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

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February 19, 2016

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: February 24, 2016 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File		Page
2	16-0091	Industrial Lease Agreement – Tanforan Industrial Park, LLC – Bus Operator Training Courses - $2,480,304 Initial Annual Base Rent	1
3	16-0129	Hearing – Reserved Funds - Police Department – Body Worn Camera Program - $2,400,000	7
4	16-0007	Lease Amendment – Pacific Gateway Concessions, LLC – Airport Concessions – Minimum Annual Lease Amount of $958,366.08	11
5	16-0008	2011 Lease and Use Agreement – China Southern Airlines Company Limited – Estimated Rent of $1,283,008.93	16
6	16-0044	Contract Amendment – San Francisco AIDS Foundation – HIV Prevention Services – Not to Exceed $20,282,525	20

Item 2 File 16-0091	Department: San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize a nine and one-half year lease between the San Francisco Municipal Transportation Agency (SFMTA) and Tanforan Industrial Park, LLC, at 30 Tanforan Avenue in South San Francisco for a bus operator training facility, at an initial annual rent of $2,480,304 with annual 2% increases, and include an option to extend the lease, purchase option and right of first refusal.

Key Points

- To train SFMTA's motor coach, bus and trolley operators, SFMTA currently licenses with (a) the Cow Palace to use its large parking lot, (b) the City of Alameda for its former naval airstrip lot and (c) through the City's Real Estate Department to use the Alemany Farmer's Market, depending on availability. Currently, the SFMTA pays $155,000 annually for these licenses to conduct off-street bus operator driving course trainings and skills testing.

Fiscal Impact

- The owner, at an estimated cost of $12 million, will demolish structures and provide a paved concrete pad, access to utilities, associated landscaping and security features.
- The initial annual rental rate of $2,480,304 reflects a 1500% increase over SFMTA's current $155,000 annual rental training facility costs. SFMTA will pay total rent of $25,429,754 over the initial nine year, five month term. SFMTA projects operating expenses of $508,590, such that SFMTA will expend $25,938,344 to rent and operate this new operator training facility over the nine year, five month term.
- SFMTA operating funds would be used to pay for the lease and related operating costs.
- An appraisal on August 28, 2014 found that the value of the land, if vacant and unimproved was $17,489,340. With the leasehold improvements, the appraised value was $28,822,432. If SFMTA leases and then exercises its option to purchase at the earliest date, the SFMTA would pay an estimated total minimum lease and purchase price of $44,468,489.

Policy Consideration

- The SFMTA would spend approximately $25.4 million in rent over a nine year, five month term. If the City of South San Francisco does not extend the existing Development Agreement with the owner, SFMTA will be in the same situation as it is currently, with even fewer lease or purchase options. If SFMTA exercises its option to purchase this site, SFMTA would expend at least $44.5 million with no guarantee that the site could be used as a long term bus operator training facility.

Recommendations

- Amend the proposed resolution to nine years, five months, as stated in the lease, not nine years, six months, as stated in the resolution.
- Approval of the proposed resolution, as amended, is a policy decision for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract or agreement entered into by a department for a period of ten or more years, or requiring anticipated expenditures by the City of $10,000,000 or more, is subject to Board of Supervisors approval.

Administrative Code Section 23.27 states that it is City policy that all leases of real property on behalf of the City as tenant be approved by resolution of the Board of Supervisors.

BACKGROUND

Currently, the San Francisco Municipal Transportation Agency (SFMTA) has approximately 2,500 Muni transit operators.[1] To train SFMTA's motor coach, bus and trolley operators, SFMTA currently has short-term licenses with (a) the Cow Palace to use its large parking lot, (b) the City of Alameda for its former naval airstrip lot and (c) through the City's Real Estate Department to use the Alemany Farmer's Market[2]. The dates and schedules for each of these sites vary, depending on availability. Currently, the SFMTA pays $155,000 annually for these licenses to conduct off-street bus operator driving course trainings and skills testing.

Each new SFMTA bus operator requires 44 days of training for skills and Department of Motor Vehicle (DMV) testing, which includes both classroom and on and off-the-road training. Existing SFMTA operators also require ongoing training to ensure continued safe operations of vehicles, including operator refresher training, requalification for operators returning from long term leaves of absences, line trainer training, accident prevention training, refresher training, collision and incident training and maintenance employee commercial driver license training.

Beginning in 2001, SFMTA began searching for an alternative permanent location to provide bus and trolley operator training, evaluating more than 25 potential sites, which would provide 6-8 acres to accommodate four outdoor, off-street training courses, onsite bus staging area for up to 16 buses and space for modular training classrooms.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the SFMTA to execute an Industrial Lease Agreement with Tanforan Industrial Park, LLC for approximately 7.3 acres at 30 Tanforan Avenue in South San Francisco to be used for SFMTA's bus operator training facility for a nine and one-half year term estimated to extend from October 1, 2016 through February 28, 2026, at an initial annual base rent of $2,480,304 with annual 2% rent increases. The subject Industrial Lease Agreement also includes an extension option, a purchase option and a right of first refusal option.

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[1] Transit operators include motor coach, bus, trolley and light rail operators, with cross training an on-going endeavor for SFMTA. Training for light rail vehicle operators does not require a significant amount of space and is conducted within existing SFMTA rail yards, using rail simulators as well as light rail vehicles.

[2] In addition to these sites, in prior years, SFMTA has also used property at the Port of San Francisco, Candlestick, Port of Oakland, San Francisco International Airport, SFMTA facilities and other private properties to conduct bus operator trainings.

The 30 Tanforan Avenue property is located in South San Francisco, 10.9 miles from 1 South Van Ness, SFMTA headquarters and 5.6 miles from the San Francisco County line, with the San Bruno BART Station and San Bruno Caltrain Station within walking distance from the property.

On January 19, 2016, the SFMTA Board of Directors approved a resolution authorizing the Director of Transportation of the SFMTA to execute the subject agreement and to forward this resolution to the Board of Supervisors for approval.

Current Site and Development Agreement

Currently the 30 Tanforan Avenue site contains seven vacant single-story metal and concrete buildings totaling 147,258 square feet, which were previously used for various industrial uses, including manufacturing, expediting, storage and offices. Under the proposed agreement, the owner, at his sole expense, will demolish the entire 7.3 acre site and provide a flat, paved structural concrete pad, access to standard utilities, associated landscaping and security features, estimated to cost $12 million. In order to complete these leasehold improvements, the owner and the City of South San Francisco negotiated a Development Agreement, which allows the SFMTA bus operator training uses on the property through February 28, 2026. If the Development Agreement is extended, SFMTA would have the option to extend the term of the lease on the same terms and conditions, based on the length of the Development Agreement extension. However, the proposed SFMTA bus operator training use is not consistent with the long-term City of South San Francisco's vision to provide offices at this site, which is within walking distance of both the San Bruno BART Station and the San Bruno Caltrain Station.

Major Lease Provisions

Table 1 below summarizes the major provisions of the proposed agreement.

Table 1: Summary of Proposed Lease Provisions

Premises	317,988 square feet or approximately 7.3 acres at 30 Tanforan Avenue, South San Francisco
Lessor/Owner	Tanforan Industrial Park, LLC
Purpose	SFMTA bus operator training courses, storage of buses and equipment and all other lawful related uses
Term	Nine years, five months from approximately October 1, 2016 through February 28, 2026
Options to Extend	Depends on whether the Development Agreement between the owner and the City of South San Francisco is extended, at sole discretion of SFMTA
Base Rent	Initially $206,692 per month ($0.65 per square foot), or $2,480,304 annually
Rent Adjustment	Two percent per year
Leasehold Improvements	Owner to demolish structures, provide paved concrete pad, utilities, landscaping and security, estimated to cost $12,000,000 at owner's expense
Utilities, Janitorial and Security	Lessor to provide utility connections. SFMTA responsible for cost of all utilities and services.
Purchase Option	SFMTA's right to purchase in years seven through nine based on appraisals
Right of First Refusal	SFMTA's right of first refusal to purchase property throughout term of lease

As noted above, the proposed lease is for a term of nine years and five months, however, the subject resolution states the term is nine years and six months. Therefore, the proposed resolution should be amended to make the term consistent with the subject lease.

Right to Purchase Property

The SFMTA also negotiated (a) a right of first refusal to purchase the property throughout the term of the lease and (b) the right to purchase the subject property in years seven through nine, or in 2023 through 2025, based on a joint appraisal or separate appraisals by the landlord and SFMTA. These appraisals will determine the fair market value based on the highest and best use for the property. If the fair market values of the appraisals differ by more than 10%, a third appraiser could be brought in to conduct a hearing to determine the fair market value, which would be the purchase price. Actual purchase of this site would be subject to Board of Supervisors approval.

Related Agreements

The proposed lease agreement includes a Subordination, Nondisturbance and Attornment Agreement, between SFMTA, the owner and a potential lender, in which SFMTA agrees to allow its interest in the property to be subordinate to a future lender. This would provide the landlord the flexibility to seek financing secured by the property after the lease is executed. In addition, in the event of foreclosure on the property, this Agreement gives the SFMTA the right to continue to occupy the leased premises, obligating the SFMTA to recognize the new owner of the property as landlord, under the same terms and conditions as the proposed lease.

FISCAL IMPACT

Projected Lease and Operating Costs

Based on the initial annual rent of $2,480,304 per year plus two percent annual increases, the proposed nine year and five month lease would cost the SFMTA an estimated total of $25,429,754 for rent, as shown in Table 2 below.

Table 2: Projected Lease Rental and Operating Expenditures

Year	Rent	Operating & Maintenance	Total Annual Costs
1	$2,480,304	$49,606	$2,529,910
2	2,529,910	50,598	2,580,508
3	2,580,508	51,610	2,632,118
4	2,632,118	52,643	2,684,761
5	2,684,761	53,695	2,738,456
6	2,738,456	55,000	2,793,456
7	2,793,456	55,634	2,849,090
8	2,849,090	56,981	2,906,071
9	2,906,071	58,121	2,964,192
5 months	1,235,080	24,702	1,259,782
Total	**$25,429,754**	**$508,590**	**$25,938,344**

The SFMTA will provide two trailers to serve as a break room, restrooms and modular classroom, at an estimated rental cost to the SFMTA of $1,500 per month or $18,000 annually to accommodate up to 55 drivers and support staff for training purposes. In addition to the $25,429,754 cost to rent the property, the SFMTA anticipates operating and maintenance costs of $508,590 over the nine year and five month lease, which includes the cost to rent the trailers, utility, janitorial and related costs, or approximately two percent of the base rent annually. As shown in Table 2 above, over the nine year, five month lease term, the SFMTA will expend an estimated $25,938,344 to rent and operate and maintain this new bus operator training facility.

As noted above, SFMTA currently spends approximately $155,000 annually for short term licenses for off-street bus operator training facilities. As shown in Table 2 above, during the first year of the proposed lease, the SFMTA will pay $2,480,304 in rent, which is over 1500% more than the SFMTA currently spends for rental bus operator training facilities.

SFMTA operating funds would be used to pay for the lease and related operating and maintenance costs in the SFMTA's FY 2015-16 budget and in subsequent fiscal years, subject to Board of Supervisors appropriation approval.

Appraised Value of Property

An appraisal of 30 Tanforan Avenue in South San Francisco, conducted by David Tattersall, MAI, retained by SFMTA on August 28, 2014 found that the value of the land, if vacant and unimproved was $17,489,340, or $55.00 per square foot. With the leasehold improvements to be completed by the owner, the estimated overall appraised value of the land and improvements was $28,822,432. As shown in Table 2 above, if the SFMTA rents the property for the proposed nine year, five month lease, the SFMTA would pay the owner total rent costs of $25,429,754 over that term, which is only $3,392,678 less than the appraised value including the improvements. However, SFMTA advises that the owner is not willing to currently sell the property.

If the SFMTA exercises the option to purchase at the earliest date, or after year six (allowable from year seven through nine), the SFMTA would potentially pay an estimated total rent of $15,646,057 through year 6 to lease and then an additional estimated price of $28,822,432 to purchase based on the current appraisal, or a total of $44,468,489. However, the purchase price is likely to be significantly higher than $28,822,432, as it would be based on an appraisal of the highest and best use for the property and would be completed approximately six years from now.

POLICY CONSIDERATION

Mr. Jason Gallegos, Real Estate Development Manager at SFMTA advises that based on SFMTA's exhaustive search for properties in San Francisco and the northern Peninsula, the 30 Tanforan Avenue site in South San Francisco is the only industrially-zoned site that is available and large enough to accommodate a SFMTA bus and trolley operator training facility. Mr. Gallegos further advises that if the subject Tanforan property is not leased, SFMTA would have to continue to provide operator training at various sites on a sporadic basis when useable land is available as is the current practice.

However, if the Board of Supervisors approves the proposed lease, the SFMTA would spend approximately $25.4 million in rent over a nine year, five month term, from SFMTA operating funds. At the end of that period, if the City of South San Francisco does not extend the existing Development Agreement with the owner of the property, to allow a bus operator training facility on this site, the SFMTA will find itself in the same situation as it is currently, with the likelihood that there would be even fewer lease or purchase options at that time. Similarly, if the SFMTA exercises its option to purchase this site from years seven through nine, the SFMTA would expend a minimum of $44.5 million, including the rental cost and cost to purchase the property, with no guarantee that the site could be used as a long term bus operator training facility because the City of South San Francisco may require a different use for the property. Therefore, approval of the proposed lease is a policy decision for the Board of Supervisors.

RECOMMENDATIONS

1. Amend the proposed resolution to nine years, five months, as stated in the lease, instead of nine years, six months as stated in the resolution.
2. Approval of the proposed resolution, as amended, is a policy decision for the Board of Supervisors.

Item 3 File 16-0129	Department: Police Department (Police)

EXECUTIVE SUMMARY

Legislative Objectives

The Police Department is requesting the Budget and Finance Committee of the Board of Supervisors to release the $2,400,000 placed on Budget and Finance reserve in FY 2015-16, pending submission of budget details for the Body Worn Camera Program.

Key Points

- The Board of Supervisors appropriated $2,720,368 in the San Francisco Police Department's (SFPD) FY 2015-16 budget to implement the Body Worn Camera Program, including 11 new positions and contractual services. The Board of Supervisors reserved $2,400,000 pending submission of details on implementation of the program.
- The Police Commission adopted the Body Worn Camera Policy on December 2, 2015.The Police Department plans to implement the Body Worn Camera Program in March 2016. The Department hired nine of the 11 new positions, with a tentative start date of March 1, 2016. The Department selected a contractor to provide camera hardware and data support, following a competitive Request for Proposals (RFP) process. According to the Police Chief, the Department is in negotiations with the selected vendor, which are expected to be completed by March 14, 2016.
- The Body Worn Camera Program will provide cameras to approximately 1,800 police officers assigned to ten district stations and assigned to the Public Safety Building, Police Academy, Department Operations Center, and Traffic Division.

Fiscal Impact

- The Police Department's FY 2015-16 budget for the Body Worn Camera Program is $2,722,034. This budget includes installation of fiber, electrical and other infrastructure; development of an information systems security firewall and asset management system; information technology staff support by Enpointe Technology; hire of nine new positions for the program; and program contractor costs.

Recommendation

- Approve the requested release of $2,400,000 on Budget and Finance Committee reserve.

MANDATE STATEMENT

Administrative Code Section 3.3(e) provides for the committee of the Board of Supervisors having jurisdiction over the budget (Budget and Finance Committee) to place funds on reserve. These funds may be released by the Budget and Finance Committee.

BACKGROUND

The Board of Supervisors appropriated $2,720,368 in the San Francisco Police Department's (SFPD) FY 2015-16 budget to implement the Body Worn Camera Program, including 11 new positions and contractual services. The Board of Supervisors reserved $2,400,000 pending submission of details on implementation of the program.

The Police Department convened a Body Worn Camera Working Group, with representatives from the Police Department, Department of Human Resources, Office of Citizen Complaints, San Francisco Bar Association, Human Rights Commission, and Public Defender's Office, to draft the Body Worn Camera Policy. The Body Worn Camera Policy sets guidelines for use of the cameras by police officers, access to and use of camera recordings, and retention of camera recordings. The Department's Risk Management Office administers the Body Worn Camera Program. The Police Commission adopted the policy on December 2, 2015.

The Police Department plans to implement the Body Worn Camera Program in March 2016. The Department hired nine of the 11 new positions, with a tentative start date of March 1, 2016.

The Department selected a contractor to provide camera hardware and data support, following a competitive Request for Proposals (RFP) process. According to the Police Chief, the Department is in negotiations with the selected vendor, which are expected to be completed by March 14, 2016.

DETAILS OF PROPOSED LEGISLATION

The Police Department is requesting the Budget and Finance Committee of the Board of Supervisors to release the $2,400,000 placed on Budget and Finance reserve in FY 2015-16, pending submission of budget details for the Body Worn Camera Program.

The Body Worn Camera Program will provide cameras to approximately 1,800 police officers assigned to ten district stations and assigned to the Public Safety Building, Police Academy, Department Operations Center, and Traffic Division. The Department estimates that each police officer will record two hours of video per shift. Approximately 20 percent of the video recordings will be retained permanently, and the remaining video will be retained for either 13 months or 25 months and then deleted. The selected contractor is responsible for providing the cameras and associated equipment, and for data management and storage.

FISCAL IMPACT

The Department has provided a FY 2015-16 budget of $2,722,034 for the Body Worn Camera Program, as shown in Table 1 below.

Table 1: FY 2015-16 Body Worn Camera Program Costs

	One Time	Ongoing	Total
Infrastructure	$660,000		$660,000
Maintenance and support	450,000	100,000	550,000
Enpointe Technology staff support	250,000		250,000
SFPD salaries and benefits from March 1, 2016 through June 30, 2016		332,034	332,034
1,800 cameras and related accessories	380,000		380,000
Camera program licenses (data management/storage and other)		550,000	550,000
Total[1]	$1,740,000	$932,034	$2,722,034

Source: Police Department

- Infrastructure includes fiber installation, electrical upgrades and other infrastructure upgrades. This work is performed by Police Department staff and through work orders between the Police Department and Departments of Technology and Public Works.

- Maintenance and support includes (a) development of an asset management system to track cameras and associated equipment, (b) setting up an information systems security fire wall, and (c) other program support.

- The Department contracted with Enpointe Technology to provide information technology staff support to implement the Body Worn Camera Program.

- The Department's FY 2015-16 budget contained 11 new positions to support the Body Worn Camera Program. The Department hired nine Legal Assistant positions for the Body Worn Camera Program with an estimated start date of March 1, 2016. The Department has not yet hired the two information technology positions – one Senior IS Engineer and one IT Operations Support Administrator III.

- The selected contractor will provide the cameras and associated accessories, and data management and storage. As noted above, the Department is still in negotiations with the selected contractor.

[1] The budget for the Body Worn Camera Program of $2,722,034 exceeds the Board of Supervisors appropriation of $2,720,368 by $1,666, which according to Department staff, will be absorbed in the Department's existing budget.

As noted above, the Board of Supervisors appropriated $2,720,368 in the Police Department's FY 2015-16 budget to implement the Body Worn Camera Program, which includes the $2,400,000 placed on Budget and Finance Committee reserve. Based on the budget provided by the Department as shown in Table 1 above, the Budget and Legislative Analyst recommends release of the requested $2,400,000 for the Body Worn Camera Program in FY 2015-16.

RECOMMENDATION

Approve the requested release of $2,400,000 on Budget and Finance Committee reserve.

Item 4 File 16-0007	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the fifth amendment to the lease between the San Francisco International Airport (Airport) and Pacific Gateway Concessions, LLC (Pacific Gateway), which would (a) extend the lease term for three of the four leased locations; and (b) terminate one of the leased locations, reducing the total square feet to 2,288, in order to accommodate the Airport's Terminal 1 Redevelopment Program.

Key Points

- In 2015, the San Francisco International Airport (Airport) commenced construction for the Terminal 1 Redevelopment Program to modernize Terminal 1 and Boarding Areas B and C. The Program will provide improved passenger circulation with access to 24 gates, new passenger loading bridges, and new concessions. The estimated cost of the Program is $2,400,000,000, and is expected to be completed in 2023.
- The Board of Supervisors authorized the original five-year lease between the Airport and Pacific Gateway based on a competitive process. The lease term was from 1999 to 2004. The lease has been amended four times, extending the lease term through June 2015 without a competitive process. The lease extensions were due to (1) the Airport's Concession Support Program due to slowdown in air travel after the September 11, 2001 attacks (first amendment); and (2) the Terminal 1 Redevelopment Program (third and fourth amendments). The third and fourth amendments reduced the number of locations and extended the lease term for the remaining locations to maintain concessions in Terminal 1 pending closure of sections of Boarding Areas B as part of the Terminal 1 Redevelopment Program. However, changes to the Program resulted in delays or revisions to the planned closures.
- The Airport now expects to begin renovation of the Boarding Area B space in spring 2018, which does not allow sufficient time to select a new concessions vendor.

Fiscal Impact

- The estimated total rent to be paid by Pacific Gateway to the Airport from March 1, 2016 through the end of the lease term on September 30, 2019 is $3,731,553.

Policy Consideration

- The Airport acknowledges that if the Airport had known, in 2009, that the majority of the Pacific Gateway premises were going to be in place through 2019, it may have chosen to issue a Request for Proposals. However, according to the Airport, numerous airline moves resulting in fewer passengers in Terminal 1 combined with a changing schedule for the Terminal 1 Redevelopment Program, supported the two prior and the current Pacific Gateway lease extensions at the time that those decisions were made.

Recommendations

1. Amend the proposed resolution to provide for retroactive approval o June 2015.
2. Approve the proposed resolution as amended.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In 2015, the San Francisco International Airport (Airport) commenced construction for the Terminal 1 Redevelopment Program to modernize Terminal 1 and Boarding Areas B and C. The Program will provide improved passenger circulation with access to 24 gates, new passenger loading bridges, and new concessions. The estimated cost of the Program is $2,400,000,000, and is expected to be completed in 2023.

In December 1998, the Board of Supervisors authorized a lease agreement between the Airport and Pacific Gateway Concessions, LLC (Pacific Gateway) providing Pacific Gateway with 6,324 square feet at Terminal 1 Boarding Areas B and C at the Airport to sell retail goods including newspapers and candy for a term of five years expiring in 2004. Rent paid to be to the Airport was equal to the greater of Minimum Annual Guarantee (MAG) of $2,170,001 or a percentage rent of gross receipts of sales. The lease also required a minimum investment of $927,000 to build out tenant improvements at the premises. The lease was awarded based on a competitive Request for Proposals (RFP) process.

The lease has been amended four times since 2002. The first amendment was executed in 2002 and added one option to extend the term for an additional five-year period through 2009.[1] The second amendment was executed in 2004 and reduced the square footage of the premises from 6,324 to approximately 5,766 and increased the MAG to $2,431,201. The third amendment was executed in 2009 and extended the lease for an additional three years from June 2009 to June 2012, and reduced the square footage from approximately 5,766 to 3,426 and decreased the MAG to $1,450,000. The fourth amendment was executed in 2011 and extended the lease term by two years from June 2012 to June 2014, and provided two one-year options to extend the lease to June 2016.

Table 1 below shows the rent paid by Pacific Gateway to the Airport throughout the term of the lease.

[1] The first amendment providing an additional five-year term was part of the Airport's Concession Support Program which reduced the MAG and extended the terms of the Airport's concession leases due to the slowdown in airline traffic after September 11, 2011.

Table 1: Rent Paid by Pacific Gateway to Airport

Year	Rent Paid
FY 98-99 (Jan. - June)	$423,981
FY 99-00	2,179,477
FY 00-01	2,176,201
FY 01-02	1,250,665
FY 02-03	1,144,635
FY 03-04	1,328,554
FY 04-05	2,431,201
FY 05-06	2,431,201
FY 06-07	2,431,201
FY 07-08	2,460,580
FY 08-09	2,421,570
FY 09-10	1,903,628
FY 10-11	1,644,294
FY 11-12	1,466,536
FY 12-13	1,640,536
FY 13-14	1,733,472
FY 14-15	1,506,196
FY 15-16 (July – Dec)	525,928
Total	**$31,099,856**

Source: San Francisco International Airport

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the fifth amendment to the lease between the Airport and Pacific Gateway, which would (a) extend the lease term for three of the four leased locations; and (b) terminate one of the leased locations, reducing the total square feet of 3,426 by 1,138 to 2,288 square feet in order to accommodate the Terminal 1 Redevelopment Program. Table 2 below shows the one location to be terminated and the three remaining locations that will be extended, and their expiration dates.

Table 2: Remaining Premises to be Leased by Pacific Gateway

Location	Current Square Footage	Current Expiration Date [a]	Proposed Square Footage	Proposed Expiration Date [b]
B1 - Specialty	2,000	June 2015	2,000	September 2019
B6 – Newsstand	1,138	June 2015	Cancelled	Expired
B2.2 – Newsstand Kiosk	64	June 2015	64	June 2016
C5 – Candy Cart	224	June 2015	224	September 2019
Total	**3,426**		**2,288**	

[a] The fourth amendment provided for an extended lease term from June 2012 to June 2014 with two one-year options to extend. The Airport exercised the first one-year option to extend the lease to June 2015.

[b] Pacific Gateway relinquished the newsstand in Boarding Area B when the lease expired in June 2015.

Retroactive Lease

The fourth amendment provided two one-year options to extend the lease. The Airport exercised the first one-year option to extend the lease through June 2015 but did not exercise the second one-year option to extend the lease through June 2016.

The Airport Commission approved the original version of the proposed fifth amendment to the lease between the Airport and Pacific Gateway in June 2015. Due to design changes in the Terminal 1 Redevelopment Program, the fifth amendment was revised, and approved by the Airport Commission in October 2015. The proposed resolution should be amended to approve the proposed fifth amendment to the lease retroactive to June 2015.

FISCAL IMPACT

As shown in Table 3 below, the estimated total rent to be paid by Pacific Gateway to the Airport from March 1, 2016 through the end of the lease term on September 30, 2019 is $3,731,553.

Table 3: Estimated Total Rent to be Paid by Pacific Gateway through End of Lease Term

Fiscal Year	Square Footage	MAG per Square Foot [b]	Rent Paid
FY 2015-16 (four months)	2,288[a]	$431	$410,810
FY 2016-17 (full year)	2,224	444	987,117
FY 2017-18 (full year)	2,224	457	1,016,731
FY 2018-19 (full year)	2,224	471	1,047,232
FY 2019-20 (three months)	2,224	485	269,662
Total			**$3,731,552**

[a] includes premises B2.2 at 64 square feet, which will expire at the end of FY 2015-16
[b] MAG is estimated to increase by three percent each year

Impact of Reduction of Square Footage on Airport Budget

As a result of the Airport's "residual rate setting methodology" (breakeven policy) used by the Airport to determine rental rates, landing fees, and related fees for all Airlines, the proposed resolution amending the Pacific Gateway, will not result in any budgetary shortfall for the Airport. The residual rate setting methodology is a formula which sets the schedule of all rental rates, landing fees, and related fees to a level which ensures that Airport revenues received from all of the airlines at the Airport, plus the non-airline revenues received by the Airport, is equal to the Airport's total costs, including debt service and operating expenditures. Therefore, any reduction to concession revenues, such as the subject reduction of square footage under the proposed resolution, will not have a direct impact on the Airport's budget.

In accordance with the Lease and Use Agreement between the Airport and the airlines, 15 percent of all concessions revenues realized by the Airport are transferred to the City's General Fund as an Annual Service Payment. According to Ms. Frishtah Afifi, Principal Property Manager at the Airport, any loss of revenues due to the proposed lease amendment will be offset due to the residual rate setting methodology. In FY 2015-16, the Airport estimates providing an Annual Service Payment of approximately $41,700,000, to the City's General Fund.

POLICY CONSIDERATION

As stated above, the original lease between the Airport and Pacific Gateway was for five years from June 1999 to June 2004. The lease has been amended four times and extended by 11 years through June 2015 without a competitive process. According to Airport documents, the Airport extended the lease without a competitive process due to the planned renovation of Boarding Area B under the Terminal 1 Redevelopment Program, which did not allow sufficient time to solicit for a new vendor. Due to revisions to the Terminal 1 Redevelopment Program, the timeframe to renovate Boarding Area B has been delayed.

According to Ms. Afifi, the Airport decided to enter into the proposed fifth amendment, which extends the Pacific Gateway lease through September 2019, rather than issue an RFP for a new vendor for the Boarding Area B space because the pending renovation of the Boarding Area B space is now expected to begin in spring 2018,[2] or approximately two years, which does not allow sufficient time to select a new vendor.

Ms. Afifi acknowledges that if the Airport had known, in 2009, that the majority of the Pacific Gateway premises were going to be in place through 2019, it may have chosen to issue a Request for Proposals. However, according to Ms. Afifi, numerous airline moves resulting in fewer passengers in Terminal 1 combined with a changing schedule for the Terminal 1 Redevelopment Program, supported the two prior and the current Pacific Gateway lease extensions at the time that those decisions were made.

RECOMMENDATIONS

1. Amend the proposed resolution to provide for retroactive approval of the fifth amendment to June 2015.
2. Approve the proposed resolution as amended.

[2] Although the fifth amendment provides an extension of the lease through September 2019, the Airport now expects to begin the Boarding Area B renovations in spring 2018. The fifth amendment allows the Airport to terminate the lease prior to September 2019.

Item 5 File 16-0008	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease of approximately five years and four months between the San Francisco International Airport (Airport) and China Southern Airlines Company Limited (China Southern) to continue flight operations and rent terminal space at the Airport.

Key Points

- In 2011, Airport negotiated a new Lease and Use Agreement with its domestic and international airlines that operate at the Airport. This Agreement allows airlines to provide flight operations and rent terminal space at the Airport and provides a common set of lease provisions that are used for these airlines. Such provisions include rent and fees paid by the airlines to the Airport, permitted uses of the premises, use of common facilities, and numerous other provisions.
- China Southern began flight operations on December 16, 2014 under Airline Operating and Space Permit. Provisions of the China Southern lease adhere to the provisions set forth under the 2011 Lease and Use Agreement. On November 17, 2015, the San Francisco Airport Commission approved a lease with China Southern to continue to provide flight operations and rent terminal space at the Airport under provisions of the 2011 Lease and Use Agreement in order to provide for a long-term lease to replace the space permit.

Fiscal Impact

- The Airport estimates total revenues to be $11,597,592 over the five year and four month term of the proposed new lease. Annual rent increases are determined by Airport Finance Division, and are estimated to average seven percent per year.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a term of ten years or more, including options to extend, or that has anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In 2011, the San Francisco International Airport (Airport) negotiated a new Lease and Use Agreement (Agreement) with its domestic and international airlines that operate at the Airport. This Agreement allows airlines to provide flight operations and rent terminal space at the Airport and provides a common set of lease provisions that are used for these airlines. Such provisions include rent and fees paid by the airlines to the Airport, permitted uses of the premises, use of common facilities, and numerous other provisions. The 2011 Lease and Use Agreement will expire on June 30, 2021.

China Southern Airlines Company Limited (China Southern) began flight operations on December 16, 2014 under Airline Operating and Space Permit No. 4434. Under the permit, the area of the premises was 940 square feet and the rental rate was $195.11 per square foot for Fiscal Year 2014-15. The permit would continue until it is revoked by either the Airport or China Southern. On November 17, 2015, the San Francisco Airport Commission approved a lease with China Southern to continue to provide flight operations and rent terminal space at the Airport under provisions of the 2011 Lease and Use Agreement in order to provide for a long-term lease to replace the existing permit.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease of approximately five years and four months between the Airport as landlord and China Southern as tenant for China Southern to continue to provide flight operations and rent terminal space at the Airport. The long-term lease would replace the existing permit with China Southern. Key provisions of the lease are shown in Table 1 below:

Table 1: Key Provisions of Lease between Airport and China Southern

Term	Lease commences upon approval by the Board of Supervisors and expires on June 30, 2021, approximately 5 years and 4 months
International Terminal Exclusive Use Space	940 square feet
International Terminal Joint Use Space	631,987 square feet
Terminal Rent for Exclusive Use Space	$206.66 per square foot $194,260 annually
Exclusive Use Space Rent Adjustment	Rent adjusted annually by Airport's Finance and Department, and approved by the Airport Commission.[1]
International Terminal Joint Use Rent	Joint Use Space rent is determined annually by formula.
Landing Fees	Landing Fees are determined by Airport Rates and Charges.
Utilities	China Southern to pay utilities, including gas, water, sewer, IT, and trash removal.
Deposit	Two months of terminal area rentals, landing fees, usage fees, per rates and charges.

FISCAL IMPACT

As shown in Table 2 below, the Airport estimates total rental and landing fee revenues to be paid by China Southern to the Airport to be $11,597,592 over the five year and four month term of the proposed new lease. Annual increases to rent and landing fees are determined by Airport Finance Division, and approved by the Airport Commission, and are estimated to be approximately seven percent each year. Joint Use Space rent is determined through a formula based on multiple variables that change each year. The Airport determines the rent amounts annually based on data collected from the previous period.[2] Landing Fees are determined by the Airport's Rates and Charges and are to be paid by China Southern based on its fleet mix and flight schedules.

[1] Each year, the Airport's Finance Division develops a forecast for revenue and expenses. The Airport then uses this forecast to adjust the rates for each category of rental space at the Airport.

[2] In the event there are several airlines that either commence or terminate flight operations in any given year, the Airport reserves the right to make mid-year adjustments.

Table 2: Estimated Rent and Landing Fees to be Paid by China Southern to Airport through Lease Term

Fiscal Year	Square Feet	Exclusive Use Rent	Annual Exclusive Use Rent	Joint Use Rent [b]	Landing Fees	Total Estimated Revenues
FY 2015-16[a]	940	$206.66	$64,753	$515,268	$57,523	$637,544
FY 2016-17	940	220.65	207,411	1,490,393	308,902	2,006,706
FY 2017-18	940	235.49	221,361	1,490,393	453,453	2,165,207
FY 2018-19	940	251.54	236,448	1,490,393	485,194	2,212,035
FY 2019-20	940	267.84	251,770	1,490,393	519,158	2,261,321
FY 2020-21	940	286.05	268,887	1,490,393	555,499	2,314,779
Total			**$1,250,630**	**$7,967,233**	**$2,379,729**	**$11,597,592**

Source: San Francisco International Airport

[a] Rent and fees for Fiscal Year 2015-16 are calculated for the remaining four months of the fiscal year.

[b] The Airport has estimated Joint Use rent for future fiscal years of the China Southern lease using currently known information; however the Airport will adjust the rental and landing fees each year according to formula.

RECOMMENDATION

Approve the proposed resolution.

Item 6 File 16-0044	Department: Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the fourth amendment to the contract between the Department of Public Health and the San Francisco AIDS Foundation to (a) increase the total not-to-exceed amount by $5,624,948 from $14,657,577 to $20,282,525 and (b) extend the contract term by two years from July 1, 2016 through June 30, 2018.

Key Points

- DPH entered into a contract with the San Francisco AIDS Foundation to provide HIV prevention services for a total not-to-exceed amount of $6,525,447 from September 1, 2011 through June 30, 2013, based on a competitive Request for Proposals process.
- DPH did not request Board of Supervisors approval for the first two amendments because the total not-to-exceed amount did not surpass the $10 million threshold and the contract term was not for more than 10 years.
- In 2014, the Board of Supervisors approved the third amendment to the contract to (a) increase the total not-to-exceed amount by $5,227,595 from $9,429,982 to $14,657,577, and (b) to extend the contract term by two years through June 30, 2016 (File 14-0504).

Fiscal Impact

- The total requested not-to-exceed amount of $20,282,525 for this contract includes (a) $1,919,631 from the Federal Center for Disease Control and (b) $18,362,894 from the City's General Fund.
- Based on actual, projected, and budgeted expenditures provided by DPH, the total contract need through June 30, 2018 is $20,231,412, which is $51,113 less than the DPH requested not-to-exceed contract amount of $20,282,525.

Recommendations

- Amend the proposed resolution to reduce the requested total not-to-exceed amount by $51,113, from $20,282,525 to $20,231,412.
- Amend the proposed resolution on page 2 to delete the inclusion of the STOP study.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

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

BACKGROUND

The Department of Public Health (DPH) has contracted with the non-profit organization, San Francisco AIDS Foundation since 1993 to obtain a variety of services for people living with HIV/AIDS and those who are at risk in San Francisco.

In 2011, DPH entered into a contract with the San Francisco AIDS Foundation to provide HIV prevention services for a total not-to-exceed amount of $6,525,447 for one year and ten months from September 1, 2011 through June 30, 2013, based on a competitive Request for Proposals process. The original contract also included eight one-year options to extend the contract through June 30, 2021 at the City's discretion.

DPH subsequently amended the original contract on two separate occasions to (a) exercise the first one-year option to extend the contract term through June 30, 2014 under Amendment No. 1 and (b) to increase the total not-to-exceed amount by $2,904,535 from $6,525,447 to $9,429,982 under Amendment No. 2. DPH did not request Board of Supervisors approval for these amendments because the total not-to-exceed amount did not surpass the $10 million threshold and the contract term was not for more than 10 years.

In 2014, the Board of Supervisors approved the third amendment to the contract to (a) increase the total not-to-exceed amount by $5,227,595 from $9,429,982 to $14,657,577, and (b) to extend the contract term by two years through June 30, 2016 (File 14-0504). Of the original eight one-year options, DPH now has five remaining one-year options to extend the contract.

Under the existing contract, the San Francisco AIDS Foundation currently provides the following programs and services:[1]

- **Community-Based HIV Testing**: HIV Testing for a wide range of gay men, men who have sex with men, intravenous drug users, and transgender females who have sex with men in the Castro and Tenderloin, to ensure HIV testing and linkages to care;
- **Stonewall Project**: Substance abuse services for men who have sex with other men and men who have sex with other men who are also intravenous drug users, to increase status awareness, increase viral load suppression, maintain or increase levels of protected sex, and increase access to safer injection supplies;

[1] The HIV Testing – STOP study was a short-term pilot project, which is now complete and no longer funded. The Syringe Access Services program was removed from this contract and developed in a separate contract agreement because this program was not allowed to be part of a Federally funded contract agreement.

- **African-American Prevention Initiative**: Deliver a comprehensive set of HIV prevention services to African-Americans who are either gay men or men who have sex with other men with diverse backgrounds and prevention needs; and
- **Stonewall Castro/LIFE Program**: Provide substance abuse counseling services for both gay men and men who have sex with other men in a new site in the Castro, in close coordination with the HIV testing and gay men's health services available at Magnet, a health-enhancement and wellness counseling program for people living with HIV.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the fourth amendment to the contract between the Department of Public Health and the San Francisco AIDS Foundation to (a) increase the total not-to-exceed amount by $5,624,948 from $14,657,577 to $20,282,525 and (b) extend the contract term by two years from July 1, 2016 through June 30, 2018.

The total requested not-to-exceed amount of $20,282,525 for this contract includes (a) $1,919,631 from the Federal Center for Disease Control and (b) $18,362,894 from the City's General Fund.[2] According to Michelle Ruggels, Director of DPH Business Office, DPH will request General Fund allocations in the FY 2016-17 and FY 2017-18 budgets to pay contract costs.

FISCAL IMPACT

Based on data provided by DPH, the proposed contract budget for FY 2016-17 and FY 2017-18 is $5,954,997 over two years, as shown in Table 1 below.

Table 1. Proposed FY 2016-17 and FY 2017-18 Contract Budget

Program	FY2016-17	FY2017-18	Total
Stonewall Project	$371,539	$371,539	$743,078
Community-Based HIV Testing	1,032,509	1,032,509	2,065,018
African American Prevention Initiative	573,579	573,579	1,147,158
Stonewall Castro/LIFE Project	680,854	680,854	1,361,708
Subtotal	**$2,658,481**	**$2,658,481**	**$5,316,962**
Contingency (12%)	319,018	319,017	638,035
Total Budget	**$2,977,499**	**$2,977,498**	**$5,954,997**[3]

[2] The Stonewall Project and Stonewall Castro/LIFE program is paid for using the General Fund. The African-American Prevention Initiative and the Community Based HIV Testing programs are funded by both the General Fund and the Center for Disease Control.

[3] The total proposed contract budget of $5,954,997 is more than the requested increase in the contract not-to-exceed amount of $5,624,948 because DPH has not yet spent up to the existing contract not-to-exceed amount.

Actual and projected contract expenditures from FY 2011-12 through FY 2015-16 are $14,276,415, and budgeted expenditures in FY 2016-17 and FY 2017-18 are $5,954,997, for a contract total of $20,231,412, as shown in Table 2 below.

Table 1. Actual, Projected and Budgeted Expenditures

Actual and Projected Expenditures	**Amount**
September 1, 2011 - June 30, 2012	$4,284,987
FY 2012-13	2,302,835
FY 2013-14	2,491,046
FY 2014-15	2,565,018
FY 2015-16 (Projected)	2,632,529
Subtotal Actual and Projected	**$14,276,415**
Budgeted Expenditures	**Amount**
FY 2016-17	$2,658,481
FY 2017-18	2,658,481
Contingency (12%)	638,035
Subtotal	**$5,954,997**
Total Requested Not-to-Exceed Amount	**$20,231,412**

Source: Department of Public Health (DPH) staff.

As shown in Table 1 above, based on actual, projected, and budgeted expenditures provided by DPH, the total contract need through June 30, 2018 is $20,231,412, which is $51,113 less than the DPH requested not-to-exceed contract amount of $20,282,525.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the requested total not-to-exceed amount by $51,113, from $20,282,525 to $20,231,412.
2. Amend the proposed resolution on page 2 to delete the inclusion of the STOP study.
3. Approve the proposed resolution as amended.