockton Garage from those revenues. The remaining net income was remitted by Uptown Parking Corporation to SFMTA. As shown in Table 1 below, the Uptown Parking Corporation paid the SFMTA \$6,573,668 that represents the net income (revenues less expenditures from the Sutter Stockton Garage in FY 2011-12.

Table 1: Sutter Stockton Garages Actual Expenditures & Revenues for FY 2011-12

| Expenditures | Actual |
|------------------------------------------------------|--------------------|
| Operating Expenses | \$2,408,878 |
| Parking Tax | 2,235,009 |
| Corporation Expense | 32,800 |
| Total Expenditures | \$4,676,687 |
| Revenue | |
| Parking Revenue | \$11,463,038 |
| Non-Parking Revenue | 947,376 |
| Total Revenues | \$12,410,414 |
| Net Income | \$7,733,727 |
| 15% retained by corporation for capital improvements | \$1,160,059 |
| Total Balance Paid to SFMTA | \$6,573,668 |

Mr. Lee advises that the Uptown Parking Corporation is reimbursed for its actual costs to manage the Sutter Stockton Garage. As shown in Table 2 below, Uptown Parking Corporation incurred management costs of \$154,500 in FY 2011-12 for the Sutter Stockton Garage, which are included in the \$2,408,878 in operating expenses (See Table 1).

**Table 2: Uptown Parking Corporation's FY 2011-12 Management Costs
For the Sutter Stockton Garage**

| Corporation Expenditures | Savings |
|---------------------------------|------------------|
| Corporate Manager* | \$72,000 |
| Attorney Fees | 32,000 |
| Corporation Accounting Staff* | 47,000 |
| Corporate D&O Insurance* | 3,500 |
| TOTAL Estimated | \$154,500 |

*Attributed to Sutter Stockton Garage, includes 50 percent of total expenditures for the Uptown Parking Corporation.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease agreement between the City and County of San Francisco and Uptown Parking Corporation to continue to manage the garage operations for the Sutter Stockton Public Parking Garage, with an initial term of ten years with two five-year options to extend. The proposed lease requires that the Uptown Parking Corporation pay the SFMTA \$1 in annual rent and requires an annual set aside of \$550,000 for capital improvements beginning in the fourth year of the initial ten-year term. The proposed lease incorporates updated SFMTA parking facility operation and management regulations which govern all day-to-day garage operations administered by the SFMTA. Additionally, under the proposed lease, both the City and the Uptown Parking Garage Corporation can terminate the lease with a 90-day notice.

FISCAL IMPACTS

Currently, Uptown Parking Corporation pays \$1 in annual rent to SFMTA for the Sutter Stockton Garage and would continue to be required to pay the \$1 in annual rent to SFMTA under the proposed lease. In addition, as discussed above, the Uptown Parking Corporation currently collects all garage revenues on behalf of SFMTA and then deducts the annual expenses of operating and managing the Sutter Stockton Garage, with the remaining balance of net income being remitted to SFMTA.²

² According to Mr. Lee, the Sutter Stockton Garage had a Capital Improvement Account balance of \$1,600,000 that was previously transferred to SFMTA.

As shown in Table 3 below, the FY 2013-14 Sutter Stockton Garage budget, which is the first full year of the proposed new lease, includes expenditures of \$5,073,705 and revenues of \$12,416,000, resulting in estimated net revenues to SFMTA of \$7,342,295³. The proposed new lease contains the following changes as compared to the existing lease:

- (a) Annual expenditures of \$22,060⁴ share of debt service on \$5,000,000 of the \$43,050,000 SFMTA Parking Revenue Bonds, which are allocated for the capital assessment of SFMTA's public parking facilities; and
- (b) Discontinuation of the annual set aside of 15 percent of net income for capital improvements to be replaced by an annual set aside of \$550,000 for capital improvements beginning in the fourth year of the initial ten-year term of the proposed new lease.

Table 3: Budgeted Sutter Stockton Garages Expenditures & Revenues for FY 2013-14

| Expenditures | Budgeted |
|------------------------------------|---------------------|
| Operating Expense | \$2,800,585 |
| Parking Tax | 2,227,600 |
| Corporation Expense | 23,460 |
| Debt Service ¹ | 22,060 |
| Total Expenditures | \$5,073,705 |
| Revenue | |
| Parking Revenue | \$11,446,000 |
| Non-Parking Revenue ² | 970,000 |
| Total Revenues | \$12,416,000 |
| Total Balance Paid to SFMTA | \$7,342,295 |

¹ The Sutter Stockton Garage's share of debt service on \$5,000,000 of the \$43,050,000 SFMTA Parking Revenue Bond that was allocated to the capital assessment of SFMTA's public parking facilities.

² Non-parking revenues are from retail leases and concessions located in the Sutter Stockton Garage.

³ The FY 2012-13 Sutter Stockton Garage budget, which includes approximately 5 months of the proposed, includes expenditures of \$4,942,930 and revenues of \$12,265,000, resulting in net revenues to SFMTA of \$7,322,070.

⁴ Annual debt service is expected to increase to \$28,222 in Fiscal Year 2022-23, the final year of the initial term of the proposed lease.

The Uptown Parking Corporation's management costs are \$141,070, or 2.8 percent, of the FY 2013-14 expenditure budget of \$5,073,705. According to Mr. Lee, Uptown Parking Corporation's management costs allocated to the Sutter Stockton Garage are 2.8 percent of operating expenses, compared to Japan Center Garage Corporation's management costs allocated to the Japan Center Garage, of 11.4 percent (File 12-1184), because the Uptown Parking Corporation's management costs are distributed between the Sutter Stockton and Union Square Garages, resulting in greater efficiencies. Also, according to Mr. Lee, the Japan Center Garage has an extensive validation program that requires higher than usual accounting oversight.

POLICY CONSIDERATIONS

The Controller's June 9, 2011 report found that "leasing garages to nonprofit corporations is unnecessarily costly to the City"

On June 9, 2011 the Controller's Office issued a report which found that "leasing garages to nonprofit corporations is unnecessarily costly to the City". This Controller's report found that the City's practice of leasing City-owned garages to special-purpose nonprofit corporations, such as the Uptown Parking Corporation, added a total of approximately \$551,070 in additional annual costs to the City. Specifically, the Controller found that (a) based on the results of a survey, the City is the only municipality in California which leases City-owned parking garages to nonprofit corporations who then subcontract the day-to-day operations of those City-owned garages, (b) nonprofit parking corporations do not appear to offer tangible operational advantages, and (c) the City is unlikely to need nonprofit parking corporations to help construct or expand parking garages in the future.

Mr. Lee advises that the SFMTA has addressed specific recommendations which the Controller made, including (a) the option to terminate the lease with a 90-day notice for convenience and (b) the incorporation of updated SFMTA parking facility operation and management regulations which govern all day-to-day garage operations administered by the SFMTA.

The leases of the other two non-profit corporations, (a) Ellis O'Farrell Parking Corporation which manages the Ellis O'Farrell Garage, and (b) Downtown Parking Corporation, which manages the Fifth & Mission Garage, whose debt was redeemed in July 2012, have been terminated as their leases required. In contrast, the SFMTA is requesting that the Uptown Parking Corporation⁵ and the Japan Center Garage Corporation be the only two nonprofit corporations that would continue to manage City-owned garages, on behalf of the SFMTA, even though these two garages have no outstanding debt. According to Mr. Lee, when considering alternatives to day-to-day management by non-profit corporations, the actual value of the corporation board oversight is difficult to quantify.

Given (a) the Controller's June 9, 2011 report findings, (b) and that the Uptown Parking Corporation would be the only nonprofit corporation whose bonds were redeemed which would continue in its current role of managing City-owned garages and be one of two remaining nonprofit corporation to continue to manage City-owned garages on behalf of the SFMTA, and

⁵The proposed lease between SFMTA and Uptown Parking Corporation for the Union Square Garage, which is located on Recreation and Park Department property, is expected to be heard by the Recreation and Park Commission, and subsequently sent to the Board of Supervisors if approved.

(c) that SFMTA reports that the actual value of the corporation board oversight is difficult to quantify, approval of the proposed resolution is a policy decision for the Board of Supervisors.

The proposed resolution was continued by the Budget and Finance Committee at the January 16, 2013 meeting. The Budget & Finance Committee directed SFMTA to return to the SFMTA Board of Directors for further information to be provided to the Budget & Finance Committee on:

- (1) The costs and benefits to the City of maintaining two nonprofit parking corporations while dissolving two other nonprofit corporations;
- (2) Reasons that the nonprofit parking corporation structure is necessary to support the merchants and communities, rather than alternative structures such as advisory committees;
- (3) SFMTA's long term goals for managing the garages; and
- (4) SFMTA's reasons for not implementing the Controller's audit recommendations and the lease provisions to dissolve the nonprofit corporations.

Attached to this report is a memorandum from the Director of Transportation to the Chair of the Budget and Finance Committee in response to the Budget and Finance Committee's continuation of the subject resolution.

RECOMMENDATION

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



February 6, 2013

**Supervisor Mark Farrell
Chairperson, Budget and Finance Committee
Board of Supervisors
City and County of San Francisco
1 Carlton B. Goodlett Place, Room 244
San Francisco, California 94102**

RE: Lease Agreements between the City and County of San Francisco and Non-Profit Garage Corporations

Dear Supervisor Farrell:

The purpose of this letter is to provide the Budget and Finance Committee with additional information and to address concerns related to the proposed lease agreement with the Japan Center Garage Corporation (JCGC) for the Japan Center Garage and with the Uptown Parking Corporation (UPC) for the Sutter Stockton Garage.

Background

Non-profit garage corporations have existed since the late 1950's and were originally formed for the purpose of and their ability to issue bonds for the construction of publicly owned garages where long-term leases were established between these corporations and the City. Several of these corporations have dissolved upon repayment of their debt, relinquishing management to the City and several continued to exist through refinancing for garage expansion and/or major renovations. Some of the latter have since evolved into a community-oriented role, bringing neighborhood-specific perspective, concern, and knowledge to bear on the management of the respective garages. The governing boards of these garages comprise neighborhood business leaders, owners, and other stakeholders that provide stewardship over the garages and the role they play in their neighborhoods.

In 2008, Proposition A was approved by the voters, giving the SFMTA the authority to issue bonds; therefore, non-profit garage corporations were no longer needed for that particular purpose. Last year, as the SFMTA prepared to issue bonds for the repayment of existing public garage debt held by non-profit garage corporations, and to fund garage capital improvements, it became necessary to work with the corporations and get them to agree to pay off their debt. The City only had buyback rights for debt held by the UPC in connection with the Union Square Plaza and Garage Renovation Project in 2001. The City did not have buyback rights for debt held by the Ellis O'Farrell Parking Corporation (Ellis O'Farrell Garage) and the Downtown Parking Corporation (Fifth & Mission Garage). The current JCGC Lease, dated July 1, 2002, was not based on debt issuance and does not expire until 2017. The corporations with debt expressed their desire to continue a lease arrangement similar to the JCGC to provide oversight that benefits the SFMTA in representing the community and merchants.

- Edwin M. Lee
Mayor
- Tom Nolan
Chairman
- Cheryl Brinkman
Vice-Chairman
- Leona Bridges
Director
- Malcolm Heinicke
Director
- Jerry Lee
Director
- Joél Ramos
Director
- Cristina Rubke
Director
- Edward D. Reiskin
Director of Transportation

One South Van Ness Ave.
Seventh Floor
San Francisco, CA 94103

Tele: 415.701.4500

www.sfmta.com



The SFMTA Board of Directors therefore approved a lease form for this purpose and negotiations began with the intent to enter into a new lease with the four non-profit corporations. The JCGC agreed to participate and was included in these negotiations so that the SFMTA would have a consistent lease that would contain updated lease provisions and address conditions called out in the June 2011 Controller’s Audit Report of the SFMTA’s Sustainable Street Division. Near the time of the SFMTA bond issuance in July 2012, both the Ellis O’Farrell and Downtown Parking Corporations had reservations about the final lease provisions and were given the option to terminate their existing lease and continue as an advisory body if the bonds were paid. These two corporations chose to terminate, leaving two new leases and two termination agreements submitted for your consideration.

Lease Provisions and Garage Overview

| | Japan Center Garage Corporation Japan Center Garages | Uptown Parking Corporation Sutter Stockton Garage |
|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Term | 10-years | 10-years |
| Options | (2) 5-year extensions | (2) 5-year extensions |
| Termination | 90 day notice <ul style="list-style-type: none"> • By Director for default • By Board for convenience | 90 day notice <ul style="list-style-type: none"> • By Director for default • By Board for convenience |
| General Description | <ul style="list-style-type: none"> • Totals 920 spaces • Parks over 500,000 transient vehicles annually • Gross Revenue - \$4.2M • Operating Expense - \$2.0M • Parking Tax \$828K • Net Income to SFMTA \$1.1M | <ul style="list-style-type: none"> • Totals 1,865 spaces on 12 levels • Parks over 1,000,000 transient vehicles annually • Gross Revenue - \$12.3M • Operating Expense - \$2.7M • Parking Tax - \$2.2M • Net Income to SFMTA \$6.2M |
| Current Lease | Dated 2002 expires in 2017 with 15-year option to extend | Month-to-month until new lease or termination with formation of advisory body |
| Formation of Corporation | Formed in 1998 to replace the Western Addition Parking Corporation (WAPC) after the WAPC debt was paid. Current corporation was not formed to issue debt. | Formed in 1956 to issue bonds to construct the Sutter Stockton Garage. Uptown bonds for Sutter Stockton Garage were paid in 1996 but its revenue was pledged to the Downtown Corporation bond issue of 1992 for the expansion of the 5th & Mission Garage. In April 2001, the Uptown Corporation issued bonds to assist the City in the renovation of the Union Square Plaza and Garage and their lease was extended to 2035 or until the bonds were paid. |

Compliance with Controller's Audit

On June 9, 2011, the Controller's Office issued an audit report on the performance of the SFMTA's Sustainable Street Division which, in addition to other functions, oversees the off-street garage operations. The audit contained six recommendations related to existing non-profit garage corporation lease conditions. The SFMTA is proposing a lease that would address these concerns.

Specifically:

- The SFMTA has assumed all outstanding debt and the corporations are prohibited from further bond issuance.
- Corporations are required to submit their proposed by-laws to the SFMTA for review and approval.
- Extensive and specific oversight of expenditures with strict procedures and limits on spending.
- Corporation manager hiring guidelines are approved by SFMTA with minimum job descriptions and clearly defined duties and responsibilities.
- A Corporation manager compensation scale that is commensurate with the size and complexity of the garage managed.
- Consideration of whether the corporation manager should work under employment contract, which will be addressed in the hiring guidelines.

The proposed leases go further to require that the corporations comply with the SFMTA Parking Facility Operation and Management Regulations, adopted by the SFMTA Board, that outline procedures related to garage operations, cash handling, reporting, accounting, maintenance, etc. Additionally, restrictions are placed on commercial sub-leases and corporation expenditures.

Garage Improvement Funds

For several years prior to the issuance of bonds, SFMTA has been contemplating bond issuance for garage capital improvement efforts and deferred various improvements unless absolutely necessary to benefit from economies of scale for similar work across all garages. As a result, capital fund balances held by the corporations have accumulated. The JCGC currently retains 25% and the UPC retained 15% of annual net income both with a \$2 million maximum allowable balance. Regular on-going maintenance is supported by the individual garage operating budgets.

The SFMTA allocated \$5 million of the July 2012 bond issuance for the purpose of conducting a detailed garage capital improvement assessment. DPW is currently conducting the assessment to evaluate all SFMTA owned garages in terms of structural, mechanical, electrical, and parking equipment conditions that will lead to staging for actual implementation of improvements. This assessment will size the next SFMTA bond issuance anticipated in the summer of 2013. UPC has already transferred \$1.6 million to support the SFMTA Operating Budget. Upon approval of this lease, the JCGC will also transfer their reserve balance of \$2 million to the SFMTA.

The two proposed leases contain a provision where the capital set-asides are fixed amounts and would commence beginning the fourth year of the initial term. The annual set amount for Japan Center Garage is proposed at \$450,000 with an accumulated balance cap of \$1.35 million and the Sutter Stockton Garage at \$550,000 with an accumulated balance cap of \$1.65 million. Any

amounts above the cap would be transferred to the SFMTA as net income. These amounts are proposed to ensure availability of funds beyond the completion of the anticipated improvements.

Alternatives Considered

If the proposed leases are not approved, the current lease for the Japan Center Garage would continue with existing provisions and expire in 2017. The SFMTA would have to unilaterally terminate the leases with the Uptown Parking Corporation for the Sutter Stockton and Union Square Garages and directly administer the day-to-day operations.

While the SFMTA certainly has the knowledge and ability to directly administer these two garages, the SFMTA considers the added oversight and community relations provided by these corporations to be in the best interest of the garages and the City.

Recommendation

The SFMTA recommends that the Board of Supervisors approve the proposed leases between the City and County of San Francisco and the City of San Francisco Japan Center Garage Corporation for the Japan Center Garage and the Uptown Parking Corporation for the Sutter Stockton Garage.

Please do not hesitate to contact me if you have any concerns.

Sincerely,



Edward D. Reiskin
Director of Transportation

cc: Board of Supervisors
SFMTA Board of Directors

| | |
|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Item 6 File 13-0017 | Department: Department of Public Health (DPH) Human Services Agency (HSA) Arts Commission Department of Juvenile Probation Children and Families Commission (CFC) |
|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

EXECUTIVE SUMMARY

Legislative Objective

- The proposed supplemental appropriation ordinance would (a) de-appropriate \$1,114,706 in reduced State revenues to the Department of Public Health (DPH) and the Human Services Agency (HSA), (b) appropriate \$1,114,706 from the City's State Revenue Loss Reserve to backfill the \$1,114,706 in de-appropriated State revenues to DPH and HSA, (c) appropriate \$6,054,989 from the City's State Revenue Loss Reserve to DPH, HSA, the Arts Commission and the Department of Juvenile Probation to cover increased costs and reductions to non-profit agencies resulting from State budgetary actions, and (d) appropriate \$1,800,000 from the Children and Families Commission's (CFC's) designated reserve to fund a contract modification with the Children's Council of San Francisco.

Key Points

- The sources of funding for the proposed supplemental appropriation ordinance totaling \$8,969,695 include (a) \$7,169,695 from the City's State Revenue Loss Reserve, which has a current balance of \$15,000,000, and (b) \$1,800,000 from the CFC's designated reserve, otherwise referred to as the "Prop H Sustainability Fund," which has a current balance of \$16,598,283.
- The proposed ordinance would de-appropriate \$1,114,706 in reduced State revenues to DPH (\$534,406) and HSA (\$580,300), and would appropriate \$1,114,706 from the City's State Revenue Loss Reserve to backfill the \$1,114,706 in de-appropriated State revenues. However, HSA is no longer requesting the supplemental appropriation of \$580,300. The proposed ordinance should therefore be amended to delete the de-appropriation and supplemental appropriation of \$580,300 for HSA.
- In addition, the proposed ordinance would appropriate \$6,054,989 from the City's State Revenue Loss Reserve to DPH, HSA, the Arts Commission and the Department of Juvenile Probation to cover increased costs and reductions to non-profit agencies resulting from State budgetary actions.
- The CFC is no longer requesting the supplemental appropriation of \$1,800,000 from the CFC's Prop H Sustainability Fund, as originally proposed. The proposed ordinance should therefore be amended to delete the supplemental appropriation of \$1,800,000 to the CFC.

Fiscal Impacts

- The proposed ordinance, as amended, would appropriate a total of \$6,589,395 from the City's State Revenue Loss Reserve, thereby decreasing the State Revenue Loss Reserve balance from \$15,000,000 to \$8,410,605.

Recommendations

- Amend the proposed ordinance on page 3 to delete HSA’s de-appropriation for In-Home Supportive Services (IHSS) Administration and reduce the \$1,114,706 total requested de-appropriation of State revenues by \$580,300 to reflect a revised total of \$534,406 for DPH; and amend the proposed ordinance on page 2 to reduce the \$7,169,695 offsetting appropriation from the City’s State Revenue Loss Reserve by \$580,300 to \$6,589,395.
- Amend the proposed ordinance on page 2 to delete the \$1,800,000 source of funding for CFC and on page 5 to delete the \$1,800,000 appropriation no longer needed by the CFC.
- Approve \$3,008,934 from the revised requested total amount of \$6,589,395, as shown in Table 5 below, to cover unavoidable or already incurred costs.
- Approval of the remaining requested amounts totaling \$3,580,461 from the revised requested total amount of \$6,589,395, to cover costs that the City is not obligated to pay, but that would likely cause reductions in service levels and project delays, is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

Charter Section 9.105 requires that amendments to the annual appropriation ordinance be approved by ordinance of the Board of Supervisors, subject to the Controller certifying the availability of funds.

DETAILS OF PROPOSED LEGISLATION

Supplemental Appropriation Sources

As shown in Table 1 below, the sources of funding for the proposed supplemental appropriation ordinance totaling \$8,969,695 include (a) \$7,169,695 from the City’s State Revenue Loss Reserve and (b) \$1,800,000 from the Children and Families Commission’s (CFC’s) designated reserve, otherwise referred to as the “Prop H Sustainability Fund.”

Table 1: Proposed Supplemental Appropriation Sources

| | |
|-----------------------------------|--------------------|
| City’s State Revenue Loss Reserve | \$7,169,695 |
| Prop H Sustainability Fund | <u>\$1,800,000</u> |
| Total Sources | \$8,969,695 |

The City’s FY 2012-13 budget, as previously approved by the Board of Supervisors, appropriated \$15,000,000 in General Fund monies to the State Revenue Loss Reserve to potentially backfill unforeseen reductions in State revenues to the City. According to Ms. Michelle Allersma, Acting Director of the Budget & Analysis Division of the Controller’s Office, no funds have been appropriated from the City’s State Revenue Loss Reserve thus far in FY 2012-13. Therefore, the current State Revenue Loss Reserve balance is \$15,000,000.

The CFC's Prop H Sustainability Fund¹ had a balance of \$16,598,283 at the beginning of FY 2012-13. However, as discussed below, the CFC is no longer requesting the proposed supplemental appropriation of \$1,800,000, according to Ms. Tracy Fong, Fiscal Administrator for the Children and Families Commission.

De-appropriation and Backfill of Reduced State Revenues to DPH and HSA

The proposed supplemental appropriation ordinance would de-appropriate \$1,114,706 in reduced State revenues to DPH (\$534,406) and HSA (\$580,300), previously appropriated by the Board of Supervisors in the City's FY 2012-13 budget, and would instead appropriate \$1,114,706 from the City's State Revenue Loss Reserve to backfill the \$1,114,706 in de-appropriated State revenues.

However, HSA is no longer requesting the proposed supplemental appropriation of \$580,300, according to Ms. Martha Peterson, Budget Analyst at HSA, because the State is now going to backfill its reduced allocation for In-Home Supportive Services (IHSS) Administration. The proposed ordinance should therefore be amended to reduce the \$1,114,706 de-appropriation of State revenues by \$580,300 to \$534,406, the amount for DPH, and reduce the \$7,169,695 offsetting appropriation from the City's State Revenue Loss Reserve by \$580,300 to \$6,589,395.

Table 2 below identifies the remaining \$534,406 of previously appropriated State revenues that would be de-appropriated and backfilled for DPH under the proposed ordinance, as amended.

Table 2: Reduced State Revenues to be De-appropriated and Backfilled

| | |
|------------------------------------------------------|------------------|
| <u>Department of Public Health (DPH)</u> | |
| Medi-Cal SFGH Drug Copayments | \$30,000 |
| Medi-Cal Mental Health Drug Copayments | 170,000 |
| Medi-Cal SFGH Lab Payment Reduction | 100,000 |
| Healthy Families SFGH Payment Reduction | 33,600 |
| Healthy Families Mental Health Payment Reduction | <u>200,806</u> |
| Total De-appropriated and Backfilled Revenues | \$534,406 |

The proposed de-appropriation and backfilling of \$30,000 and \$170,000 for Medi-Cal drug copayments for San Francisco General Hospital (SFGH) and Mental Health, totaling \$200,000, would cover the cost of copayments required from Medi-Cal recipients in FY 2012-13 in order to reduce Medi-Cal expenditures. According to Ms. Anne Okubo, Deputy Financial Administrator at the Department of Public Health, the \$200,000 amount assumes an historical average of 87,000 prescriptions per year at an average copayment of \$2.30 per prescription, which totals \$200,100, or \$100 more than the proposed amount. The proposed amount of \$200,000 also assumes that no copayments are collected from Medi-Cal recipients, such that the full cost of reduced Medi-Cal drug coverage would be covered by the City. Ms. Okubo advises that, as of the writing of this report, DPH does not have information on the amount of drug copayments

¹ The CFC established the Prop H Sustainability Fund in FY 2008-09 to set aside funds to offset future reductions in Proposition H revenues.

actually being paid by Medi-Cal recipients to SFGH and the City's mental health providers. Ms. Allersma advises that any copayment revenues that are received by DPH would be reconciled at the end of the year, and any backfill funds that are offset by the copayments would be returned to the City's General Fund.

The proposed de-appropriation and backfilling of \$100,000 for SFGH would cover a 10 percent reduction in Medi-Cal's lab fee reimbursement rate. According to Ms. Okubo, Medi-Cal's reimbursement for lab fees to the City was \$1,000,000 prior to FY 2012-13; thus, the 10 percent State reduction results in an estimated loss of \$100,000 to SFGH.

According to Ms. Okubo, the State's Healthy Families Program, which served children whose families did not qualify for Medi-Cal, started phasing out on January 1, 2013. Healthy Families participants, who will now be covered by Medi-Cal under the Federal Affordable Care Act's expansion of Medicaid, are in the process of being transferred to Medi-Cal.

The proposed de-appropriation and backfilling of \$33,600 for Healthy Families would retroactively cover a 20 percent reduction in Healthy Families payments to SFGH for the first six months of FY 2012-13, or from July 1, 2012 through December 31, 2012. In addition, the proposed de-appropriation and backfilling of \$200,806 for Healthy Families mental health care payments would cover the loss of \$200,806 State payments for the second half of FY 2012-13, or from January 1, 2013 through June 30, 2013, that will not be received due to the discontinuation of the Healthy Families Program. Although former Healthy Families participants are now covered under Medi-Cal, which should at least partially offset the lost revenue from the Healthy Families program, as of the writing of this report, DPH is not able to project the amount of fee-for-service revenues that will be received from Medi-Cal, nor when such revenues will be received. Therefore, DPH is requesting that the total \$200,806 in lost revenues be backfilled with the City's State Revenue Loss Reserve funds. Ms. Allersma advises that any offsetting Medi-Cal revenues that are received by the City would be reconciled at the end of the year, and any backfill funds that are offset by the Medi-Cal revenues would be returned to the City's General Fund.

Appropriation of \$6,054,989 to Cover Increased Costs and Reduction to Non-profit Agencies Resulting from State Budgetary Actions

The proposed supplemental appropriation ordinance would also appropriate \$6,054,989 from the City's State Revenue Loss Reserve to DPH, HSA, the Arts Commission and the Department of Juvenile Probation to cover increased costs and reductions to non-profit agencies resulting from State budgetary actions. Table 3 below shows the proposed supplemental appropriations by department and program.

Table 3: Proposed Supplemental Appropriations to Cover Increased Costs and Reductions to Non-Profit Agencies

| | |
|--------------------------------------------------------|--------------------|
| <u>Department of Public Health (DPH)</u> | |
| Cost of Beds at Institutes for Mental Diseases (IMDs) | \$627,252 |
| Cost of Beds at Napa State Hospital | <u>1,797,276</u> |
| DPH Subtotal | \$2,424,528 |
| <u>Human Services Agency (HSA)</u> | |
| State Revenue Loss to Childcare Providers | \$2,781,461 |
| Medi-Cal Payment Reduction to Adult Day Health Centers | <u>399,000</u> |
| HSA Subtotal | \$3,180,461 |
| <u>Arts Commission</u> | |
| Bay View Opera House Renovation | \$400,000 |
| <u>Juvenile Probation</u> | |
| Admission to State Juvenile Detention Facilities | <u>\$50,000</u> |
| Total | \$6,054,989 |

Department of Public Health Appropriation

According to Ms. Okubo, the proposed appropriation of \$627,252 would fund a 4.7 percent increase in fees DPH pays for admitting patients to Institutions for Mental Diseases (IMDs).² Ms. Okubo advises that AB 2645 had imposed a two-year moratorium on increasing IMD fees, which expired at the beginning of FY 2012-13. According to Ms. Okubo, the FY 2012-13 budget, as previously approved by the Board of Supervisors, allocated \$13,345,797 for IMD fees. The proposed amount of \$627,252 would increase the allocation for IMD fees by 4.7 percent to \$13,973,049.

According to Ms. Okubo, the proposed appropriation of \$1,797,276 would fund a 23.8 percent increase in fees DPH pays for admitting patients to Napa State Hospital. According to Ms. Okubo, the FY 2012-13 budget, as previously approved by the Board of Supervisors, appropriated \$7,551,469 for Napa State Hospital fees. The proposed amount of \$1,797,276 would increase the allocation for Napa State Hospital fees by 23.8 percent to \$9,348,745.

Human Services Agency Appropriation

According to Ms. Emily Gerth, Budget Analyst at HSA, the proposed appropriation of \$2,781,461 would offset \$2,781,461 in reduced State funding to subsidized childcare programs

² "Institution for Mental Diseases" (IMDs) means a hospital, nursing facility, or other institution of more than 16 beds that is primarily engaged in providing diagnosis, treatment or care of persons with mental disorders, including medical attention, nursing care, and related services, according to Title 9, California Code of Regulations, Section 1810.222.1. San Francisco refers patients to two IMDs: (1) Crestwood Behavioral Health Center and (2) Canyon Manner Rehabilitation Center.

in San Francisco, including (a) \$2,172,949 in Title 5 funds,³ (b) \$473,151 in voucher programs, and (c) \$135,361 for nutrition programs, which together serve approximately 4,500 children. If the proposed funding is not appropriated, assuming the same level of childcare services currently provided, San Francisco childcare providers may exhaust all funds from their State contracts approximately one to two months before the end of the fiscal year. According to Ms. Gerth, the Children's Council of San Francisco⁴ would serve as the fiscal intermediary for the disbursement of City funds to childcare providers and families receiving vouchers. Ms. Gerth advises that the administration of the funds disbursement would come at no additional cost to the City as it would be included in an existing contract between HSA and the Children's Council.

The proposed appropriation of \$399,000 would offset one-half of a 10 percent reduction in Medi-Cal payments to Adult Day Health Centers, which Adult Day Health Centers are being required to pay back retroactively for the first six months of FY 2011-12. According to Ms. Peterson, Adult Day Health Centers continue to face an ongoing 10 percent reduction in Medi-Cal payments for the current fiscal year; however, absorbing this ongoing 10 percent payment reduction while retroactively paying back the full 10 percent reduction from the first six months of FY 2011-12 would prevent Adult Day Health Centers from maintaining their current level of services. According to Ms. Peterson, San Francisco's four Adult Day Health Center agencies—(1) Self Help for the Elderly, (2) L'Chaim, (3) Bayview Hunters Point, and (4) Stepping Stone—provide clinical oversight and social services to approximately 9,000 seniors in lieu of more costly institutionalized care.

Arts Commission Appropriation

The proposed appropriation of \$400,000 to the Arts Commission would offset \$400,000 lost from former San Francisco Redevelopment Agency (SFRA) grant funds that the State has declined to honor, which were to be used to fund renovations to the Bay View Opera House. The total construction budget for the Bay View Opera House renovation project, which includes the \$400,000 in anticipated SFRA funds, is \$2,589,539. Although the \$400,000 amount covers only 15 percent of the total construction budget, Ms. Judy Nemzoff, Community Arts & Education Program Director for the Arts Commission, advises that the Arts Commission cannot issue a Request-for-Proposals (RFP) for construction services until all of the funds to cover the construction costs are in place. According to Ms. Nemzoff, revising the project scope and construction documents to reduce construction costs by \$400,000 would cost the project at least \$240,000 in additional architectural services and continued overhead, and would delay the project for at least several months. If the proposed supplemental appropriation of \$400,000 is approved, the Bay View Opera House renovation project will continue on its current schedule, with construction to commence this summer, according to Ms. Nemzoff.

³ Title 5 of the California Code of Regulations governs education in California. Under Title 5, the California Department of Education provides means-tested subsidies to early childhood programs.

⁴ The Children's Council of San Francisco is a non-profit agency that refers income eligible families to childcare providers and acts as a fiscal intermediary for government supported childcare programs. The Children's Council provided \$46,526,941 in childcare payments and provider income support in FY 2011-12.

Juvenile Probation Appropriation

The proposed appropriation of \$50,000 to the Department of Juvenile Probation would cover the cost of FY 2012-13 fee increases for admitting juvenile offenders to State Juvenile Detention facilities. Prior to FY 2012-13, the California Department of Juvenile Justice had a three-tier fee schedule of \$1,800, \$200, or \$0 per offender per month depending on the individual. According to Ms. Catherine McGuire, Director of Finance in the Department of Juvenile Probation, most of San Francisco's admissions fell into the \$200 or \$0 per month categories; therefore, the Department, which typically did not admit more than five offenders per year, never budgeted for this purpose prior to FY 2012-13. In FY 2012-13, the California Department of Juvenile Justice increased monthly fees to \$2,000 per offender per month for all admissions after July 1, 2012.

The proposed appropriation of \$50,000 was based on a projection that one juvenile offender would be admitted on September 1, 2012, two on January 1, 2013, and one on April 1, 2013, thus totaling 25 months at a cost of \$2,000 per month, or \$50,000 in total. Although admissions in FY 2012-13 appear to have already exceeded the Department's projections, Ms. McGuire advises that the Department's existing budget will be able to absorb any difference between the requested amount of \$50,000 and the actual fees charged by the State.

Because the length of stay for juvenile offenders currently being admitted is expected to be up to three years, Ms. McGuire advises that the City's costs for admitting juveniles to State Juvenile Detention facilities is likely to increase over the next three fiscal years and then level off. According to Ms. McGuire, the change in fees is unlikely to influence court decisions about where to commit juvenile offenders, as San Francisco already commits a very small number of juvenile offenders to State Juvenile Detention facilities relative to other counties.

The CFC No Longer Requests \$1,800,000 Supplemental Appropriation

According to Ms. Judy Fong of the Children and Families Commission, the CFC is no longer requesting the supplemental appropriation of \$1,800,000 from the CFC's Prop H Sustainability Fund, as originally proposed. Ms. Fong advises that the CFC's previous FY 2012-13 appropriation will be sufficient to fund the \$1,800,000 contract modification between the CFC and the Children's Council of San Francisco. The proposed ordinance should therefore be amended to delete the supplemental appropriation of \$1,800,000 to the CFC from the CFC's Prop H Sustainability Fund.

FISCAL IMPACTS

The proposed supplemental appropriation ordinance, if amended to remove the previously requested supplemental appropriation of \$580,300 for HSA, would appropriate \$6,589,395 from the City's State Revenue Loss Reserve to (a) backfill for DPH \$534,406 in de-appropriated State revenues and (b) cover for DPH, HSA, the Arts Commission and Juvenile Probation \$6,054,989 in increased costs and reductions to non-profit agencies resulting from State budgetary actions. According to Ms. Allersma of the Controller's Office, no funds have been appropriated from the City's State Revenue Loss Reserve thus far in FY 2012-13. Therefore, the current State Revenue Loss Reserve balance is \$15,000,000. If the Board of Supervisors approves the proposed ordinance as amended to remove the supplemental appropriation of \$580,300 to HSA, the

remaining State Revenue Loss Reserve balance would be \$8,410,605 (\$15,000,000 minus \$6,589,395).

As discussed above, the CFC is no longer requesting the supplemental appropriation of \$1,800,000 from the CFC's Prop H Sustainability Fund.

Table 4 below summarizes the total amount of the revised supplemental appropriation by agency, excluding the originally proposed, but no longer needed, appropriation of \$580,300 to HSA and the appropriation of \$1,800,000 no longer needed by the CFC.

Table 4: Supplemental Appropriations by Agency

| | |
|-----------------------------|--------------------|
| Department of Public Health | \$2,958,934 |
| Human Services Agency | 3,180,461 |
| Arts Commission | 400,000 |
| Juvenile Probation | <u>50,000</u> |
| Total | \$6,589,395 |

If the Board of Supervisors approves the proposed supplemental appropriation ordinance for FY 2012-13, with the exception of the \$400,000 Arts Commission appropriation for the Bayview Opera House Renovation and the \$399,000 HSA appropriation for Adult Day Health Centers to reimburse the State for FY 2011-12 payment reductions, the remaining approximately \$5,790,395 is likely to be included as future ongoing General Fund expenses.

POLICY CONSIDERATIONS

The Budget and Legislative Analyst recommends approval of \$3,008,934, as shown in Table 5 below, from the proposed supplemental appropriations for DPH and Juvenile Probation because the requested \$3,008,934 would cover unavoidable or already incurred costs.

Table 5: Proposed Supplemental Appropriations for Unavoidable/Already Incurred Costs

| | | |
|------------------------------------------------------------|--------------------|--------------------|
| Medi-Cal SFGH Drug Copayments | DPH | \$30,000 |
| Medi-Cal Mental Health Drug Copayments | DPH | 170,000 |
| Increase in Cost of Beds at Institutes for Mental Diseases | DPH | 627,252 |
| Increase in Cost of Beds at Napa State Hospital | DPH | 1,797,276 |
| Medi-Cal SFGH Lab Payment Reduction | DPH | 100,000 |
| Healthy Families SFGH Payment Reduction | DPH | 33,600 |
| Healthy Families Mental Health Payment Reduction | DPH | 200,806 |
| Admission to State Juvenile Detention Facilities | Juvenile Probation | <u>50,000</u> |
| Total | | \$3,008,934 |

The remaining requested amounts totaling \$3,580,461 (\$6,589,395 in Table 4 above minus \$3,008,934 in Table 5 above), as shown in Table 6 below, would cover costs that the City is not

obligated to pay, but that would likely to cause reductions in service levels and project delays, if the requested funds are not appropriated. Approval of the remaining requested amounts totaling \$3,580,461 is therefore a policy matter for the Board of Supervisors.

Table 6: Proposed Supplemental Appropriations for Avoidable Costs

| | | |
|--------------------------------------------------------|-----------------|--------------------|
| State Revenue Loss to Childcare Providers | HSA | \$2,781,461 |
| Medi-Cal Payment Reduction to Adult Day Health Centers | HSA | 399,000 |
| Bay View Opera House Renovation | Arts Commission | <u>400,000</u> |
| Total | | \$3,580,461 |

RECOMMENDATIONS

1. Amend the proposed ordinance on page 3 to delete HSA's de-appropriation for In-Home Supportive Services (IHSS) Administration and reduce the \$1,114,706 total requested de-appropriation of State revenues by \$580,300 to reflect a revised total of \$534,406 for DPH; and amend the proposed ordinance on page 2 to reduce the \$7,169,695 offsetting appropriation from the City's State Revenue Loss Reserve by \$580,300 to \$6,589,395.
2. Amend the proposed ordinance on page 2 to delete the \$1,800,000 source of funding for CFC and on page 5 to delete the \$1,800,000 appropriation no longer needed by the CFC.
3. Approve \$3,008,934 from the revised requested total amount of \$6,589,395, as shown in Table 5 above, to cover unavoidable or already incurred costs.
4. Approval of the remaining requested amounts totaling \$3,580,461 from the revised requested total amount of \$6,589,395, as shown in Table 6 above, to cover costs that the City is not obligated to pay, but that would likely cause reductions in service levels and projects delays, is a policy matter for the Board of Supervisors.

Item 7
File 13-0121

Departments:
San Francisco Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve a new 20-year lease agreement between the San Francisco Public Utilities Commission (PUC) and Los Altos Hotel Associates, LLC for approximately 47,916 square feet of PUC-owned land in Santa Clara County, California, known as Parcel 232A, through which PUC's Bay Division Pipelines Numbers 3 and 4 pass. The lease would allow Los Altos Hotel Associates to use the land for parking, recreation, and landscaping for the adjacent hotel complex, the Marriott Residence Inn Palo Alto Los Altos.

Key Points

- Key components of the proposed lease agreement include: (1) lease period of 20 years from the commencement date; (2) security deposit of \$8,720; (3) first year base rent of \$4,360 per month, or \$52,324 annually; (4) an automatic 4 percent increase in rent annually, starting with the first day of the second lease year and then every year going forward; (5) adjustment of the base rent to fair market value on the first day of the fifth, tenth, and 15th year of the lease at the discretion of the PUC General Manager; and (6) no option to renew.
- The proposed lease is the second such lease agreement for the same parcel between the PUC and Los Altos Hotel Associates. The first lease agreement commenced on May 1, 2002, and expired on April 30, 2012. Because of delays in negotiating the proposed lease agreement, the prior lease between PUC and Los Altos Hotel Associates was held over on a month-to-month tenancy with rent of \$4,015 per month (\$48,183 annually) or \$36,138 for the nine-month period from May 1, 2012 through January 31, 2013.
- The proposed 20-year lease would be effective upon Board of Supervisors approval and execution by the Mayor.

Fiscal Impact

- The first year rent under the proposed lease is \$52,324, which is \$4,141 or 8.6 percent more than the annual rent of \$48,183 during the month-to-month holdover tenancy. The average rent per square foot will increase from approximately \$1.01 per square foot to \$1.09 per square foot for 47,916 square feet. According to Mr. Anthony Bardo, PUC Real Estate Services Division, the annual base rent of \$52,324 represents fair market value based on the appraisal by the third party appraiser, Associated Right of Way Services, Inc.
- Under the proposed lease, revenue to PUC in the first four years is \$222,192, including the annual 4 percent increase. As noted above, under the proposed lease agreement, the PUC General Manager has the option to adjust the base rent to fair market value on the first day of the fifth year of the lease.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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

Background

The proposed resolution would approve a new 20-year lease agreement between the San Francisco Public Utilities Commission (PUC) and Los Altos Hotel Associates, LLC for approximately 47,916 square feet of PUC-owned land in Santa Clara County, California, known as Parcel 232A, through which PUC's Bay Division Pipelines Numbers 3 and 4 pass. The lease would allow Los Altos Hotel Associates to use the PUC-owned land for parking, recreation, and landscaping for a hotel complex, the Marriott Residence Inn Palo Alto Los Altos. The proposed lease is the second such lease agreement for the same parcel between the PUC and Los Altos Hotel Associates.

In 1949, the PUC purchased the pipeline property from various property owners who reserved the right to cross over and farm on the properties in accordance with the deeds of sale. The application of the cross-over and agricultural provisions is at the discretion of the PUC. Los Altos Hotel Associates, as a current owner of an adjacent property, retained those cross-over and agricultural rights.

The first lease agreement between the PUC and Los Altos Hotel Associates was approved by the Board of Supervisors on March 11, 2002, following the 2001 construction of the hotel. The first lease agreement commenced on May 1, 2002 and expired on April 30, 2012. Because of delays in negotiating the proposed lease agreement, the proposed lease agreement could not be executed with the expiration of the original lease agreement. According to Mr. Anthony Bardo of the PUC Real Estate Services Division, the lease was not competitively bid because the Los Altos Hotel Associates had developed the adjacent property such that no other commercial use could be made of the parcel.

The Los Altos Hotel Associates has continued leasing the parcel since the April 30, 2012 expiration date of the original lease agreement. Los Altos Hotel Associates has been paying a holdover month-to-month rent of \$48,183 per year or \$4,015 per month until the commencement of the new lease agreement.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new 20-year lease agreement between the City and County of San Francisco, acting through the PUC, and Los Altos Hotel Associates for approximately 47,916 square feet of PUC-owned land in Santa Clara County, California, known as Parcel 232A.

Key components of the proposed lease agreement include:

1. Lease period of 20 years from the commencement date;
2. Security deposit of \$8,720.00;

3. Base rent of \$4,360 per month, or \$52,324 per year in the first year;
4. Annual 4% increase in rent, starting with the first day of the second lease year and then every year going forward;
5. An option to reappraise the base rent to fair market value on the first day of the fifth, tenth, and 15th year of the lease at the discretion of the PUC General Manager; and
6. No option to renew.

The proposed new lease term was increased to a 20-year term, from the previous 10-year term because, as explained by Mr. Bardo, Los Altos Hotel Associates is presently engaged in refinancing of the adjacent hotel property and the refinancing application requires a 20-year minimum term.

The proposed lease will commence upon Board of Supervisors approval and execution by the Mayor.

FISCAL IMPACTS

The first year rent under the proposed lease is \$52,324, which is \$4,141 or 8.6 percent more than the annual rent of \$48,183 during the month-to-month holdover tenancy. The average rent per square foot will increase from approximately \$1.01 per square foot to \$1.09 per square foot for 47,916 square feet.¹ According to Mr. Bardo, the annual base rent of \$52,324 represents fair market value based on the appraisal by the third party appraiser, Associated Right of Way Services, Inc.

Under the proposed lease, revenue to PUC in the first four years is \$222,192, as shown in Table 1. As noted above, under the proposed lease agreement, the PUC General Manager has the option to adjust the base rent to fair market value on the first day of the fifth year of the lease.

Table 1: Proposed Base Rent With Annual 4 Percent Increase

| Year | Base Rent | Annual 4 Percent Increase | Total |
|--------------|-----------|---------------------------|------------------|
| 1 | \$52,324 | \$0 | \$52,324 |
| 2 | 52,324 | 2,093 | 54,417 |
| 3 | 54,417 | 2,177 | 56,594 |
| 4 | 56,594 | <u>2,264</u> | <u>58,857</u> |
| Total | | \$6,534 | \$222,192 |

RECOMMENDATION

Approve the proposed resolution.

¹ Under the original lease and month-to-month tenancy, Los Altos Hotel Associates had use of 47,916 square feet. Los Altos Hotel Associates paid rent of \$3.57 per square foot for 13,500 square feet and no rent for 34,416 square feet used for cross-over and landscaping in accordance with the deed as confirmed by the City Attorney. This resulted in an effective rental rate of approximately \$1.01 per square foot for 47,916 square feet. The appraiser, Associated Right of Way Services, determined that the use of the 34,416 square feet had expanded beyond the original cross-over and landscaping use and therefore, calculated rent of \$1.09 per square foot for the total 47,916 square foot parcel.

Item 10
File 13-0032

Department:
Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objective

- Request to release \$117,000,000 on Budget and Finance Committee reserve for the Public Utilities Commission (PUC) to fund increased costs of the Calaveras Dam Replacement Project (CDRP), a component of the PUC Water System Improvement Project (WSIP).

Key Points

- On November 21, 2011, the Board of Supervisors approved the creation of a WSIP Program Management Reserve (File 11-1031), to provide funds for any WSIP project that exceeds the June 2011 Revised WSIP project budgets. Funds from the WSIP Program Management Reserve can only be released after the PUC submits detailed expenditure plans to the Budget and Finance Committee. The current balance of the WSIP Program Management Reserve is \$117,103,288.
- As a result of CDRP landslide risks identified in 2012, the PUC needs to modify construction plans for the CDRP, completion of which will require \$117,000,000 in WSIP Program Management Reserve funding. As a result of the CDRP changes, the estimated completion date of WSIP has been delayed by 25 months from July 29, 2016 to August 31, 2018.
- When the PUC Commission approved the use of the \$117,000,000 WSIP Program Reserve Fund for the new CDRP construction costs, it also approved ten recommendations from the Bay Area Water Supply & Conservation Agency (BAWSCA), which represents PUC's wholesale customers, regarding changes to the CDRP budget and project schedule.
- The requested \$117,000,000 release of reserve does not include management or engineering costs, potential environmental mitigation costs, or additional contingency funding for the remainder of the CDRP construction work.

Fiscal Impacts

- Water Revenue Bond proceeds previously approved by the Board of Supervisors are the source of funds for the \$117,000,000 release of reserves. These Water Revenue Bonds are repaid from water rate revenues paid by the PUC's water customers, including San Francisco water ratepayers and the PUC's wholesale customers.
- The requested \$117,000,000 would be combined with \$6,934,303 in remaining CDRP contingency funds, totaling \$123,934,303, in order to fund a total of \$123,934,303 in construction costs, including (a) pending change orders of \$1,037,000 under review by the Controller; (b) potential change orders of \$3,391,223 currently under negotiation between the PUC and its contractors; and (c) new or increased project costs of \$119,506,080.
- If the Board of Supervisors approves the PUC's requested \$117,000,000 release of reserves, the PUC's WSIP Program Management Reserve would have a remaining balance of \$103,288. The PUC proposes to replenish the WSIP Program Management Reserve through savings realized from (a) lower construction bids on active projects; (b) closeout of projects with remaining balances; (c) reduced contingency funding for active projects that are near completion and have a low risk of additional change orders; and (d) finding WSIP-wide soft (management) savings.

Recommendations

- Request that the PUC report to the Budget and Finance Committee of the Board of Supervisors by May 31, 2013 on the PUC's responses to BAWSCA's ten recommendations, as discussed in the Policy Consideration section below.
- Approve the requested release of reserved funds.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Section 3.3 of the City's Administrative Code provides that the committee of the Board of Supervisors that has jurisdiction over the budget (i.e., Budget and Finance Committee) may place requested expenditures on reserve, which are then subject to release by the Budget and Finance Committee.

Background

The San Francisco Public Utilities Commission (PUC)'s Water System Improvement Program (WSIP) consists of 81 projects organized into 11 project regions to repair, replace, and seismically upgrade the Hetch Hetchy water system's aging pipelines, tunnels, pumps, tanks, reservoirs and dams. PUC commenced the WSIP in FY 2002-03 and was scheduled to be completed by July 29, 2016. The approved WSIP project budget is \$4,585,556,260. WSIP is funded with PUC Water Revenue Bonds, which will be repaid from water rate revenues paid by PUC water customers.

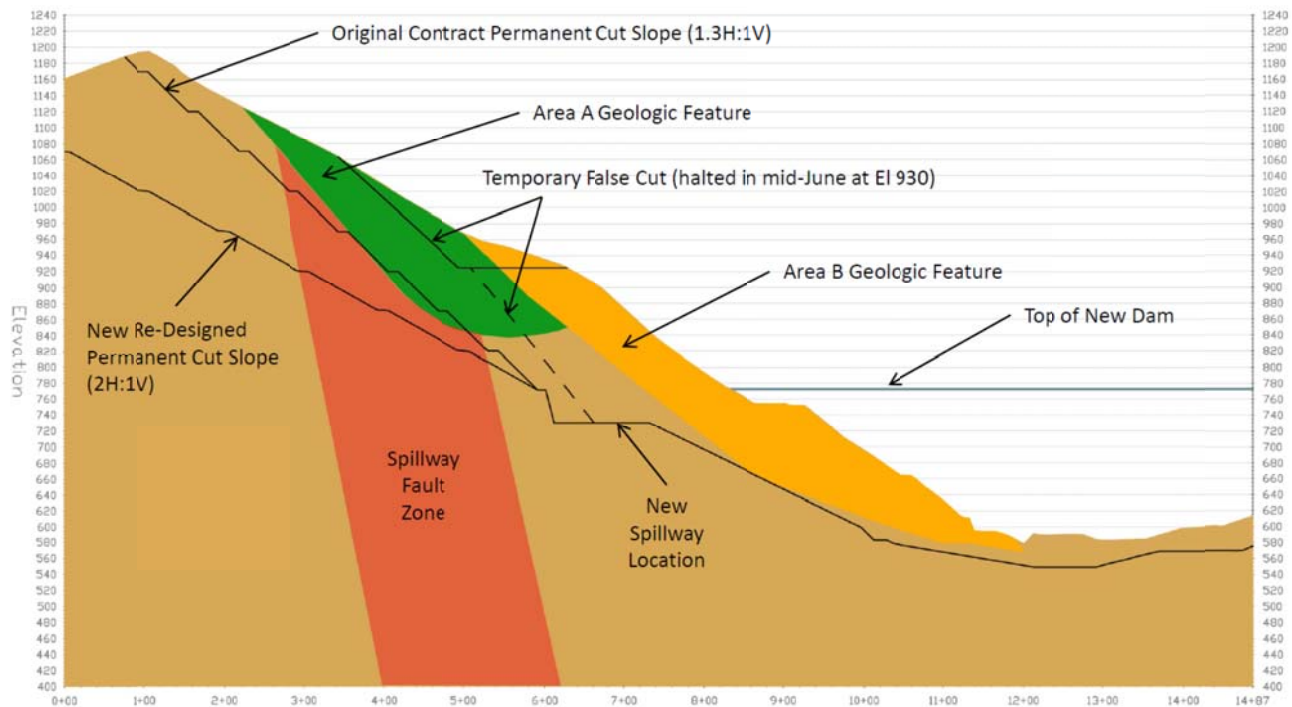
On November 21, 2011, the Board of Supervisors approved the creation of a WSIP Program Management Reserve, with an initial appropriation of \$144,459,649 from then-existing WSIP project surpluses (File 11-1031). The purpose of the WSIP Program Management Reserve is to provide funds for any WSIP project costs that exceed their individual June 2011 Revised WSIP project budgets. Funds from the WSIP Program Management Reserve can only be released by the Budget and Finance Committee, after the PUC submits detailed expenditure plans to the Budget and Finance Committee. To date, there has been one withdrawal from the Program Management Reserve of \$27,356,361 (File 12-1013). Therefore, the remaining balance of the Program Management Reserve is \$117,103,288.

Studies conducted by the PUC in 1998 indicated that the Calaveras Dam, located in Alameda County, which is part of the PUC's water system, did not meet current safety standards for large earthquakes. The Calaveras Dam Replacement Project (CDRP), the largest of the 81 separate capital improvement projects included in WSIP, would meet the seismic safety standards. The objective of the CDRP is to replace the existing dam with a new seismically reliable dam and facilities, including a 210-foot-high earth and rock dam, spillway, stilling basin, and intake tower.

Observation Hill is located on the west side of the Calaveras replacement dam and forms the left dam abutment. In June 2012, excavation on Observation Hill revealed a previously undiscovered landslide hazard ("Area A Geologic Feature" in Figure 1, below). This landslide hazard posed a threat to the construction, and if not addressed, would impact the stability of the new dam and spillway. Additional geotechnical investigations revealed a second possible landslide feature ("Area B Geologic Feature" in Figure 1). To remedy the landslide hazard, the PUC proposed to change the angle of the new slope, from the original slope ("Original Contract Permanent Cut Slope" in Figure 1) to a flatter slope ("New Re-Designed Permanent Cut Slope" in Figure 1). Additional project changes would be needed to address the Area B landslide threat. These discoveries and remedies require significant CDRP construction project modifications, summarized in Attachment I. These changes will also delay completion of the CDRP

construction from 2015 to 2017, and total closeout of WSIP will be delayed by 25 months, from July 2016 to August 2018. A summary of the CDRP construction schedule changes are provided in Attachment II. The PUC estimates that the cost of the CDRP construction modifications will total \$123,934,303.

Figure 1. Schematic Cross-Section of Observation Hill



Source: PUC.

At the PUC Commission meeting on January 22, 2013, the PUC formally requested re-allocating \$117,000,000 from the WSIP Program Management Reserve funds toward the \$123,934,303 increased costs of the CDRP. The balance of \$6,934,303 would come from existing CDRP contingency funds.

At the January 22, 2013 PUC Commission meeting, the PUC Commission also heard concerns from the Bay Area Water Supply and Conservation Agency (BAWSCA).¹ The PUC had previously notified BAWSCA of the needed CDRP construction modifications and the resulting delays in order to meet its legal requirement to notify the PUC's Bay Area Wholesale Customers. In a January 16, 2013 letter, BAWSCA expressed concerns to the PUC Commission regarding the proposed budget and the impact on WSIP's overall schedule. In particular, BAWSCA expressed concerns that (a) the PUC may need to identify additional WSIP funding for future contingencies through achieving savings elsewhere in the overall WSIP; and (b) that delays in completing the CDRP would potentially affect drought year water supply reliability for the PUC's water customers. In order to address these concerns, BAWSCA made ten recommendations regarding WSIP scope and budget issues and WSIP schedule issues.

¹ BAWSCA represents the interests of 24 cities and water districts, and two private utilities, that purchase water wholesale from the PUC.

With regard to WSIP scope and budget issues, BAWSCA recommended that the PUC direct staff to:

1. Immediately implement a cost saving plan aimed at slowing the expenditure of contingency funds and soft costs so that all available funds can be used for completing the WSIP within the approved budget.
2. Re-evaluate the forecast cost at completion for individual projects and for the WSIP as a whole.
3. Identify potential project cost reductions or savings to fund the remaining estimated costs, and identify any budget shortfall.
4. Provide this information as part of the Notice of Change that is anticipated following the final negotiation of the Calaveras Project change order but no later than the Commission's March 19, 2013 meeting.
5. Report back to the Commission by February 26, 2013 on the progress made on each of these recommended actions.

With regard to WSIP schedule issues, BAWSCA recommended that the Commission direct PUC staff to:

1. Review and present schedules for all remaining WSIP projects.
2. Review and present schedules for completing other activities related to achieving the Levels of Service goal.
3. Present a plan to the Commission for keeping all projects and activities except the Calaveras Project on schedule for completion by the end of July, 2016.
4. Prepare and implement a plan to terminate all unnecessary WSIP organizational components by July 31, 2016, except for the Calaveras Dam Replacement Project.
5. Provide the above information to the Commission as part of the second Notice of Change, but not later than March 19, 2013.

At the January 22, 2013, PUC Commission meeting, the Commission incorporated these ten BAWSCA recommendations into its approval of the subject requested release of reserves of \$117,000,000 from the WSIP Program Management Reserve, for the increased construction costs resulting from the needed CDRP modifications.

DETAILS OF PROPOSED LEGISLATION

The PUC is now requesting the release of the \$117,000,000 from the WSIP Program Management Reserve, which is currently on Budget and Finance Committee reserve. The PUC requires this funding due to increased construction costs on the Calaveras Dam Replacement Project (CDRP), resulting from project modifications needed to address previously undiscovered landslide hazards, as described in the Background section, above. The reserved funds will provide CDRP construction funding through 2017. However, the requested \$117,000,000 release of reserve does not include management or engineering costs, potential environmental mitigation costs, or additional contingency funding for the remainder of the CDRP construction work (see below for additional information).

FISCAL IMPACT

Water Revenue Bond proceeds previously approved by the Board of Supervisors are the source of funds for the \$117,000,000 release of reserves. These Water Revenue Bonds are repaid from water rate revenues paid by the PUC's water customers, including San Francisco water ratepayers and the PUC's wholesale customers, who are represented by the Bay Area Water Supply and Conservation Agency (BAWSCA). Adding the requested \$117,000,000 to the previously approved CDRP budget of \$415,637,844 (including the remaining contingency not used to date of \$6,934,303) would result in a revised CDRP budget totaling \$532,637,844. The increased construction costs for the CDRP would be absorbed within the existing overall WSIP budget, which the PUC currently forecasts will remain at \$4,585,556,260.

A summary of the sources and uses of the released funds is shown in Table 1, below.

Table 1. Summary of Sources and Uses for CDRP Changes

| Sources | Amount |
|-------------------------------------------------------------------------------------------------------------------------|----------------------|
| Requested release of reserves from WSIP Program Management Reserve | \$117,000,000 |
| Remaining contingency not used to date, which has been previously included in the approved CDRP Budget of \$415,637,844 | 6,934,303 |
| Total Sources | \$123,934,303 |
| Uses | |
| Pending change orders approved by the PUC that have yet to be authorized by the City Controller's Office | \$1,037,000 |
| Potential change orders still being negotiated with the Contractor | 3,391,223 |
| Other project costs (additional detail in Table 2, below) | 119,506,080 |
| Total Uses | \$123,934,303 |

Source: PUC

A detailed breakdown of the \$123,934,303 in uses is provided in Table 2, below.

Table 2. Detailed Breakdown of \$123,934,303 in Total Uses

| Trend Item | Description | Amount |
|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|----------------------|
| Pending change orders approved by the PUC that have yet to be authorized by the City Controller's Office | | \$1,037,000 |
| Potential change orders still being negotiated with the Contractor | | 3,391,223 |
| Other Project Costs | | 119,506,080 |
| Differing site conditions on the Left Abutment Excavation | Additional excavation and disposal quantities for the left abutment in Observation Hill | \$110,000,000 |
| Foundation Grouting Quantity Overrun | Foundation drilling and grouting quantity overrun | 4,500,000 |
| Remnants of Area B | Additional Excavation to remove remnants of Area B | 2,400,000 |
| Disposal of Overrun Excavation Volume | Additional excavation volume for the dam foundation and embankment, and spillway due to original grade discrepancy | 572,334 |
| Additional Work | Changes to concrete placement temperature, new wet curing of concrete, additional anchoring, and new zone 5 criteria | 410,000 |
| Differing site conditions -Blasting of Temblor Overburden Borrow Area-B | Blasting of temblor overburden at Borrow Area B | 400,000 |
| Increase Bid item 5.2 - Grouting Setup | Increase Bid Item 5.2 for the setup for nipple installation | 250,000 |
| Additional best management practices - Flextera | Additional best management practices – Flextera bonding agent | 175,000 |
| Adit Alignment, Existing vs. New | Alignment Issue, existing vs. new adits | 150,000 |
| Bathymetric Surveying on reservoir | Perform bathymetric survey on the reservoir | 145,000 |
| Remove fill material west 19.5' conduit | Additional excavation west of the 19.5' outlet conduit | 120,000 |
| 2012 Shutdown Dewatering of 72" Outlet | Initial dewater of 72" outlet during shutdown, and continue dewatering to control infiltration | 100,000 |
| Excavation upstream of Right Abutment below contour | Excavate and dispose of additional material, and relocation of dewatering infrastructure | 100,000 |
| Dam Crest Turn Around Area | Changes to cul-de-sac detail | 100,000 |
| Algae Bloom in Reservoir | Treatment of algae in reservoir | 75,000 |
| Additional Field office Equipment | Purchase of additional field office equipment such as projector and screen | 25,000 |
| Cleaning of 20' x 200' strip | Cleaning of 20' X 200' strip of foundation | 25,000 |
| Intake Tower, 6000 psi Concrete | Difference between 6000 and 4000 psi concrete | 25,000 |
| Discontinuities inside Existing 72" Pipeline | Repair of discontinuities inside the existing 72" outlet pipe during 2012 shutdown | 25,000 |
| Fixed Cone Valve Testing | Perform additional fixed cone valve testing prior to refurbishment | 25,000 |
| Double Blocking Platform at Intake | Install double-blocking platform at the existing intake | 15,000 |
| Repair Potassium Permanganate sample line | Plugging the leak on the Potassium Permanganate line | 5,000 |
| Adjustment to round down the total request to \$117,000,000 | | (136,254) |
| Total Uses | | \$123,934,303 |

If the Board of Supervisors approves the PUC's requested \$117,000,000 release of reserves, the PUC's WSIP Program Management Reserve, which presently has a balance of \$117,103,288, would have a remaining balance of only \$103,288. A balance of \$103,288 in the WSIP Program Management Reserve for the entire \$4,585,556,260 WSIP budget is inadequate, particularly considering the potential for unforeseen future costs deriving from the following factors:

- Five WSIP projects are still in the pre-construction phase, with a total value of \$317,000,000.
- Seventeen projects totaling \$2,593,000,000 are still undergoing construction.
- The requested release of reserves would not provide any funding for (a) management and engineering (soft) costs; (b) any unforeseen CDRP environmental mitigation costs; or (c) any construction contingency required for the 25 additional months that are now required to complete the CDRP and the entire WSIP.

According to PUC Budget Director Mr. Carlos Jacobo, the PUC will be replenishing the WSIP Program Management Reserve through savings realized from (a) lower construction bids on other active WSIP projects; (b) closeout of projects with remaining balances; (c) reduction of the construction contingency amounts on other WSIP projects that are near completion and have a low risk of additional change orders; and (d) reduction of soft (management) costs on the overall WSIP. The PUC is currently developing an estimate of the amount of savings that can be reasonably realized through these four sources. According to WSIP Director Ms. Julie Labonte, the PUC will provide an update on the total estimated savings to the PUC Commission on March 19, 2013, and will provide a formal response to the PUC pertaining to the ten BAWSCA recommendations after the PUC Commission's April 23 meeting.

POLICY CONSIDERATION

The PUC Should Report Its Responses to the Ten BAWSCA Recommendations to the Budget and Finance Committee of the Board of Supervisors

As is noted in the Background Section above, the PUC Commission approved the \$117,000,000 release of reserve, and incorporated 10 recommendations made by BAWSCA to the PUC Commission. These recommendations include requiring the PUC to report on cost saving measures that may be necessary to ensure that the PUC does not exceed the total WSIP budget of \$4,585,556,260.

Because the PUC Commission adopted the BAWSCA recommendations when it approved the PUC's requested release of \$117,000,000 reserves, and because those recommendations speak to fiscal and other concerns, the Budget and Legislative Analyst recommends that on or before May 31, 2013, the PUC report to the Budget and Finance Committee of the Board of Supervisors with the following information requested by BAWSCA:

- A cost saving plan for slowing the expenditure of contingency funds and soft costs so that all available funds can be used for completing the WSIP within the approved \$4,585,556,260 budget;

- A re-evaluated forecast of cost at completion for individual WSIP projects and for the WSIP as a whole;
- Potential project cost reductions or savings to fund the remaining estimated costs, and identify any budget shortfall;
- Revised schedules, as necessary, for all remaining WSIP projects;
- Schedules for completing other activities related to achieving the PUC's Levels of Service goal;
- A plan for keeping all other WSIP projects and activities, aside from the CDRP, on schedule for completion by the end of July 2016; and
- A plan to terminate all unnecessary WSIP organizational components, except for the Calaveras Dam Replacement Project, by July 31, 2016.

RECOMMENDATIONS

1. Request that the PUC report to the Budget and Finance Committee of the Board of Supervisors by May 31, 2013 on the PUC's responses to BAWSCA's ten recommendations, as discussed in the Policy Consideration section below.
2. Approve the requested release of reserved funds.

Summary of Calaveras Dam Project Modifications

| Adopted Project | Modified Project |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Facilities | |
| Replacement dam: design criteria, design and composition of the replacement dam (Final EIR, pages 3-24 to 3-28) | Same, no changes |
| Spillway: Excavation of a portion of Observation Hill for new spillway with an overall slope of 1.3:1 resulting in 1.87 million cubic yards of non-NOA containing excavated materials for disposal (Final EIR, pages 3-28 to 3-30 and 3-37) | Spillway excavation in portion of Observation Hill graded from overall slope of 1.3:1 to 2:1 resulting in an additional 1.3 million cubic yards of non-NOA containing excavated materials for disposal |
| Intake shafts/ adits (tunnel entrance) (Final EIR, pages 3-30 to 3-31) | Same, no changes |
| Outlet pipe, stream discharge valves, supporting facilities (Final EIR, pages 3-31) | Same, no changes |
| Instrumentation (Final EIR, pages 3-31 to 3-32) | Same, no changes |
| Alameda Creek Diversion Dam (ACDD) bypass facility (Final EIR, pages 3-32) | Same, no changes |
| Construction | |
| Use of the existing dam as the cofferdam (Final EIR, page 3-33) | Same, no changes |
| Excavation and construction of the dam foundation and embankment resulting in 2.325 million cubic yards of material for disposal (Final EIR, pages 3-35 to 3-37) | Additional excavation of left dam abutment and foundation to remove newly discovered landslide hazards resulting in an additional 1.71 million cubic yards of material for disposal |
| Source of materials for construction (Final EIR, pages 3-37 to 3-42) | Same, no changes |
| Construction staging areas (Final EIR, page 3-43) | Same, no changes |
| Four disposal sites with a combined total capacity of 5.28 million cubic yards (Final EIR, pages 3-43 to 3-49) | Five disposal sites added with combined total capacity of 3.235 million cubic yards to accommodate excess excavated materials resulting from additional excavation in Observation Hill and expansion of Disposal Site 2 from 900,000 cubic yards to 1.3 million cubic yards |
| Haul route located on the northeast side of the reservoir between the dam and Disposal Site 7 (Final EIR, page 3-54) | New haul route to Disposal Site 7 through Disposal Site F to access Disposal Sites 7 and G, would replace the Disposal Site 7 haul road |
| Demolition and construction of support buildings (Final EIR, page 3-55) | Same, no changes |
| Blasting (Final EIR, pages 3-55 to 3-56) | Same, no changes |
| Construction of ACDD bypass facility (Final EIR, pages 3-56 to 3-59) | Same, no changes |
| SFPUC standard construction measures and greenhouse gas reduction actions (Final EIR, pages 3-59 to 3-60) | Same, no changes |
| Two shutdowns of the dam outlet works during construction (approximately mid-April to mid-November in either 2011 and 2012 or 2012 and 2013) to allow excavation of the dam foundation and extension of the outlet conduit, and to connect the new intake shaft to the outlet conduit (Final EIR page 3-62) | One additional shutdown of the dam outlet works in mid-April to mid-November 2015 |
| Operations | |
| Calaveras Reservoir operations (Final EIR, pages 3-64 to 3-65) | Same, no changes. |
| Cone valve operations (Final EIR, pages 3-65 to 3-66) | Same, no changes |
| ACDD Operations (Final EIR, page 3-66) | Same, no changes |
| Resident rainbow trout flow releases (Final EIR, pages 3-66 to 3-69) | Same, no changes |
| Steelhead flow releases (Final EIR, pages 3-69 to 3-70), including footnotes to Table 3.7 (page 3-70) | Same, no changes |

Summary of Project Construction Schedule Changes

The resulting changes to the detailed project construction schedule contained in the EIR are shown below in ~~strike through~~ and underline format.

The estimated duration of construction would be approximately ~~4.7~~ years. In the first construction season, which ~~would be began~~ in August 2011 assuming Notice to Proceed is issued to the contractor in spring of that year, work would primarily included:

- Mobilization (e.g., site preparation, establishing staging areas);
- Demolition of existing site facilities (exclusive of the dam);
- Preparing the haul roads and access roads;
- Stabilizing the right abutment landslide;
- Begin Constructing the dikes for Disposal Sites 3 ~~and 7~~;
- ~~Excavating the stilling basin, and placement of the excavated materials in disposal sites;~~
- ~~Importing 20,800 cubic yards of filter and drain materials for Disposal Sites 3 and 7 finger drains;~~
- ~~Starting excavation of the dam foundation;~~
- ~~Excavating the intake shaft and adits; and~~
- Installing temporary water and power supplies for construction; and
- Implementing temporary wintertime stabilization measures each year.

In the second construction season, assumed to be 2012, work ~~would~~ primarily included:

- Excavating the ~~lower~~ left abutment ~~trench~~;
- Stabilizing the right dam abutment landslide;
- Excavating the right dam abutment;
- Excavating the dam foundations;
- Grouting the right abutment foundation;
- Excavating the intake shaft and adits;
- Excavating Borrow Area B;
- Complete constructing the dikes for Disposal Sites 3 and 7;
- ~~Constructing the intake shaft and tower;~~
- Constructing the stilling basin;
- ~~Constructing the crest electrical building;~~
- Interconnecting the old and new intake shafts and connecting to outlet conduit;
- ~~Start importing 298,300 cubic yards of filter and drain materials for dam construction; and~~
- Importing 20,800 cubic yards of filter and drain material for Disposal Sites 3, 7, and A/D; and
- Constructing the west shore haul route.

In the third construction season, assumed to be 2013, work would primarily include:

- Preparing Disposal Sites F and I for use;
- Preparing left abutment layback area;
- Installing turbidity curtains for Disposal Sites F and I;
- Excavating spillway cut;
- Hauling temporary spoils into Disposal Site A/D;
- Constructing the dam crest electrical building;
- ~~Importing filter and drain materials for dam construction;~~
- ~~Excavating the upper left abutment trench;~~
- Preparing the core and shell foundations and grouting; and
- Installing upstream intake pipe.
- ~~Beginning excavation of the spillway foundation;~~
- ~~Starting construction of the spillway chute; and~~
- ~~Constructing the replacement dam up to Elevation 655 feet.~~

In the fourth construction season, assumed to be 2014, work would primarily include:

- Complete importing filter and drain materials;
- Constructing the spillway;
- Completing construction of the embankment;
- Excavating the channel in the existing dam;
- Installing the instrumentation;
- Installing plantings and restoring construction areas;
- Constructing permanent access roads and repaving the dam access road; and
- Repaving Calaveras Road.
- Preparing Disposal Site G to receive disposal material;
- Complete left abutment excavation;
- Complete spillway and stilling basin excavation;
- Complete dam foundation excavation;
- Grouting the left abutment; and
- Begin excavating Borrow Area E.

In the fifth construction season, assumed to be 2015, work would primarily include:

- Starting importation of 298,300 cubic yards of filter and drain materials for dam construction;
- Begin constructing replacement dam; and
- Installing downstream outlet pipe.

In the sixth construction season, assumed to be 2016, work would primarily include:

- Complete importing filter and drain materials for dam construction;
- Complete constructing replacement dam;
- Constructing spillway and chute;
- Constructing stilling basin;
- Interconnecting the old and new intake shafts and connecting to outlet conduit;
- Excavating channel in the existing dam; and
- Constructing spillway bridge.

In the seventh construction season, assumed to be 2017, work would primarily include:

- Constructing the downstream electrical building, and utilities;
- Constructing permanent access roads and repaving the dam access road;
- Restoring disposal sites, borrow areas, staging areas, and haul roads; and
- Repaving Calaveras Road.