

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

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TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: September 9, 2015 Budget and Finance Committee Meeting

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| Item 5 File 15-1510 | Department: San Francisco International Airport (Airport) |
| EXECUTIVE SUMMARY | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve the first amendment to the existing lease between the Airport and the Hudson Group Retail, LLC (Hudson Group) for three lease locations in Terminal 3, Boarding Area F to (i) reduce the total leased space in Terminal 3, Boarding Area F from 2,574 square feet to 2,009 square feet, (ii) relocate The Fickle Bag to a larger location in Terminal 3, Boarding Area F, (iii) Reduce the MAG by \$156,074 from \$711,000 to \$554,926; and (iv) specify the seven-year lease term as of July 1, 2015, and expiring on June 30, 2022. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In April 2012, the Board of Supervisors approved a retail and concession lease between the Airport and the Hudson Group from April 1, 2012 through March 31, 2019. The lease included two newsstands, the San Francisco Magazine News and Hudson News, as well as one retail store, The Fickle Bag. • The Hudson Group only fully occupied two locations for The Fickle Bag and San Francisco Magazine News, and occupied only a portion of the third location for the Hudson Newsstand due to various Airport construction and renovation projects, • Under the original lease, the lease term was for seven years from approximately April 1, 2012 to March 31, 2019. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The Airport estimates that the three Hudson Group locations will generate approximately \$5,000,000 in gross revenues in the first year of operations. Based on the Airport's estimate of gross revenues, the Airport estimates that the Hudson Group would pay approximately \$770,000 in percentage rent in the first year, which is \$215,074 more than the MAG of \$554,926. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • According to Mr. Luke Bowman, Deputy City Attorney, under the original lease between the Airport and the Hudson Group, the commencement of the seven-year lease term was delayed pursuant to the terms of the lease because the Airport was not able to fully deliver all three lease locations. • Mr. Bowman states that the proposed first amendment will trigger the commencement of the seven-year lease term on July 1, 2015. • The Airport has revised the standard lease language to prevent future delays in lease commencement dates due to the Airport's inability to deliver the full lease location. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to be retroactive to July 1, 2015. • 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 April 2012, the Board of Supervisors approved a retail and concession lease between the San Francisco International Airport (Airport) and Hudson Group Retail, LLC (Hudson Group) following a competitive request for proposals (RFP) process. The lease was for three locations, totaling 2,574 square feet, in Boarding Area F in Terminal 3. The lease included two newsstands, the San Francisco Magazine News and Hudson News, as well as one retail store, The Fickle Bag, which specializes in handbags and accessories. The original lease term was for seven years from approximately April 1, 2012 through March 31, 2019. The original lease did not include an option to extend.

In April 2012, the Hudson Group only fully occupied two locations for The Fickle Bag and San Francisco Magazine News. According to Ms. Clarissa Mamaril, Principal Property Manager with the Airport, the Hudson Group occupied only a portion of the third location for the Hudson Newsstand due to various Airport construction and renovation projects, including seismic retrofitting near Gate 74 where Hudson Newsstand was located.

In March 2015, the Airport Commission approved the first amendment to the original lease, which is the subject of this proposed resolution, in order to accommodate the Airport's construction and operational needs. The amendment (1) reduces the square footage for the Hudson Newsstand, (2) relocates Hudson's specialty retail store, The Fickle Bag, and (3) reduces the Minimum Annual Guarantee (MAG) by \$156,074 from \$711,000 to \$554,926 in proportion to the net reduction of 565 square feet in the square footage of the three leased premises.

The retail space, The Fickle Bag, will be moving because the space it currently occupies is being renovated, along with three other spaces, into a 5,200 square foot retail marketplace. Table 1 below shows the Hudson Group's original and revised lease space.

Table 1. Summary of Changes to Total Leased Space

| Space | Original Sq. Footage | New Sq. Footage | Variance | Proposed Lease Amendment |
|------------------|----------------------|-----------------|-------------|--------------------------|
| Hudson Newsstand | 1,263 | 690 | -573 | Reduce space |
| SF Magazine News | 603 | 603 | 0 | - |
| The Fickle Bag | 708 | 716 | +8 | Relocate space |
| Total | 2,574 | 2,009 | -565 | |

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to the existing lease between the Airport and the Hudson Group for three lease locations in Terminal 3, Boarding Area F to:

- Reduce the total leased space in Terminal 3, Boarding Area F by 565 square feet, from 2,574 square feet to 2,009 square feet;
- Relocate The Fickle Bag to a new, larger location in Terminal 3, Boarding Area F, increasing the space by 8 square feet from 708 square feet to 716 square feet;
- Reduce the MAG by \$156,074 from \$711,000 to \$554,926. The MAG per square foot would remain unchanged at \$276.22 per square foot.
- Specify the seven-year lease term as of July 1, 2015, and expiring on June 30, 2022 (see Policy Consideration Section below).

FISCAL IMPACT

Under the original lease, the Hudson Group pays the Airport the greater of (a) percentage rent or (b) the Minimum Annual Guarantee (MAG), adjusted annually by the Consumer Price Index (CPI). The MAG in the original lease was \$711,000 or \$276.22 per square foot for 2,574 square feet. According to Ms. Mamaril, because the Hudson Group can only occupy 2,009 square feet, or 565 square feet less, due to Airport renovation and construction projects, the Airport reduced the MAG by \$156,074 from \$711,000 to approximately \$554,926, or the same \$276.22 per square foot for 2,009 square feet.

Under the amended lease, the Hudson Group will pay the Airport the greater of (1) percentage rent, or (2) the MAG of approximately \$554,926, adjusted annually by the CPI.

The Airport estimates that the three Hudson Group locations will generate approximately \$5,000,000 in gross revenues in the first year of operations based on the improved location of The Fickle Bag and the Hudson Newsstand newly delivered space. Based on the Airport's estimate of gross revenues, the Airport estimates that the Hudson Group would pay approximately \$770,000 in percentage rent in the first year, which is \$215,074 more than the MAG of \$554,926.

POLICY CONSIDERATION

Lease Termination Date

Under the original lease, the lease term was for seven years from approximately April 1, 2012 to March 31, 2019. However, according to the Airport, the seven-year lease term never commenced because the Airport had not fully delivered all three locations to the Hudson Group.

According to Mr. Luke Bowman, Deputy City Attorney, under the original lease between the Airport and the Hudson Group, the commencement of the seven-year lease term was delayed pursuant to the terms of the lease because the Airport was not able to deliver all three lease locations. Mr. Bowman states that under the lease, the seven-year lease term would begin once the Airport delivered the third and final location and Hudson Group completed its 90-day build out of the third and final location. Because the Airport did not fully deliver the Hudson Newsstand location due to Airport construction, the seven-year lease term did not commence.

Mr. Bowman states that the proposed first amendment will trigger the commencement of the seven-year lease term on July 1, 2015 because Hudson Group will agree to accept delivery of the Hudson Newsstand in its reduced square footage as of April 1, 2015 at which time its 90-day construction period will have begun.

Airport Revisions to Standard Lease Language

According to Ms. Cheryl Nashir, Airport Director of Revenue Development and Management, the Airport has revised the standard lease language to prevent future delays in lease commencement dates due to the Airport's inability to deliver the full lease location. The Airport began using the following revised language as of August 2015:

- 1) Under the Airport's prior lease language, the lease distinguishes between the date on which the tenant takes possession of the premises ("commencement date") and the date on which the tenant opens for business, with all tenant improvements for all facilities under the lease substantially completed ("full rent commencement date"). Only as of the full rent commencement date does the lease term officially begin.

The revised lease language changes the official lease term definition from the "full rent commencement date" to the "period commencing on the earlier of (a) the full rent commencement date, and (b) the first day of the calendar month following the six month anniversary of the Commencement Date, and ending on the Expiration Date." Therefore, under the revised lease language, the lease term begins no later than six months after the Airport delivers the first location to the tenant.

- 2) Under the Airport's prior lease language, the tenant was able to terminate the lease agreement if the Airport was delayed in delivering the facility to the tenant. The revised lease language removes this provision.
- 3) The revised lease language caps the number of days that tenant improvements may persist prior to the start of the lease term.¹

RECOMMENDATIONS

1. Amend the proposed resolution to be retroactive to July 1, 2015.
2. Approve the proposed resolution, as amended.

¹ The revised Airport lease language allows tenants a maximum of 120 days for single facilities, and an additional 30 days for each additional facility, up to a maximum of 210 days after the commencement date for multi-facility tenancies.

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| <p>Item 6 File 15-0813</p> | <p>Departments: City Administrator’s Office Controller</p> |
| <p>EXECUTIVE SUMMARY</p> | |
| <p>Legislative Objectives</p> <ul style="list-style-type: none"> • Ordinance amending the Administrative Code to rename the San Francisco Disaster Recovery Fund as the San Francisco Disaster and Emergency Response and Recovery Fund, redesignate the fund as a category eight fund, and expand how the City may use the Fund. <p>Key Points</p> <ul style="list-style-type: none"> • Currently, the San Francisco Disaster Recovery Fund is a category four fund which receives all private donations, grants and gifts to the City to replace, repair and rebuild City and County buildings, infrastructure and other public assets damaged after an emergency. The Fund is subject to Mayor and Board of Supervisors appropriation approval and administered by the City Administrator’s Office. • The proposed renamed San Francisco Disaster and Emergency Response and Recovery Fund would be changed from a category four fund to a category eight fund, which would no longer require Mayor and Board of Supervisors appropriation approval. • The Fund’s uses would also be expanded to assist in funding the City’s response and recovery efforts both during and after a disaster or emergency and to both repair and replace the City’s assets as well as provide shelter, food and other assistance to individuals, families and/or pets impacted by an emergency. • Under the proposed ordinance, the City Administrator’s Office would determine the allocations from the Fund in consultation with the Controller, Department of Emergency Management and the Mayor’s Office. The City Administrator’s Office would continue to administer the Fund. No costs can be recovered from the Fund for administrative expenses; however, electronic transactional or processing fees may be recovered. Each year, the City Administrator’s Office and Controller’s Office would be responsible for completing a public annual report on the sources and uses of this Fund. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The San Francisco Disaster Recovery Fund has received \$546 and no expenditures have been made from this Fund. Future contributions and expenditures cannot be projected. <p>Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed ordinance to require the City Administrator’s Office and the Controller to submit the annual report to the Mayor and Board of Supervisors. • Approval of the ordinance, as amended, is a policy decision for the Board of Supervisors. | |

MANDATE STATEMENT

Section 10.100-100 of the Administrative Code establishes the San Francisco Disaster Recovery Fund as a category four fund to receive all private donations, grants, gifts and bequests of money and property which may be offered to the City and County of San Francisco to assist in funding recovery after an emergency. The San Francisco Disaster Recovery Fund can be used for projects to replace, repair and rebuild buildings, infrastructure and other assets owned by the City and County that were damaged in an emergency. The City Administrator's Office is responsible for administering this Fund; however, no costs may be recovered from this Fund for administration.

In accordance with Administrative Code Section 10.100-1, a category four fund accumulates interest, the fund balance carries forward, and the fund is subject to appropriation approval by the Mayor and the Board of Supervisors.

BACKGROUND

In 2011, the City created an on-line donations program, Give2SF, to allow individuals or organizations to make donations to various City programs, based on provisions established in the City's Administrative Code. Such City programs include the (a) Voluntary Arts Contribution Fund, (b) Neighborhood Beautification Fund, (c) Mayor's Fund for the Homeless, (d) Recreation and Parks Gift Fund, (e) Animal Care & Control Fund, (f) City Services Preservation Fund, (g) City Hall Centennial Preservation Fund, and (h) San Francisco Disaster Recovery Fund. The policies and procedures for these donations and recipient programs are established by the Give2SF committee, which is comprised of the Treasurer/Tax Collector, Controller, City Administrator, Mayor's Office and the Department of Emergency Management.

According to Ms. Jennifer Johnston, Deputy City Administrator, when the recent Mission District fires occurred, which resulted in the displacement of families, individuals and animals, the City did not have an established fund to accept and allocate donations to fully and quickly address this specific emergency. Therefore, Ms. Johnston advises that the proposed ordinance was drafted to amend the existing San Francisco Disaster Recovery Fund to allow the City the flexibility and expanded ability to collect and quickly allocate donations during and following a disaster or emergency that impacts the City and/or its residents.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Administrative Code to

- (a) rename the San Francisco Disaster Recovery Fund as the San Francisco Disaster and Emergency Response and Recovery Fund;
- (b) redesignate the fund as a category eight fund; and
- (c) expand how the City may use the Fund.

In accordance with Administrative Code Section 10.100-1, a category eight fund accumulates interest, the fund balance carries forward, and the fund is automatically appropriated. As noted above, the San Francisco Disaster Recovery Fund is currently a category four fund, which accumulates interest, the fund balance carries forward, and requires appropriation approval by the Mayor and the Board of Supervisors. Therefore, changing this Fund from a category four fund to a category eight fund would eliminate expenditures from this Fund being subject to Mayor and Board of Supervisors appropriation approval.

Currently, the City may only use the San Francisco Disaster Recovery Fund to assist in funding recovery after an emergency. Under the proposed ordinance, the newly named San Francisco Disaster and Emergency Response and Recovery Fund would be expanded to assist in funding the City's response and recovery efforts during and after a disaster or emergency. Currently, the Fund can only be used to repair and replace City-owned buildings and infrastructure. Under the proposed ordinance, donors to the Fund could designate the use of the funds for the following purposes:

1. Public Infrastructure Repair and Replacement: to replace, repair and rebuild public buildings, infrastructure and other assets owned by the City and County that were damaged or rendered unusable as a result of a disaster or emergency.
2. Disaster/Emergency Housing and/or Relief: to provide shelter, food and other assistance to individuals and families in San Francisco who are impacted by a disaster or emergency event that affected San Francisco.
3. Disaster/Emergency Animal Care Relief: to provide shelter, food and other assistance to animals and pets in San Francisco that are displaced or otherwise impacted by a disaster or emergency event that affected San Francisco.
4. If the donor has not specified an intended category of use for the donation: the money or assets may be used for any of the purposes identified above at the discretion of the City Administrator, in consultation with the Controller and the Department of Emergency Management.

Currently, the City Administrator's Office is responsible for administering this Fund, however, no costs may be recovered from the Fund for administration. Under the proposed ordinance, the City Administrator's Office would remain responsible for administering the Fund, and no administrative expenses may be recovered from the Fund. However, under the proposed ordinance, third party electronic transactional or processing fees that may apply, such as for donations made via credit card, could be recovered from the Fund.

The City Administrator's Office would be responsible for determining the allocation of this Fund to appropriate City departments in consultation with the Controller, Department of Emergency Management and the Mayor's Office. In addition, by July 15 of each year, the City Administrator's Office and the Controller's Office would be responsible for completing a public annual report on the sources and uses of this Fund. This provision should be amended to

require that this annual report regarding the sources and uses of the Fund be submitted by July 15 of each year to the Mayor and the Board of Supervisors.

FISCAL IMPACT

To date, the existing San Francisco Disaster Recovery Fund has received a total of \$546, comprising 19 donations ranging from \$1 to \$100 between November 11, 2011 and July 16, 2013. To date, no expenditures have been made from this Fund.

Given that it is impossible to predict (a) future emergency events and (b) the public's willingness to donate to this Fund, future anticipated contributions, allocations and expenditures cannot be projected.

There are not anticipated to be any additional annual costs to the City other than incidental costs for the City Administrator's Office to administer the Fund and prepare the annual reports.

POLICY CONSIDERATION

The proposed ordinance would change the San Francisco Disaster Recovery Fund to the San Francisco Disaster and Emergency Response and Recovery Fund, resulting in a change from a category four fund, which is subject to appropriation approval by the Mayor and the Board of Supervisors to a category eight fund, which would eliminate Mayor and Board of Supervisors appropriation approval. Under the proposed ordinance, the City Administrator's Office and the Controller's Office would be required to complete an annual report on the sources and uses of this Fund by July 15 of each year, which is proposed to be amended to require that these annual reports be submitted to the Mayor and the Board of Supervisors. Because appropriations from this Fund would not be subject to prior Board of Supervisors approval, the proposed ordinance is considered a policy decision for the Board of Supervisors.

RECOMMENDATIONS

1. Amend the proposed ordinance to require the City Administrator's Office and the Controller to submit the annual report to the Mayor and Board of Supervisors regarding the Disaster and Emergency Response and Recovery Fund sources and uses.
2. Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors.

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| Item 7 File 15-0815 | Department: Controller's Office (Controller) |
| EXECUTIVE SUMMARY | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would establish property tax rates in fiscal year (FY) 2015-16 to provide revenues for (a) the City and County of San Francisco, including the rate that is passed on to residential tenants pursuant to Administrative Code Chapter 37, (b) the San Francisco Unified School District, (c) the San Francisco Community College District, (d) the Bay Area Rapid Transit District, and (e) the Bay Area Air Quality Management District. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The FY 2015-16 proposed total combined property tax rate of \$1.1826 per \$100 of assessed property value is an increase of \$0.0083 or 0.71 percent from the existing FY 2014-15 property tax rate of \$1.1743. • In accordance with California Constitution Article 13A Section 2, individual property assessments increase only by a State authorized inflation factor, unless the property is sold, transferred, or improved. For FY 2015-16, the State has authorized a 1.998 percent allowable inflation factor. Therefore, a single-family home with an assessed value of \$700,000 in FY 2014-15 would have an assessed value of \$713,986 in FY 2015-16. • For a single-family residence with an assessed value of \$700,000 in FY 2014-15, the proposed FY 2015-16 total combined property tax rates would result in a \$222.92 increase in property taxes, from \$8,137.90 in FY 2014-15 to \$8,360.82 in FY 2015-16. The increased property taxes reflect (a) the increased property tax rate, (b) the 1.998 percent allowable increase in assessed value, and (c) the \$7,000 homeowner's exemption. • The proposed FY 2015-16 property tax pass-through rate of \$0.0920 per \$100 of assessed value for residential tenants is increased from the FY 2014-15 rate of \$0.0880 per \$100 of assessed value. Under the proposed property tax pass-through rate, tenants in a home worth \$713,986 after the 1.998 percent inflation allowance could pay \$40.87 more. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinance. | |

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

California Revenue and Taxation Code Section 2151 requires the Board of Supervisors to “fix the rates of county and district taxes” and to collect the taxes for the City, County, and State.

San Francisco Administrative Code Section 3.3(h) requires the Board of Supervisors to adopt the property tax rate for the City and County of San Francisco before the last working day in September.

City Charter Section 16.107-109 requires that portions of the City’s annual property tax levy be set aside for specific uses including: \$0.0250 for the Library Preservation Fund; \$0.0325 for the Children’s Fund; and \$0.0250 for the Open Space Acquisition Fund.

San Francisco Administrative Code Section 37.3(a)(6)(A-D), the Residential Rent Stabilization and Arbitration Ordinance, allows landlords to pass through to tenants one-half of property tax increases that result from voter-approved General Obligation bonds.

Background

The Board of Supervisors annually sets the combined property tax rate that provides revenues for: (1) general operations, (2) specific Charter-required activities such as acquiring open space or constructing, maintaining, and operating the public library; and (3) paying debt service on voter-approved General Obligation bonds that were issued by the City, the San Francisco Unified School District, the San Francisco Community College District, and the Bay Area Rapid Transit District.

Under the California Revenue and Taxation Code, the base property tax rate that the City can levy on property owners is one percent and can be used for general purposes. Any amount over the base one percent is used to pay for debt service on voter-approved General Obligation bonds.

DETAILS OF THE PROPOSED LEGISLATION

The proposed ordinance sets the property tax rate for FY 2015-16 for taxing entities¹ within the City and County of San Francisco including (a) the City and County of San Francisco (CCSF); (b) the San Francisco Unified School District (SFUSD); (c) the San Francisco Community College District (SFCCD); (d) the Bay Area Rapid Transit District (BART); and the Bay Area Air Quality Management District (BAAQMD).

The proposed ordinance also would set the property tax pass-through rate that landlords can pass-through to tenants in FY 2015-16, as allowed under the City Administrative Code. The pass through to tenants may only be imposed on a tenant’s anniversary date and shall not become

¹ Taxing entities are agencies or organizations located within the City and County of San Francisco that have taxing authority but may not be part of the City government. The \$0.8167 General City Operations factor includes \$0.2533 to be shifted to the Educational Revenue Augmentation Fund for the benefit of San Francisco Unified School District, the County Office of Education, and the San Francisco Community College District.

part of a tenant's base rent. The allowable tenant pass-through rate is based on the portion of the landlord's property tax liability that comes from General Obligation bond debt service for certain periods, as shown in Table 1 below.

Table 1: Percent of Property Tax Increases Payable by Tenants to Landlords

| Taxing Entity | Timeframe | Pass-Through Rate |
|---|---|--------------------------|
| City and County of San Francisco | November 1, 1996 – November 14, 1998 | 100% |
| City and County of San Francisco | November 30, 2002 – Present | 50% |
| San Francisco Unified School District San Francisco Community College District | November 1, 2006 – Present | 50% |

The Controller will submit a revised ordinance to the September 9, 2015 Budget and Finance Committee. This report is based on the revised ordinance.

FISCAL IMPACTS

Combined Property Tax Rate

The proposed ordinance would set the combined property tax rate (comprised of the property tax rates levied for all of the taxing jurisdictions within the city) for FY 2015-16 at \$1.1826 per \$100 of assessed value. The FY 2015-16 property tax rate of \$1.1826 is \$0.0083, or 0.71 percent, more than the FY 2014-15 property tax rate of \$1.1743 per \$100 of assessed value. Table 2 below shows the proposed property tax rates for all taxing jurisdictions within the city, as calculated by the Controller.

Table 2: Current and Proposed Property Tax Rates per \$100 of Assessed Value*

| | FY 2014-15 | FY 2015-16 Proposed | Increase (Decrease) |
|--|-----------------|------------------------|------------------------|
| General Fund | \$0.8192 | \$0.8167 | \$(0.0025) |
| Library Preservation Fund | 0.0250 | 0.0250 | 0.0000 |
| Children's Fund | 0.0300 | 0.0325 | 0.0025 |
| Open Space Acquisition Fund | 0.0250 | 0.0250 | 0.0000 |
| County Superintendent of School | 0.0010 | 0.0010 | (0.0000) |
| General Obligation Bond Fund | 0.1195 | 0.1135 | (0.0060) |
| CCSF Subtotal | 1.0196 | 1.0136 | (0.0060) |
| General Operations | 0.0770 | 0.0770 | (0.0000) |
| General Obligation Bond Debt Service | 0.0333 | 0.0525 | 0.0192 |
| SFUSD Subtotal | 0.1103 | 0.1295 | 0.0192 |
| General Operations | 0.0144 | 0.0144 | 0.0000 |
| General Obligation Bond Debt Service | 0.0171 | 0.0141 | (0.0030) |
| SFCCD Subtotal | 0.0315 | 0.0285 | (0.0030) |
| General Operations | 0.0063 | 0.0063 | 0.0000 |
| General Obligation Bond Debt Service | 0.0045 | 0.0026 | (0.0019) |
| BART Subtotal | 0.0108 | 0.0089 | (0.0019) |
| Bay Area Air Quality Management District Operations | 0.0021 | 0.0021 | (0.0000) |
| Total Property Tax Rate | \$1.1743 | \$1.1826 | \$0.0083 |

* Totals may not add due to rounding.

The proposed combined property tax rate shown in Table 2 above includes a 0.25 percent administrative allowance charged on the City's voter-approved General Obligation bonds to reimburse the City for the costs of collecting property taxes. This 0.25 percent administrative allowance is charged to the total property tax collection, rather than to the assessed value.

Allowable Tenant Pass-Through Property Tax Rate

The proposed ordinance also would set the allowable property tax rate that landlords can pass through to tenants at \$0.0920 per \$100 of assessed value in FY 2015-16. The allowable tenant pass-through rate is \$0.0040 higher than the rate of \$0.0880 from FY 2014-15.

Impacts of the Combined Property Tax Rate and Allowable Pass-Through

Under Proposition 13, the City may annually increase the assessed value of a property by a State-determined inflation factor of up to 2.000 percent. For FY 2015-16, the State Board of Equalization determined that the allowable inflation factor is 1.998 percent. Therefore, a single-family residence in San Francisco with an assessed value of \$700,000 in FY 2014-15 has an assessed value of \$713,986 in FY 2015-16.²

² The State calculates the allowable inflation factor based on the California Consumer Price Index (CCPI) using a weighted equation that combines the metropolitan areas of San Francisco, Los Angeles, San Diego, and the national average.

Table 3 below shows the impact of the proposed property taxes payable by owners and tenants. As shown in Table 3 below, the proposed FY 2015-16 property tax rate of \$1.1826 would increase property taxes by \$222.92 on a single-family residence that has an assessed value of \$713,986 in FY 2015-16.

Table 3: Impact on Property Tax Payments

| | Single Family Residence | Allowable Tenant Pass-Through |
|--|--------------------------------|--------------------------------------|
| Fiscal Year 2014-15 | | |
| Assessed Value | \$700,000 | \$700,000 |
| Less Homeowners Exemption | (7,000) | 0 |
| Total Taxable Assessed Value | 693,000 | 700,000 |
| Tax Rate per \$100 of Assessed Value | 1.1743 | 0.0880 |
| Property Taxes Payable in 2014-15 | \$8,137.90 | \$616.00 |
| Proposed Fiscal Year 2015-16 | | |
| Prior Year Assessed Value | \$700,000 | \$700,000 |
| Plus Cost of Living Increase (1.998 percent) | 13,986 | 13,986 |
| Subtotal | 713,986 | 713,986 |
| Less Homeowners Exemption | (7,000) | 0 |
| Total Taxable Assessed Value | 706,986 | 713,986 |
| Tax Rate per \$100 of assessed value | 1.1826 | 0.0920 |
| Property Taxes Payable in FY 2015-16 | \$8,360.82 | \$656.87 |
| Total Increase / (Decrease) in Property Taxes Payable in FY 2015-16 as Compared to FY 2014-15 for a Single-Family Residence with a Prior Year Assessed Value of \$700,000 | \$222.92 | \$40.87 |

RECOMMENDATION

Approve the proposed ordinance.

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| Item 13 File 15-0755 | Department: Public Utilities Commission (PUC) |
| EXECUTIVE SUMMARY | |
| <p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve a new 25-year lease between the San Francisco Public Utilities Commission (PUC), as landlord, and Mission Valley Rock, Co., as tenant, for approximately 191 acres of land owned by the City and County of San Francisco (the City) in the Town of Sunol in Alameda County for water management, storage of mining byproduct, maintenance of an aggregate conveyor system, and reclamation for an initial rental rate of \$60,000 per year, plus 4 percent annual rent increases. <p>Key Points</p> <ul style="list-style-type: none"> • The proposed lease sites were previously mined for sand and gravel under two lease agreements approved in 1978 and 1985, respectively, between the City and Mission Valley Rock. Mission Valley Rock has continued to occupy the premises through holdover tenancy since the lease terms ended in 1998 and 2012, respectively. • The proposed lease sites are no longer mined for sand and gravel and are used for water recycling, storage of mining byproduct, and water management for PUC's San Antonio Backup Pipeline. The rental rate for the leases in holdover is based on mining royalties, so PUC has not collected rent for the sites since mining ceased. • The proposed lease sites support active sand and gravel extraction activities on an adjacent third site leased from the City to Mission Valley Rock through October 2040. The City collects an annual average of \$1.1 million in mining royalties from the adjacent site. • PUC did not competitively bid the lease with Mission Valley Rock because Mission Valley Rock relies on the use of the proposed lease sites to support its active mining operation that generates \$1.1 million per year, on average, for the City. If the proposed lease sites are no longer used to support Mission Valley Rock's active mining, the land must be reclaimed for water storage and recreation as per the reclamation plan approved by Alameda County, thereby prohibiting other interim uses, including the uses in the proposed lease, resulting in a loss of revenue to the City. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • Mission Valley Rock will pay PUC a total of \$2,498,754 over the 25-year lease term. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. | |

MANDATE STATEMENT

City Charter Section 9.118(a) states that agreements entered into by a department, board, or commission that will generate revenue in excess of \$1 million or any modification of that agreement is subject to Board of Supervisors approval.

BACKGROUND

The City and County of San Francisco (the City) owns land in the Town of Sunol in Alameda County under the jurisdiction of its Public Utilities Commission (PUC). PUC has three lease agreements with Mission Valley Rock for four separate lease sites for sand and gravel extraction and related activities on the City-owned land in Sunol.

The first lease, approved in January 1978 and amended in November 1980 and October 1986, is a 20-year lease that converted to month-to-month tenancy in January 1998. The first lease allows Mission Valley Rock to use two sites totaling 48 acres for extracting sand and gravel. Sand and gravel extraction on the first lease premises ended before the end of the lease term in 1998.

The second lease, approved in June 1985, is a 27-year lease that converted to month-to-month tenancy in October 2012. The second lease allows Mission Valley Rock to extract sand and gravel from a 135-acre site. Mission Valley Rock ended extraction of sand and gravel on the second lease site in July 2006.

The third lease, approved in September 2000, is a 40-year lease that allows Mission Valley Rock to extract sand and gravel from a 242-acre site adjacent to the second lease site and the Sunol Water Temple. Mission Valley Rock currently conducts sand and gravel extraction on the third lease site. Mission Valley Rock uses the first and second lease sites for extraction-related activities that support its mining operations on the third lease site. Mission Valley Rock uses water collected in three ponds on the second lease site for processing extracted sand and gravel. Mission Valley Rock uses the first lease site for recycling the water used to wash sand and gravel and for storing unused byproduct material from its operation on the third lease site. These activities are consistent with the Surface Mining Permits issued to Mission Valley Rock by the Alameda County Community Development Agency that are valid through January 2045.

Under the existing third lease, as previously approved by the Board of Supervisors, Mission Valley Rock pays the City a base rent of \$100,000 per year through 2020, plus a 10.5 percent royalty fee from the sale of sand and gravel extracted from the 242-acre site. For the second 20 years of the 40-year lease term from 2020 to 2040, the City will continue to receive 10.5 percent of the revenues from the sale of sand and gravel extracted from the premises but will no longer receive annual base rent of \$100,000. Between the five fiscal years 2010-11 and

2014-15, the City collected average annual royalty income of \$1,100,391 for the third lease site. Table 1 below summarizes the existing lease agreements between the City and Mission Valley Rock.

Table 1: Summary of Existing Lease Agreements with Mission Valley Rock

| | First Lease | Second Lease | Third Lease |
|-----------------------------|---|---|---|
| Term | 20 years: January 1978 to January 1998 | 27 years: June 1985 to October 2012 | 40 years: September 2000 to October 2040 |
| Current Lease Status | Month-to-month holdover tenancy | Month-to-month holdover tenancy | Active |
| Premises | Approximately 48 acres in two separate areas | Approximately 135 acres | Approximately 242 acres |
| Rental Rate | Original: Royalty of \$0.50 per ton of quarry products (no less than \$500,000 over 20-year term) PUC no longer receives rent under this lease because Mission Valley Rock does not extract sand and gravel from this site | Original: Royalty of \$0.50 per ton of quarry products (no less than \$1,000,000 over 27-year term) PUC no longer receives rent under this lease because Mission Valley Rock does not extract sand and gravel from this site | \$100,000 annual base rent until 2020, plus 10.5 percent mining royalties for sand and gravel extraction; 10.5 percent mining royalties after 2020 for sand and gravel extraction |
| Current Uses | Recycle water used for aggregate processing; store mining byproduct | Water collected in three ponds used for quarry operations; one pond used as backup storage for PUC's San Antonio Backup Pipeline | Sand and gravel extraction |

Mission Valley Rock also manages the water level in one of the ponds on the second lease site under a Water Management Agreement with PUC to facilitate on-going operation of PUC's San Antonio Backup Pipeline.

Month-to-Month Extension of the First and Second Leases

PUC has extended on a month-to-month basis the first lease with Mission Valley Rock since 1998 and the second lease with Mission Valley Rock since 2012. The rental rates for the first and second leases are based on mining royalties from sand and gravel extraction. Because Mission Valley Rock ended sand and gravel extraction on the two lease sites, PUC has not collected rent for the first or second leases since July 2006. According to Mr. Anthony Bardo in the PUC Real Estate Division, PUC has continued to lease the first and second lease sites to Mission Valley Rock on a month-to-month basis, even though PUC received no rent under these leases, because PUC Water System Improvement Program projects involving the lease sites

were being planned when the leases expired and PUC was not prepared to commit to a new lease until more was known about PUC's operational and project needs for the sites. Mr. Bardo notes that the first and second lease sites were necessary to Mission Valley Rock's sand and gravel extraction activities on the third lease site, for which PUC received average annual royalty income of \$1,100,391 over the past five years.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new 25-year lease between PUC and Mission Valley Rock from approximately September 2015 to October 2040 to replace the first and second leases which are on a holdover status. The new proposed lease site is approximately 191 acres and consists of the first lease site (48 acres), the second lease site (135 acres), and an additional 8-acre area for conveying sand and gravel aggregate from the third lease site to Mission Valley Rock's processing plant on land owned by Mission Valley Rock located west of San Antonio Creek and south of Interstate 680.

Under the proposed lease, Mission Valley Rock would (1) maintain a sand and gravel aggregate conveyor system, (2) use water collected in the three ponds to process sand and gravel, (3) recycle water used to process sand and gravel, and (4) store extraction byproducts. Mission Valley Rock would continue to manage the water levels in one of the three ponds as backup water storage for PUC's San Antonio Backup Pipeline.

According to Mr. Bardo, PUC is now proposing to enter into a new lease with Mission Valley Rock to replace the first and second lease sites which are on a holdover basis, as well as an additional 8-acre site, because PUC has determined its operational needs for the sites in support of the San Antonio Backup Pipeline and has established agreements with Mission Valley Rock for water management services.

Under the proposed lease, Mission Valley Rock is required to pay to PUC rent of \$60,000 per year in the first year, plus 4 percent annual rent increases. According to Mr. Bardo, PUC determined the rent of \$60,000 per year plus 4 percent annual increases based on negotiations with Mission Valley Rock. The negotiated lease terms include water management services provided by Mission Valley Rock to PUC including, at times, discharging water to Alameda Creek under Mission Valley Rock's discharge permit; and PUC's continued use of one of the three ponds and possible use of another of the three ponds.

The proposed lease does not allow the placement of mining byproduct in the ponds on the second lease site, consistent with the Surface Mining Permits and the terms of the Alameda Watershed Management Plan adopted by PUC in 2000.

Table 2 below summarizes the provisions of the proposed new 25-year lease between PUC and Mission Valley Rock.

Table 2: Summary of Lease Provisions

| | |
|--|---|
| Term | 25 years: September 2015 to October 2040 (concurrent with the expiration of the existing lease for the third lease site) |
| Premises | Approximately 191 acres, including the first and second lease sites and an 8-acre area for aggregate conveyance |
| Rental Rate Payable by Mission Valley Rock to PUC | \$60,000 per year, plus 4 percent annual increases |
| Permitted Uses | Water use and management, aggregate conveyance, mining byproduct storage, and reclamation, subject to Alameda County Surface Mining Permit 24 |

California Environmental Quality Act (CEQA) Findings

PUC reviewed the actions to be carried out under the proposed lease and determined that the indirect effects of PUC's award of the lease are within the scope of Alameda County's 2002 approval and subsequent periodic reviews of a CEQA Mitigated Negative Declaration for mining operations conducted under Alameda County Surface Mining Permit 24. PUC finds that there have been no substantial changes in operations or circumstances that would result in new significant environmental impacts or an increase in the severity of previously identified significant environmental impacts since Alameda County certified the 2002 Mitigated Negative Declaration.

FISCAL IMPACT

Under the proposed lease, based on a rental rate of \$60,000 per year plus 4 percent annual increases, Mission Valley Rock will pay PUC an estimated total of \$2,498,754¹ over the 25-year lease term.

POLICY CONSIDERATION

PUC did not competitively bid the proposed lease. According to Mr. Bardo, the proposed lease sites are useful to Mission Valley Rock for activities related to sand and gravel extraction at its existing site under the third lease, which does not terminate until 2040. In order to continue mining operations on the third lease site, Mission Valley Rock requires access to (1) the three ponds for material processing and dust control; and (2) the limited remaining space for storing mining byproduct, which are included in the proposed lease.

The sites under the proposed lease could not be transferred to another mining operator to be used for activities related to sand and gravel extraction without the new operator undergoing a new Alameda County permit application process. Obtaining a new permit would be a multi-year process and, according to Mr. Jim Gilford of the Alameda County Community Development

¹ Not discounted to present value.

Agency, there is a possibility that Alameda County and the California Department of Conservation would only permit another operator to use the proposed lease sites for sand and gravel extraction but not for the other activities related to sand and gravel extraction, including storage of byproducts and use of the ponds. The Budget & Legislative Analyst's Office considers that the non-competitive bidding of the proposed lease is reasonable.

If the premises are not used for sand and gravel extraction, State law and Alameda County statutes require that the land be reclaimed for water storage, recreation, and agricultural use.

RECOMMENDATION

Approve the proposed resolution.

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| Item 15 File 15-0718 | Department: General Services Agency - Department of Public Works (DPW) |
| EXECUTIVE SUMMARY | |
| <p>Legislative Objectives</p> <p>The proposed resolution would approve an emergency public works contract between the City and County of San Francisco and KONE, Inc. to renovate and upgrade the three elevators at 170 Otis Street in an amount not-to-exceed \$460,100.</p> <p>Key Points</p> <ul style="list-style-type: none"> • Three elevators at the Human Services Agency’s (HSA) facility at 170 Otis Street were originally installed in 1976 and have experienced intermittent failures since 2014, with worn cables, doors and interior compartments, resulting in hazardous conditions with doors closing on passengers, and passengers being trapped in the elevators. • In December 2014, the Department of Public Works declared the elevator an emergency and awarded an emergency construction contract to KONE for \$460,160 to renovate and upgrade the three elevators. In January 2015, KONE commenced work to renovate and upgrade the elevators, which is anticipated to be complete in November 2015. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • The estimated cost to renovate and upgrade the three elevators at 170 Otis Street is \$460,160. Of this amount, HSA previously paid \$207,550 to KONE to commence work in FY 2014-15. The remaining amount of \$252,610 was encumbered by HSA in FY 2014-15 and will be paid by Public Works through a work order with HSA. Such funds were previously appropriated by the Board of Supervisors. <p>Policy Consideration</p> <ul style="list-style-type: none"> • On June 23, 2015, the Board of Supervisors approved Ordinance No. 108-15 stating that if the estimated cost of the emergency exceeds \$250,000, the proposed resolution approving the emergency determination must be submitted to the Board of Supervisors within 60 days of the department head’s emergency declaration. This resolution was submitted 218 days after Public Works made its emergency declaration. <p>Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to correctly state that the contract not-to-exceed amount is \$460,160, not \$460,100. • Approve the proposed resolution as amended. | |

MANDATE STATEMENT

Administrative Code Section 6.60(d) states that contracts entered into for emergency work in the amount of \$250,000 or more are subject to Board of Supervisors approval. Section 6.60(d) also states that if the emergency does not permit approvals of the emergency determination before work is commenced or the contracts entered into, such approvals shall be obtained as soon as possible, with the proposed resolution approving the emergency determination submitted to the Board of Supervisors within 60 days of the department head's emergency declaration.

BACKGROUND

The City and County of San Francisco owns the facility at 170 Otis Street, which houses the County's Human Services Agency (HSA). Three elevators at 170 Otis Street were originally installed in 1976 and have experienced intermittent failures since 2014, with worn cables, doors and interior compartments, resulting in hazardous conditions with doors closing on passengers, and passengers being trapped in the elevators.

HSA declared an emergency regarding the conditions of the elevators on March 27, 2014 and HSA staff requested elevator condition assessments and proposals to renovate and upgrade the three elevators, from three elevator firms including ThyssenKrupp, Empire Elevator Company, Inc., and KONE, Inc. They received two proposals and determined that KONE, Inc.¹ (KONE) was the most qualified respondent. The KONE proposal estimate was \$415,099, and provided a scope of work including, but not limited to:

- 1) New elevator door operating equipment;
- 2) Fire-rated elevator doors at all openings;
- 3) Digital position indicators;
- 4) Renovated elevator cab interiors;
- 5) Inspection and testing of completed work.

HSA signed a contract with KONE on April 2, 2014 and subsequently paid KONE \$207,550 (50 percent of the total \$415,099) to purchase equipment and materials and begin performing the modifications according to KONE's proposal. On May 2, 2014, HSA introduced a resolution (File #14-0473) to the Board of Supervisors seeking approval of the emergency contract with KONE. However, the San Francisco City Attorney's Office determined that HSA did not have authority to issue public works contracts, pursuant to Administrative Code Section 6.2, and that such services must be procured through the Department of Public Works (Public Works).

¹ The proposal was submitted by Empire Elevator Company, but was soon after legally acquired by KONE.

In December 2014, Public Works declared that renovating and upgrading the elevators was an emergency, under the provisions of Section 6.60 of the Administrative Code and awarded an emergency construction contract to KONE for \$460,160² to renovate and upgrade the three elevators.

In January 2015, KONE commenced work to renovate and upgrade the elevators under the scope of work provided in the contract with HSA. According to Mr. Sung Kim, Analyst at Public Works, the project is currently estimated to be completed in November 2015.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an emergency public works contract between the City and County of San Francisco and KONE, Inc. to renovate and upgrade the three elevators at 170 Otis Street in an amount not-to-exceed \$460,100. The contract specifies that KONE has been paid \$207,550 and that the City agrees to pay the remaining \$252,610 to KONE upon completion of the renovation and upgrade of the elevators.

The proposed resolution incorrectly states that the contract not-to-exceed amount is \$460,100, whereas the actual contract not-to-exceed amount is \$460,160, an increase of \$60. The proposed resolution should be amended to provide for the correct not-to-exceed amount of \$460,160.

FISCAL IMPACT

The estimated cost to renovate and upgrade the three elevators at 170 Otis Street is \$460,160. Of this amount, HSA previously paid \$207,550 to KONE to commence work in FY 2014-15, as noted above. The remaining amount of \$252,610 was encumbered by HSA in FY 2014-15 and will be paid by Public Works through a work order with HSA. Such funds were previously appropriated by the Board of Supervisors. The total estimated cost of \$460,160 to renovate and upgrade the elevators is shown in Table 1 below.

² The original contract with KONE was for \$415,099 and the current contract is \$460,160 because HSA chose to add replacement of the elevator cables in the scope of work.

Table 1: Estimated Cost to Renovate and Upgrade Elevators at 170 Otis Street

| Project Element | Cost |
|--|------------------|
| Elevator Cab Work | |
| Labor | \$223,899 |
| Materials | 184,200 |
| Subcontractor | 4,500 |
| Freight | <u>2,500</u> |
| <i>Elevator Cab Work Subtotal</i> | <i>\$415,099</i> |
| Preventative Maintenance | |
| Labor | \$30,641 |
| Materials | 13,020 |
| Freight | <u>1,400</u> |
| <i>Preventative Maintenance Subtotal</i> | <i>\$45,061</i> |
| Grand Total | \$460,160 |

POLICY CONSIDERATIONS

On June 23, 2015, the Board of Supervisors approved an ordinance (File 15-0175; Ordinance No. 108-15) amending Chapter 6 of the City's Administrative Code, including Section 6.60 regarding emergency repairs, work and contracts, which became effective on August 1, 2015. Under the new provisions, the department head responsible for addressing the emergency may declare an emergency with immediate notice to the Board of Supervisors, the Mayor, Controller and board or commission having jurisdiction over the emergency. In addition, if the estimated cost of the emergency exceeds \$250,000, the proposed resolution approving the emergency determination must be submitted to the Board of Supervisors within 60 days of the department head's emergency declaration.

HSA initially requested authorization to commence with emergency repairs to the elevators in May 2014, or 36 days after the emergency was declared by HSA. However, the current proposed resolution seeking such authorization was introduced to the Board of Supervisors on July 14, 2015, approximately 438 days after the initial determination by HSA that the elevators required emergency repair, and 218 days after Public Works assumed responsibility for the project and made its declaration of emergency.

The intent of seeking authorization from the Board of Supervisors within 60 days of the department head's emergency declaration is so that the Board of Supervisors may review the emergency nature of the contracts shortly after the emergency is declared. Such a significant delay between the emergency declaration and the approval from the Board of Supervisors denies the Board of Supervisors its authority to approve such contracts on a timely basis. Given

the work to repair the elevators has commenced and is expected to be completed in November, 2015, the Board of Supervisors should approve the proposed resolution. In the future, departments requesting approval of emergency contracts should submit such resolutions within 60 days to the Board of Supervisors as required in Section 6.60 of the Administrative Code.

RECOMMENDATIONS

1. Amend the proposed resolution to correctly state that the contract not-to-exceed amount is \$460,160, not \$460,100.
2. Approve the proposed resolution as amended.

| | |
|--|--|
| Item 16 File 15-0785 | Department: Department of Public Health (DPH) |
| EXECUTIVE SUMMARY | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would retroactively authorize the Department of Public Health (DPH) to enter into an amended contract with the California Department of Health Care Services (DHCS) to receive reimbursement for providing Substance Abuse Disorder Services to Medi-Cal beneficiaries. The amended contract increases the FY 2014-15 reimbursement amount by \$7,121,875 from \$11,083,342 to \$18,205,217, and the total contract amount from the \$33,250,026 to \$40,371,901 for the three-year term from July 1, 2014 through June 30, 2017. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In February 2015, the Board of Supervisors approved the original contract between the City and County of San Francisco and DHCS to accept funding for substance abuse services. The term of the current contract is three years, commencing on July 1, 2014 and ending on June 30, 2017, for total compensation of \$33,250,026, or \$11,083,342 per year. • The proposed legislation would retroactively authorize DPH to enter into an amended contract with DHCS to reimburse DPH for providing Substance Abuse Disorder Services to Medi-Cal beneficiaries. The amended contract increases the reimbursement amount by \$7,121,875, from the original amount of \$33,250,026 to the revised amount of \$40,371,901 for the three-year term from July 1, 2014 through June 30, 2017. • The amended contract reflects funding changes in Fiscal Year (FY) 2014-15 for Drug Medi-Cal services as a result of the expansion of Medi-Cal eligibility under the Affordable Care Act that went into effect in 2014. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • DPH's total FY 2014-15 budget for Substance Abuse Disorder Services was \$69,420,583, including the \$18,205,217 from DHCS under the subject contract. The additional \$7,121,875 in funding from DHCS offsets funds previously allocated to Substance Abuse Disorder Services in FY 2014-15, including (1) other Drug Medi-Cal Federal Share spending of \$3,854,761; and (2) City General Fund spending by \$3,267,114. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. | |

MANDATE STATEMENT

City Charter Section 9.118(b) states that a contract entered into by a department, board, or commission having anticipated revenue to the City and County of San Francisco of \$1 million or more, or the modification, amendment, or termination of any contract which when entered into had anticipated revenue of \$1 million or more, shall be subject to approval of the Board of Supervisors by resolution.

BACKGROUND

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

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

In February 2015, the Board of Supervisors approved the original contract between the County and DHCS to accept funding for substance abuse services. The term of the current contract is three years, commencing on July 1, 2014 and ending on June 30, 2017, for total compensation of \$33,250,026, or \$11,083,342 per year.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively authorize DPH to enter into an amended contract with DHCS to reimburse DPH for providing Substance Abuse Disorder Services to Medi-Cal beneficiaries. The amended contract increases the FY 2014-15 reimbursement amount by \$7,121,875 from \$11,083,342 to \$18,205,217, and the total contract amount from \$33,250,026 to \$40,371,901 for the three-year term from July 1, 2014 through June 30, 2017. Table 1 below shows the sources of funds for each year of the contract.

Table 1: Sources of Funds for Amended DHCS Contract

| Funding Source | FY 2014-15 Distribution | FY 2015-16 Distribution | FY 2016-17 Distribution | 3-Year Total |
|--|------------------------------------|------------------------------------|------------------------------------|-------------------------|
| California State General Fund, Drug Medi-Cal | \$490,930 | \$490,930 | \$490,930 | \$1,472,790 |
| Federal Share, Drug Medi-Cal | 7,866,337 | 744,462 | 744,462 | 9,355,261 |
| Federal Block Grant, Substance Abuse Prevention and Treatment | 9,847,950 | 9,847,950 | 9,847,950 | 29,543,850 |
| Total | \$18,205,217 | \$11,083,342 | \$11,083,342 | \$40,371,901 |

In April 2015, DHCS sent a contract amendment to DPH that reflects funding changes in FY 2014-15. The contract amendment would increase the Drug Medi-Cal Federal Share funding for FY 2014-15 from \$744,462 to \$7,866,337, an increase of \$7,121,875. The funding change is related to the expansion of eligibility for Medi-Cal, a public health insurance program for low-income Californians, which went into effect in 2014 under the Affordable Care Act. According to Mr. Jim Stillwell at DPH, there are approximately 1,000 new Medi-Cal beneficiaries in San Francisco as a result of Medi-Cal expansion. The federal government pays for 100 percent of the services provided to the new Medi-Cal beneficiaries, and the County is reimbursed for the services by DHCS. The funding change reflects Drug Medi-Cal services for the newly eligible Medi-Cal beneficiaries that were billed in FY 2014-15 and that is covered by appropriation by the federal government.

DPH would continue to subcontract with community-based non-profit organizations to deliver Substance Abuse Disorder Services through this amended contract. The following services would be delivered through this amended contract:

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

The proposed resolution also allows DPH to approve future amendments to the subject contract for less than 10 percent of the contracted amount, or for approximately up to \$4,037,190, without further Board of Supervisors approval.

FISCAL IMPACT

DPH's total FY 2014-15 budget for Substance Abuse Disorder Services was \$69,420,583 as shown in Table 2 below, including the \$18,205,217 from DHCS under the subject contract. The additional \$7,121,875 in funding from DHCS offsets funds previously allocated to Substance Abuse Disorder Services in FY 2014-15, including (1) other Drug Medi-Cal Federal Share spending of \$3,854,761; and (2) City General Fund spending by \$3,267,114. Table 2 below shows total sources of funds for DPH FY 2014-15 Substance Abuse Disorder Services.

Table 2: Source of Funds for DPH Substance Abuse Disorder Services FY 2014-15 Spending Plan

| Funding Source | Amount |
|---|----------------------------|
| California State General Fund, Drug Medi-Cal | \$490,930 |
| Federal Share, Drug Medi-Cal | 7,866,337 |
| Federal Block Grant, Substance Abuse Prevention and Treatment | <u>9,847,950</u> |
| Subtotal, DHCS Contract Funds (see Table 1) | \$18,205,217 |
| Public Safety Realignment Funds | 8,515,285 |
| Other Substance Abuse Prevention and Treatment Block Grant Carryforward Funds | 792,844 |
| Grant and Project Funds | <u>1,415,160</u> |
| Subtotal, Other State and Federal Funds | \$10,723,289 |
| Work Order Funds | 4,420,185 |
| City General Fund | <u>36,071,892</u> |
| Subtotal, City Funds | \$40,492,077 |
| Total Substance Abuse Disorder Services Funds | <u>\$69,420,583</u> |

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

RECOMMENDATION

Approve the proposed resolution.

Item 17
File 15-0720

Department:
Office of Economic Workforce Development (OEWD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 2 to the Original Lease between the City and Proxy Development, LLC (Proxy), extending the term for an additional five years and three months, from the current termination date of November 1, 2015 to the new termination date of January 31, 2021, and expand the permitted uses of the Premises, presently for sale of food and beverages and the operation of restaurants, to include arts and cultural activities.

Key Points

- In November 2000, the State of California transferred 22 parcels, at no cost to the City, in Hayes Valley to the City as part of the cooperative agreement related to the demolition of the Central Freeway, including Parcel L, which is located at the northeast corner of Octavia Boulevard and Fell Street.
- Of the 22 parcels, seven were set aside for affordable housing development, and 15 for market-rate housing development. Parcel L is intended for market-rate housing development.
- In 2009, the Office of Economic and Workforce Development (OEWD) leased Parcel L for interim uses to Proxy for four years, which currently provides retail activities on the empty lot, including the sale of food and beverages and the operation of restaurants.
- The original lease term of four years was extended by an additional year in Lease Amendment No. 1 for a total lease term of five years, through November 1, 2015.
- The Board of Supervisors should consider approving a shorter lease term of one year or less. This would allow the City to issue an RFP to sell Parcel L to a developer for market rate housing given the current demand for housing in the City and the high demand for land to develop housing. Selling Parcel L to a developer for market rate housing in the near term would (1) provide new funds to the City for transportation, bicycle and pedestrian improvements, and (2) require the inclusion of 15 percent affordable housing in the development.

Fiscal Impact

- The proposed Amendment No. 2 to the lease between the City and Proxy would result in an annual rent paid by Proxy, LLC to the City in the greater amount of (1) \$66,884, or (2) 5.25 percent of the average annual gross revenues between November 1, 2010 and December 31, 2014. Total estimated annual rent paid by Proxy to the City would be \$370,482.

Recommendations

- Amend the proposed resolution to approve a shorter lease term of one year or less. The Office of Economic and Workforce Development should issue an RFP to sell Parcel L to a developer for market rate housing, as it was originally intended.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

City Charter Section 9.118(c) states that any lease of real property for a period of ten years or more or that has revenue to the City of \$1 million or more is subject to Board of Supervisors approval.

Background

In 1998, San Francisco residents voted to replace the Central Freeway in Hayes Valley with a ground level boulevard from Market Street along Octavia Boulevard. In November 2000, the State of California transferred 22 parcels, at no cost to the City, in Hayes Valley to the City as part of the cooperative agreement related to the demolition of the Central Freeway. A condition of the property transfer was that the City must use the proceeds earned from the Central Freeway parcels on transportation and related purposes connected to the City's Octavia Boulevard project.

Of the 22 parcels available for development along Octavia Boulevard, seven were set aside for affordable housing development, and 15 for market-rate housing development. To date, four affordable housing projects have been completed, and nine market-rate housing parcels have been sold to developers. The other nine parcels are in a variety of planning and development stages.

The City decided to lease Parcel L, which was intended for market-rate housing, located on the northeast corner of Octavia Boulevard and Fell Street, for interim uses that provide public amenities and promote economic development until the parcel is sold. In 2009, the Office of Economic and Workforce Development (OEWD) issued a Request for Proposals for a lease for interim uses for Parcel L, which was awarded to Proxy Development, LLC (Proxy), a company associated with Berkeley-based architecture firm, envelope a+d. Proxy currently provides retail activities on the empty lot, including the sale of food and beverages, and the operation of restaurants.

Original Lease

The original lease term approved by the Board of Supervisors in 2010 (File No. 10-0669) was four years beginning November 1, 2010 through November 1, 2014, at a monthly base rent of \$2,000 per month, or \$24,000 per year adjusted annually by the Consumer Price Index, payable by Proxy to the City.

Lease Amendment No. 1

In September 2011, the Board of Supervisors approved Amendment No. 1, which extended the lease from four to five years through November 1, 2015. The permits for Biergarten, one of the restaurants at the site, took almost a year to obtain after the lease was already in place. The tenant wanted to add an additional year to the lease to offset the time lost obtaining permits in order to maintain economic viability. Amendment No. 1 did not include any change to the rental price payable to the City.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 2 to the Original Lease between the City and Proxy, extending the term for an additional five years and three months, from the current termination date of November 1, 2015 to the new termination date of January 31, 2021, and expand the permitted uses of the Premises, presently for sale of food and beverages and the operation of restaurants, to include arts and cultural activities.

Table 1: Key Lease Terms

| | |
|-------------------------------|---|
| Lease Term | November 1, 2010 – January 31, 2021 (total 10 years and three months) |
| Size of Property | 4,579 SF |
| Permitted Uses | <ul style="list-style-type: none"> - Retail activities including the sale of food and beverages - Operation of restaurants - Improvements for arts and cultural activities, including performances, exhibitions, and rehearsals, provided that such other uses are permitted under laws applicable to such uses at the Premises. |
| Rent Payable by Proxy | <p>As of November 1, 2015, rent shall be an amount equal to the greater of:</p> <ul style="list-style-type: none"> (i) minimum rent of \$66,884* or (ii) 5.25% of the annual average gross revenues for the period from November 1, 2010 to December 31, 2014 |
| Rent Adjustments ¹ | <p>Annual 2.5% increase to minimum rent as of November 1, 2016.</p> <p>In November 2018, the City will adjust the percentage rent to equal 5.25% of annual average gross revenues for the period from January 1, 2015 to December 31, 2017</p> |
| Tenant Improvements | Tenant shall improve the City fence and provide signage at the site. The fence work will be reimbursed through rent credits (see below). The signage will be installed at no cost to the City. |
| Rent Credits | Fence Work Rent Credit – Tenant shall receive a rent credit for the maximum amount in the fence budget, at an estimated cost of \$25,000. |

*This amount is based on 5.25 percent of annual average gross revenues through December 2013.

Environmental Review

In May 29, 2010, the Director of Planning found that the original lease for Parcel L was categorically exempt from environmental review and in conformance with the City's General Plan.

FISCAL IMPACT

The proposed Amendment No. 2 to the lease between the City and Proxy would result in an annual rent paid by Proxy, LLC to the City in the greater amount of (1) \$66,884, or (2) 5.25 percent of the average annual gross revenues between November 1, 2010 and December 31, 2014. The minimum annual rental amount of \$66,884 represents a 157 percent increase in rent, or an increase of \$40,863, from the current annual rent of \$26,021.

The minimum annual rent would increase by 2.5 percent annually for the duration of the lease, through January 31, 2021. This would result in an estimated minimum rent of \$370,482 to the City over the duration of the lease, from November 1, 2015 through January 31, 2021, as shown in Table 2 below. Rent to the City may be higher if annual average gross revenues result in percentage rent that is higher than minimum rent.

Table 2: Estimated Annual Rent paid by Proxy Development to the City

| <u>Year</u> | <u>Minimum Annual Rent</u> |
|--------------------------------------|----------------------------|
| November 1, 2015 to October 31, 2016 | \$66,884 |
| November 1, 2016 to October 31, 2017 | \$68,556 |
| November 1, 2017 to October 31, 2018 | \$70,270 |
| November 1, 2018 to October 31, 2019 | \$72,027 |
| November 1, 2019 to October 31, 2020 | \$73,827 |
| November 1, 2020 to January 31, 2021 | \$18,918 |
| Total | \$370,482 |

Fence Work Rent Credit

Improvements to the fencing around the temporary restaurant, Biergarten, are estimated to cost \$24,645. This fence work will initially be paid for by the Tenant, and then reimbursed by the City, up to \$25,000, through rent credits. OEWD will approve the actual design and budget once it is available.

Less the approximately \$25,000 in fence work rent credits, the City can expect to receive an estimated net minimum rent of \$345,482.

Parcel L Revenues

Rental revenue earned from Parcel L is deposited into the Octavia Boulevard Special Fund, and is to be expended for transportation improvements in the adjacent area. This special fund subject to Board of Supervisors appropriation approval was approved in 1999 by the voters through Proposition I.

POLICY CONSIDERATION

The City has designated Parcel L as a location for future market-rate housing development. According to the 2010 resolution approving the original lease between the City and Proxy for Parcel L, the “City intends to sell Parcel L when current economic conditions improve”. According to Ms. Sarah Dennis-Phillips, Project Director at OEWD, OEWD has proposed extending the existing Parcel L lease with Proxy for an additional five years and three months through January 31, 2021, rather than sell Parcel L to be developed as market-rate housing, to correspond to the expected development date of the adjacent Parcel K, which will be 100 percent affordable housing. The timing for Parcel K’s development was determined based on funding availability.

According to Ms. Dennis-Phillips, the benefit of having the two developments come online at the same time is to ensure that new market rate housing development is balanced with new affordable housing development in the neighborhood. Proposition K, passed by voters in November 2014, and its subsequent legislation, Ordinance No. 53-15, requires the Planning Department to monitor the ratio of new market rate housing to new affordable housing production, and publish a bi-annual Housing Balance Report. This legislation additionally requires an annual hearing by the Board of Supervisors for strategies to achieve and maintain the Proposition K goal that 33 percent of all new housing shall be affordable.

Hayes Valley Housing Pipeline

According to OEWD, there are 2,878 residential units underway within a 15-minute walk of Parcel L. 1,913 units are actively under construction, 499 are ready to begin construction and 466 are currently seeking approval. Of these 2,878 units, 365 will be affordable (12.7 percent) and 2,513 will be market-rate (87.3 percent), as shown in Table 3 below.

Table 3: Residential Units within 15-Minute Walk of Parcel L

| Construction Phase | Market Rate Units | Affordable Units | Total Number of Units |
|-----------------------------|--------------------------------|------------------------------|-------------------------------|
| Actively under construction | 1,553 | 360 | 1,913 |
| Ready to begin construction | 499 | 0 | 499 |
| Seeking approval | 461 | 5 | 466 |
| | 2,513 (87.3 percent) | 365 (12.7 percent) | 2,878 (100 percent) |

Source: OEWD

Of the 22 parcels transferred by the State to the City, at no cost to the City, from the Central Freeway demolition, Parcel L is the only one being held off the market at this time. The Central Freeway parcels slated for market-rate development, including Parcel L, are required to have a 15 percent base level affordable inclusionary requirement, which is higher than the City-wide affordable inclusionary level of 12 percent.

OEWD proposes to extend the Parcel L lease by five years and three months for food and beverage retail sales and arts and cultural activities rather than issue an RFP to sell Parcel L for market-rate housing as was originally intended. The Board of Supervisors should consider approving a shorter lease term of one year or less. This would allow the City to issue an RFP to

sell Parcel L to a developer for market rate housing, as it was originally intended, given the current demand for housing in the City and the high demand for land to develop housing. Selling Parcel L to a developer for market rate housing in the near term would (1) provide new funds to the City for transportation, bicycle and pedestrian improvements, and (2) require the inclusion of 15 percent affordable housing in the development.

RECOMMENDATIONS

1. Amend the proposed resolution to approve a shorter lease term of one year or less. The Office of Economic and Workforce Development should issue an RFP to sell Parcel L to a developer for market rate housing, as it was originally intended.
2. Approve the proposed resolution, as amended.