

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: January 20, 2016 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File	Page
2	15-0874 Administrative Code – Prevailing Wages for Broadcast Services on City Property	1
3	15-1234 Authorizing Expenditures – SoMa Community Stabilization Fund - \$3,000,000	4
4	15-1101 Prevailing Wage Rates – Various Workers Performing Work Under City Contracts	12
5	15-1213 California Constitution Appropriations Limit – FY 2015-2016 - \$2,991,417,308	19
6 & 7	15-1190 License Amendment – UnitedLayer – Data Center Space and Services at 200 Paul Avenue - \$2,227,494 Total Rent in the First Year	
	15-1202 License Amendment – Telx Entities – 200 Paul Avenue - \$111,780 Total Rent in the First Year	23
8	15-1210 Lease Amendment – Coit Tower, LLC – Lease and Operation of Coit Tower	29
9	15-1221 Lease Agreement – United States Government – Federal Bureau of Investigation - \$1,628,297.64	37

TABLE OF CONTENTS (continued)

Item	File	Page
10	15-1222 Early Termination – Airport Concession Domestic Terminal Food and Beverage Program Lease – Sistina II, LP	40
11	15-1148 Agreement – Peninsula Corridor Joint Powers Board – Administration of Capital Funding – Peninsula Corridor Electrification Project – Up to \$39,000,000.....	43
12	15-1214 Real Property Lease – Sprint Spectrum, L.P. – 887 Potrero Avenue - \$69,600 Per Year Base Rent	47
19	15-1145 Adopting a Fixed Two-Year Budget – Multiple City Departments – FYs 2016-2017 and 2017-2018	51

Item 2 File 15-0874 <i>(Continued from December 9, 2015)</i>	Department: Office of Labor Standards and Enforcement (OLSE)
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed ordinance will amend the Administrative Code to require that prevailing wages be paid for commercial broadcast services work on City property. Key Points - The Board of Supervisors annually sets prevailing wage rates for employees of businesses with particular types of City contracts. - Payment of prevailing wages for broadcast services work on City property is not currently included in the Administrative Code. Fiscal Impact - The impact on City revenues from event costs associated with the proposed prevailing wage requirement cannot be determined because it is not known whether and to what extent the additional prevailing wage requirements might deter the use of City property for events that involve live broadcast. - The proposed ordinance expands the enforcement responsibilities of the Office of Labor Standards and Enforcement (OLSE). It is unknown how many new complaints for noncompliance would fall under the jurisdiction of OLSE, nor how much additional penalties would be assessed. Therefore, the potential increased costs and revenues to the City cannot be estimated at this time. Recommendation - Approval of the proposed ordinance is a policy decision for the Board of Supervisors.	

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance and shall require two readings at separate meetings of the Board of Supervisors.

The City's Administrative Code requires payment of prevailing wages for certain types of work in private employment connected with City property. These requirements are enforced by the City's Office of Labor Standards Enforcement (OLSE).

BACKGROUND

The Board of Supervisors annually sets prevailing wage rates for employees of businesses which have been awarded particular types of City contracts. Table 1 below identifies the (a) specific Administrative Code Sections, (b) the dates each Administrative Code Section was last amended by the Board of Supervisors, and (c) the types of City contracts, leases, and/or operating agreements in which such businesses are required to pay prevailing wages.

Table 1: List of City Contractors Required to Pay Prevailing Wages

Administrative Code	Date of Most Recent Amendment	Type of Contract
Section 6.22 (E)	May 19, 2011	Public works or construction
Section 21C.2	February 2, 2012	Janitorial and window cleaning services
Section 21C.3	February 2, 2012	Public off-street parking lots, garages and vehicle storage facilities
Section 21C.4	February 2, 2012	Theatrical performances
Section 21C.5	February 2, 2012	Solid waste hauling services
Section 21C.6	February 2, 2012	Moving services
Section 21C.8	June 29, 2014	Trade show and special event work

Payment of prevailing wages for broadcast services work on City property is not currently included in the Administrative Code.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance will amend the Administrative Code to add Section 21C.9 to require that prevailing wages be paid for broadcast services work on City property. Broadcast services include the electronic capture and live transmission of video, digital, and/or audio content for commercial purposes through the use of a remote production or satellite truck on site. The proposed ordinance only applies to for-profit operations and events that are not performed on behalf of a government entity lasting longer than 25 hours (including set-up and take-down).

Under the proposed ordinance, the following types of activities would be exempt from the prevailing wage requirement:

1. Weddings, except where broadcast services are performed for profit;
2. Film productions, unless the film production involves live transmission of content;
3. Street fairs, block parties, parades, festivals, concerts in a public park, or any other expressive activity that is free and open to the public and does not serve to advertise or promote a commercial product or service;
4. Capture of video and/or audio content solely for personal use;

5. Events sponsored by nonprofits for the purpose of fundraising, except where the event is a collegiate sporting event or a professional sporting event; and
6. Events sponsored by primary or secondary educational institutions.

FISCAL IMPACT

Potential Impact on City Agreements

Under the proposed ordinance, prevailing wage requirements for commercial broadcast services work will be added to contracts, leases, franchises, permits, or other agreements for use of City property. It is not known at this time whether and to what extent the additional prevailing wage requirements would deter the use of City property for events that involve live broadcast. As a result, the Budget and Legislative Analyst cannot estimate the impact on City revenues from a change in the number of lease events due to the proposed prevailing wage requirement.

Expanded Scope of Enforcement

The proposed ordinance would expand enforcement responsibility of the OLSE over commercial broadcast services work on City property, with OLSE responsible for addressing complaints and imposing penalties as required. According to Ms. Donna Levitt, Manager of OLSE, the prevailing wage requirement will be limited in application due to the event exemptions and 25-hour event threshold. Therefore, while the number of newly covered broadcast events is unknown at this time, it is expected to be small.

Since it is unknown how many new complaints for noncompliance would fall under the jurisdiction of OLSE, and how much additional penalties would be assessed, the potential increased costs and revenues to the City cannot be estimated at this time.

RECOMMENDATION

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

Item 3
File 15-1234

Department:
Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Mayor's Office of Housing and Community Development (MOHCD) to expend \$3,000,000 from the South of Market (SoMa) Community Stabilization Fund to provide acquisition and rehabilitation loans to projects that meet the requirements of the Small Sites Program Underwriting Guidelines.

Key Points

- Developers constructing new residential development in the Rincon Hill Downtown Residential District pay development impact fees that are deposited into the SoMa Community Stabilization Fund to be used for housing, economic and workforce development, and community cohesion. MOHCD administers the SoMa Community Stabilization Fund, subject to Board of Supervisors approval.
- The Small Sites Program is an acquisition and rehabilitation loan program administered by MOHCD for multi-family rental buildings of 5 to 25 dwelling units in San Francisco. The program provides loans to non-profit and for-profit entities to purchase and rehabilitate existing residential buildings whose tenants are at risk of displacement and restrict them for the long term as affordable housing.
- MOHCD proposes to use \$3,000,000 of SoMa Community Stabilization Funds to make loans to projects that comply with the Small Sites Program Underwriting Guidelines.

Fiscal Impact

- SoMa Community Stabilization Funds are expected to be the only source of City funds for the two identified projects receiving Small Sites Program loans.
- The SoMa Community Stabilization Fund currently has an available fund balance of \$22,439,616. The available balance would be reduced to \$19,439,616, should the Board of Supervisors approve the proposed allocation of \$3,000,000 for Small Sites Program loans.

Policy Consideration

- According to the Small Sites Program Underwriting Guidelines, qualified borrowers may receive residual receipts loans with a term of 30 years. Loan repayments are based on residual receipts generated by the project's rents and other revenues.
- Up to \$399,997 of the requested \$3,000,000 in loan funds are for a project that has not yet been identified. The Budget and Legislative Analyst recommends that the Board of Supervisors approve expenditures for the two projects that are identified, and not approve \$399,997 in SoMa Community Stabilization Fund expenditures until a project has been identified.

Recommendations

- Amend the proposed resolution to authorize MOHCD to expend \$2,600,003 from the SoMa Community Stabilization Fund instead of the requested \$3,000,000.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

In accordance with Planning Code Section 418.7, all monies in the South of Market Area (SoMa) Community Stabilization Fund are to be used to address the effects of destabilization on residents and businesses in SoMa due to new residential development in the Rincon Hill Area.

In accordance with Section 418.7(c) of the Planning Code, the SoMa Community Stabilization Fund expenditures are administered by the Mayor's Office of Housing and Community Development (MOHCD), subject to approval by the Board of Supervisors.

BACKGROUND

SoMa Community Stabilization Fund

The Board of Supervisors approved Section 318 in the City's Planning Code in 2005, which among other provisions, (a) established the Rincon Hill Downtown Residential District¹, (b) created a Rincon Hill Community Improvement Fund, (c) imposed a SoMa Community Stabilization Fee of \$14 per square foot (subsequently amended down to \$10.95 per square foot by the Board of Supervisors under Ordinance No. 270-10) on developers who build new residential development within the Rincon Hill Downtown Residential District, (d) created the SoMa Community Stabilization Fund, and (e) established a SoMa Community Stabilization Fund Community Advisory Committee (CAC) to advise the MOHCD and the Board of Supervisors on the uses of the SoMa Community Stabilization Fund (Ordinance No. 217-05).

In accordance with Section 418.7 of the Planning Code, monies in the SoMa Community Stabilization Fund are to be used for housing, economic and workforce development, and community cohesion to address the effects of destabilization on residents and businesses in SoMa due to new residential development in the Rincon Hill area.

In May 2008, the Board of Supervisors authorized MOHCD to administer the SoMa Community Stabilization Fund in accordance with the SoMa Community Stabilization Fund Strategic Plan (Resolution No. 216-08). One of the objectives set forth in the Strategic Plan is to increase access to perpetually affordable housing for existing residents of SoMa.

Small Sites Program

The Small Sites Program is an acquisition and rehabilitation loan program administered by MOHCD for multi-family rental buildings of 5 to 25 dwelling units in San Francisco. The program seeks to protect and establish permanent affordable housing in small properties throughout the city that are vulnerable to market pressure resulting in property sales, increased evictions, and rising tenant rents. The Small Sites Program provides loans to non-profit and for-profit entities to purchase and rehabilitate existing residential buildings and restrict them for the long term as affordable housing. The program goals are to:

¹ The Rincon Hill Downtown Residential District is the area bounded by Folsom Street, The Embarcadero, Bryant Street, and Essex Street.

- 1) Protect and stabilize housing for current tenants at a range of income levels, as long as at least 75 percent of the building's tenants have an income at or below 80 percent of the area median income (AMI)²;
- 2) Increasing the supply of permanently affordable rental housing by restricting Small Sites Program properties to serve households with average incomes at 80 percent of the AMI;
- 3) Ensure that Small Sites Program properties operate with sufficient cash flow to adequately care for the property and repay debt obligations, including Small Sites Program loans, which the City will reinvest into future Small Sites Program properties.

The SoMa Community Stabilization Fund is one of multiple sources of funding for the Small Sites Program. Other sources of funding include, but are not limited to: (1) affordable housing fees charged to residential developers under the Inclusionary Affordable Housing Program; (2) condominium conversion impact fees; and (3) the Affordable Housing Trust Fund.

Notice of Funding Availability Process

MOHCD issued a Notice of Funding Availability (NOFA) in July 2014 for \$3,000,000 of Small Sites Program funds on a first-come, first-serve basis for projects that meet the requirements of the Small Sites Program Underwriting Guidelines. According to Ms. Ruby Harris, MOHCD Project Manager for the Small Sites Program, the Underwriting Guidelines allow for flexibility to acquire small multifamily rental properties as they become available on the real estate market. Any deviation from the Small Sites Program Underwriting Guidelines (e.g., properties smaller than 5 units, mixed use properties, etc.) are made at the discretion of the Director of MOHCD. The NOFA has a rolling deadline. According to the NOFA, initial funding of \$3,000,000 from the Affordable Housing Trust Fund is available with additional Small Sites Program funding from various sources to become available in the future.

The NOFA announced that eligible projects must be 100 percent residential buildings with 5 to 25 dwelling units in San Francisco. Applicants may be non-profit or for-profit entities that control the property and that demonstrate: (1) capability to enter into contracts with the City and (2) the technical capacity and experience to successfully acquire, rehabilitate, own, and manage affordable housing. Applicants that have initiated Ellis Act eviction proceedings within the past three years are not eligible for program funding.

Loans awarded through the NOFA may be used to support a variety of housing development activities, including but not limited to property acquisition and holding costs, architectural and engineering expenses, environmental assessments, appraisals, legal costs, construction costs, and project management.

All Small Sites Program loans include the following terms:

- 30-year term
- 3 percent simple interest

² The 2015 AMI in San Francisco was \$101,900 for a family of four. 80 percent of the AMI for a family of four was \$81,500. The maximum monthly rent for a 1-bedroom unit for a household with 80 percent of the AMI was \$1,583 without utilities.

- Residual receipts split payments³
- Commercial debt recorded in the first position (paid ahead of residual receipts split payments)

According to Ms. Harris, to date, MOHCD has received 13 applications for Small Sites Program funding in response to the NOFA. Of the 13 applications received, one was denied and the other 12 have been funded or are in the queue to be underwritten and/or funded. MOHCD is proposing to use SoMa Community Stabilization Funds of \$3,000,000 for two identified projects and at least one unidentified project, and other funding sources for the remaining nine projects.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize MOHCD to expend \$3,000,000 from the SoMa Community Stabilization Fund to provide acquisition and rehabilitation loans to affordable housing projects that meet the requirements of the Small Sites Program Underwriting Guidelines.

MOHCD expects to loan \$2,600,003 of the funds to two projects sponsored by the San Francisco Community Land Trust, a non-profit organization, as follows:

- 1) \$1,200,003 for the 1353-57 Folsom Street project. The project consists of 3 units with one 2-bedroom, one 3-bedroom, and one 4-bedroom unit.⁴ The Folsom Street project is currently in escrow and projected to close by January 29, 2016.
- 2) \$1,400,000 for the 568 Natoma Street project. The project consists of 5 one-bedroom units. The Natoma Street project has not yet been underwritten and the City has not yet committed funds. MOHCD expects the property acquisition to close in March 2016.

MOHCD expects to loan the remaining \$399,997 out of the total \$3,000,000 of the requested expenditures to partially fund another project that meets the requirements of both the Small Sites Program and the SoMa Community Stabilization Fund.

MOHCD needs authority from the Board of Supervisors to expend the proposed \$3,000,000 in SoMa Community Stabilization Funds prior to expending funds through the Small Sites Program on property acquisitions. Loan documents for the property acquisitions that will be funded by the Small Sites Program are not finalized until approximately 15 days prior to closing; however, all Small Sites Program loans are issued with the same set of terms, as outlined above. The \$3,000,000 in SoMa Community Stabilization Funds will be loaned to the project sponsor(s) at 3

³ "Residual receipts" is the remaining annual cash flow after all project expenses, commercial debt, and other fees have been paid. Under the residual receipts split, two-thirds of each project's annual residual receipts are paid to the City as payment on the loan and one-third of the residual receipts remain with the project sponsor.

⁴ The Small Sites Program is targeted to 5- to 25-unit buildings, and the 1353-57 Folsom Street project has less than five units. As mentioned above, the Director of MOHCD has discretion to fund projects, such as the Folsom Street project, that do not meet the Small Sites Program Underwriting Guidelines but still meet the goals of the program.

percent simple interest⁵ amortized over 30 years with total principal and interest payments of \$5,700,000, as shown below in Table 1.

Table 1: Small Sites Program Debt Service

	Amount
Principal	\$3,000,000
Interest (3% simple, 30 years)	2,700,000
Total Principal and Interest	\$5,700,000

Of the \$3,000,000 expenditure from the SoMa Community Stabilization Fund, \$2,600,003 is proposed to be loaned to the San Francisco Community Land Trust to acquire and rehabilitate the properties at 1353-57 Folsom Street and 568 Natoma Street. San Francisco Community Land Trust has also received a commitment of a \$600,000 loan from First Republic Bank for the acquisition of 1353-57 Folsom Street and is seeking a \$375,000 loan from Boston Private Bank for the acquisition of 568 Natoma Street. San Francisco Community Land Trust will contribute \$8,596 towards building inspections and property insurance for the 1353-57 Folsom Street project, and \$5,570 towards property insurance for the 568 Natoma Street project.

FISCAL IMPACT

The proposed expenditures of \$2,600,003 in loans from the SoMa Community Stabilization Fund are shown below.

Table 2: Small Sites Program Sources and Uses of City Funds

	1353-57 Folsom Street	568 Natoma Street	Total
SOURCES			
SoMa Community Stabilization Fund	\$1,200,003	\$1,400,000	\$2,600,003
USES			
Property Acquisition	\$600,000	\$713,000	\$1,313,000
Closing Costs	8,165	11,000	19,165
Construction Costs	292,388	349,600	641,988
Developer Costs	86,342	78,717	165,059
Architecture/Engineering	10,000	23,000	33,000
Building Inspection	275	3,055	3,330
Loan Origination Fee	0	1,500	1,500
Legal Costs	3,673	2,000	5,673
Appraisal	1,015	2,500	3,515
Relocation	0	6,000	6,000
Entitlement/Permit Fees	14,619	15,200	29,819
Reserves	135,231	84,000	219,231
Contingencies	48,295	110,428	158,723
Total Uses	\$1,200,003	\$1,400,000	\$2,600,003

Source: MOHCD

⁵ Simple interest is calculated as the original loan principal amount multiplied by the interest rate and the duration of the loan.

As discussed above, each project receiving Small Sites Program loans will also have a loan from a commercial bank that must be repaid with available project cash flow before the loan from the City is repaid. Two-thirds of each project's annual residual receipts (remaining cash after all expenses, commercial debt, and other fees have been paid) will be remitted to the City for debt repayment. The debt repayments will be deposited into the SoMa Community Stabilization Fund to be reallocated to new projects.

The SoMa Community Stabilization Fund has received \$30,218,841 in SoMa Community Stabilization fees from developers and interest on deposits from FY 2005-06 through December 31, 2015 as shown in Table 3 below.

**Table 3: Revenues Deposited to the SoMa Community Stabilization Fund
(Through December 31, 2015)**

Fiscal Year	Revenue from SoMa Community Stabilization Fees	Transfers from Community Improvement Funds	Total Revenue
FY 2005-2006	\$98,471	\$0	\$98,471
FY 2006-2007	0	203,292	203,292
FY 2007-2008	0	0	0
FY 2008-2009	67,324	0	67,324
FY 2009-2010	4,962,933	350,000	5,312,933
FY 2010-2011	2,807,128	589,626	3,396,754
FY 2011-2012*	(81,761)	0	(81,761)
FY 2012-2013	185,874	0	185,874
FY 2013-2014	1,899,067	0	1,899,067
FY 2014-2015	5,376,158	0	5,376,158
FY 2015-2016	9,393,296	4,037,000	13,430,296
Subtotal	\$24,708,490	\$5,179,918	\$29,888,408
Interest Earnings			\$330,433
Total			\$30,218,841

* Negative revenue is return of fees collected erroneously in the prior fiscal year for 333 Harrison project.

Source: Mayor's Office of Housing and Community Development

To date, \$7,779,225 in SoMa Community Stabilization Fund monies have been expended, as previously authorized by the Board of Supervisors, and as shown in Table 4 below.

**Table 4: Expenditures in SoMa Community Stabilization Fund
(Through December 31, 2015)**

Year	Salaries and Benefits**	Inclusionary Housing Study	Grant and Loan Expenditures	Total Expenditures
FY 2006-2007	\$45,614	\$40,000	\$0	\$85,614
FY 2007-2008	82,452	110,000	0	192,452
FY 2008-2009	185,596	0	0	185,596
FY 2009-2010	102,090	0	0	102,090
FY 2010-2011	135,719	0	3,613,462	3,749,181
FY 2011-2012	160,709	0	404,411	565,120
FY 2012-2013	149,770	0	606,621	756,391
FY 2013-2014	128,946	0	306,553	435,499
FY 2014-2015	219,118	0	1,163,426	1,382,544
FY 2015-2016	112,600	0	212,138	324,738
Total	\$1,322,614	\$150,000	\$6,306,611	\$7,779,225

** Includes MOHCD administrative costs, advertising for public hearing, and City Attorney's Office costs.

Source: Mayor's Office of Housing and Community Development

The SoMa Community Stabilization Fund currently has an available fund balance of \$22,439,616, as shown in Table 5 below. The available balance would be reduced to \$19,439,616, if the proposed allocation of \$3,000,000 for Small Sites Program loans is approved.

Table 5: Projected SoMa Community Stabilization Fund Balance

	Amount
Revenues FY 2005-2016 from Table 3	\$30,218,841
Expenditures FY 2005-2016 from Table 4	(7,779,225)
Subtotal - Available Fund Balance	22,439,616
Proposed loan allocation	(3,000,000)
Total	\$19,439,616

POLICY CONSIDERATION

Loan Repayment Based on Residual Receipts

According to the Small Sites Program Underwriting Guidelines, qualified borrowers may receive residual receipts loans with terms of 30 years. Loan repayments are based on residual receipts generated by the project's rents and other revenues. Although residual receipts payments may result in slow loan repayment, the borrowers must ensure the continuing affordability of the housing units.

According to Ms. Harris, affordable housing developments are often unable to repay their entire City loan by the end of the term, in which case the repayment term may be extended, in order to maintain long-term affordability for very low-income households. In the case of the

Small Sites Program, where the rental income received will be at a higher AMI level than traditional multifamily affordable housing (80 percent of AMI versus 50 percent of AMI, respectively), the Small Sites Program projects are projected to repay a larger portion of their loans within the 30 year term. Still, it is possible that the projects to be funded by the SOMA Community Stabilization Fund would not generate sufficient rental income to pay down the entire loan principal and accrued interest within 30 years, and the repayment term would need to be extended.

According to Ms. Harris, although slow repayment of Small Sites loans may occur, default is very rare. MOHCD conducts annual monitoring of each project's cash flow and each project sponsor's finances to ensure that the sponsor is capable of maintaining the property as permanently affordable housing. When MOHCD identifies a project that is at risk of default, MOHCD works with the project sponsor on a mitigation plan that could include transferring the project to another owner.

\$2,600,003 of the \$3,000,000 Requested Expenditure Has Been Awarded

As noted above, \$399,997 of the requested \$3,000,000 in SoMa Community Stabilization Funds are for an affordable housing project that has not yet been identified. According to Ms. Harris, MOHCD is requesting authorization to assign the \$399,997 to the Small Sites Program before identifying an eligible project in order to give MOHCD the flexibility to act quickly within established Small Sites Program Underwriting Guidelines and SoMa Community Stabilization Fund allowable uses, without further Board of Supervisors approval when a property becomes available for acquisition. However, given that there is usually a 90-day period before loan closing, the Budget and Legislative Analyst recommends that the Board of Supervisors approve \$2,600,003 of the requested \$3,000,000 in SoMa Community Stabilization Fund expenditures for the two identified projects, and not approve \$399,997 in SoMa Community Stabilization Fund expenditures until an additional project has been identified.

RECOMMENDATIONS

1. Amend the proposed resolution to authorize MOHCD to expend \$2,600,003 from the SoMa Community Stabilization Fund instead of the requested \$3,000,000.
2. Approve the proposed resolution as amended.

Item 4 File 15-1101	Department: Civil Service Commission (CSC); and Office of Labor Standards and Enforcement (OLSE)
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolution would fix prevailing wage rates for employees of businesses having City contracts that (1) perform public works and improvement projects, (2) perform janitorial services, (3) perform window cleaning services, (4) work in public off-street parking lots, garages, or storage facilities for vehicles on property owned or leased by the City, (5) engage in theatrical or technical services related to the presentation of shows on property owned or leased by the City, (6) haul solid waste, (7) perform moving services at facilities owned or leased by the City, and (8) perform exhibit, display or trade show work at special events in the City. Key Points - Each year, the Board of Supervisors is required to establish the prevailing wage rates that specified businesses having City contracts are required to pay their employees. The Civil Service Commission assists the Board of Supervisors by furnishing relevant prevailing wage data collected by the Office of Labor Standards Enforcement; however, the Board of Supervisors is not bound to consider only the Civil Service Commission's data. - The proposed resolution would establish the following prevailing wage rates: (1) construction employees would receive wage rates that vary by classification, no change to an increase of \$6.31 per hour for certain roofers; (2) janitorial employees would receive wage rate increases that vary by classification, ranging from no change to \$0.14 per hour; (3) window cleaners would not receive an hourly wage rate increase, (4) garage and parking lot employees would not receive an hourly wage rate change; (5) theatrical employees would receive a wage rate increase of \$0.87 to \$1.23 per hour, depending on the classification; (6) employees hauling solid waste would receive a wage rate increase ranging from \$0.14 per hour to \$0.18 per hour; (7) employees performing moving services would receive a wage rate increase ranging from \$0.65 per hour to \$0.91 per hour; and (8) employees performing trade show work would receive increase ranging from \$0.63 to \$2.54 per hour. Fiscal Impact - The proposed resolution increasing the prevailing wage rates could result in increased costs to the City under future City contracts for the subject services. However, such costs are dependent on future City contractor bids and the extent to which City contractors increase the bids submitted to the City to pay for the costs of the increased prevailing wages rates. Therefore, such potential increased costs to the City cannot be estimated at this time. Recommendation - Approval of the proposed resolution is a policy decision for the Board of Supervisors.	

MANDATE STATEMENT

Charter Section A7.204 requires contractors that have public works or construction contracts with the City to pay employees the highest general prevailing rate of wages for similar work in private employment. The Charter allows the Board of Supervisors to exempt payment of the prevailing wage for wages paid under public works or construction contracts between the City and non-profit organizations that provide workforce development services.

Administrative Code Section 22(E)(3) requires the Board of Supervisors to annually set prevailing wage rates for employees of businesses having City contracts. Table 1 below identifies the (a) specific Administrative Code Sections, (b) the dates each Administrative Code Section was last amended by the Board of Supervisors, and (c) the types of City contracts, leases, and/or operating agreements in which the businesses are required to pay prevailing wages.

Table 1: List of Contractors Required to pay the Annual Prevailing Wage

Administrative Code	Date of Most Recent Amendment	Type of Contract
Section 6.22 (E)	May 19, 2011	Public works or construction
Section 21C.2	February 2, 2012	Janitorial and window cleaning services
Section 21C.3	February 2, 2012	Public off-street parking lots, garages and vehicle storage facilities
Section 21C.4	February 2, 2012	Theatrical performances
Section 21C.5	February 2, 2012	Solid waste hauling services
Section 21C.6	February 2, 2012	Moving services
Section 21C.8	June 29, 2014	Trade show and special event work

BACKGROUND

Each year, the Board of Supervisors is required to establish the prevailing wage rates that businesses having contracts with the City are required to pay their construction, janitorial, window cleaning, parking, theatrical, motor bus service¹, solid waste hauling service, moving, and trade show employees.

To assist the Board of Supervisors in determining the prevailing wage rates, the Civil Service Commission is required to furnish the Board of Supervisors, on or before the first Monday of November of each year, relevant prevailing wage rate data. The Civil Service Commission submitted the report to the Board of Supervisors on October 26, 2015.

Administrative Code Section 6.22(E) states that the Board of Supervisors is not limited to the data submitted by the Civil Service Commission to determine the prevailing wage rates, but may consider other information on the subject as the Board of Supervisors deems appropriate. If the Board of Supervisors does not adopt the prevailing wage rates, the wage rates established by the California Department of Industrial Relations for the year will be adopted.

¹ Under Administrative Code, Section 21C.1, the Board of Supervisors is required to set the annual prevailing wage rates for motor bus service; however, because the City does not have an existing motor bus services contract, the proposed ordinance does not set the prevailing wage rates for these classifications at this time.

The Civil Service Commission's relevant prevailing wage rate data provided to the Board of Supervisors is based on a survey by the City's Office of Labor Standards Enforcement and includes collective bargaining agreements that have recently been negotiated.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would fix prevailing wage rates for employees of private businesses having the following contracts, leases, or operating agreements with the City:

- Public works and improvement project contracts,
- Janitorial services contracts,
- Window cleaning services contracts,
- Public off-street parking lots, garages, or storage facilities for vehicles on property owned or leased by the City,
- Theatrical or technical services related for shows on property owned or leased by the City,
- Hauling of solid waste generated by the City in the course of City operations,
- Moving services under City contracts at facilities owned or leased by the City, and
- Exhibit, display or trade work show services at a special event on City-owned property.

The Administrative Code requires that the Civil Service Commission provide prevailing wage data to the Board of Supervisors that includes both the basic hourly wage rate and the hourly rate of each fringe benefit, including medical and retirement benefits.

- Prevailing wage rates for various crafts and labor classifications under public works projects are established by the California Department of Industrial Relations, usually based on collective bargaining agreements that cover the employees performing the relevant craft or type of work in San Francisco.
- Prevailing wage rates for contracts for other services and classifications covered by the Administrative Code, as recommended by the Civil Service Commission, are based on the collective bargaining agreements that cover work performed in San Francisco between employers and the respective labor unions.

Attachment I to this report provides an alphabetical list of the all occupations covered by the City's prevailing wage rate requirements.

FISCAL IMPACT

Attachment II to this report, prepared by the Budget and Legislative Analyst, summarizes (a) the types of contracts, leases, or operating agreements required to pay prevailing wages, (b) the respective collective bargaining agreements and labor unions, (c) the amount of the hourly wage rate increases in 2016 as compared to 2015, (d) the amount of the hourly fringe benefit rate increases in 2016 as compared to 2015, and (e) the proposed prevailing hourly wage rates.

Potential impact on the costs of future contractor bids

Under the proposed resolution, private businesses that have contracts with the City, and perform public works construction, janitorial services, parking, theatrical, moving, solid waste hauling services, and trade show work in San Francisco, would be required to pay their employees at least the prevailing wage rates as shown in Attachment II of the report. Increases in the prevailing wage rates could result in increased costs of future City contracts. However, any increased contract costs to the City as a result of the proposed prevailing wage rates are dependent on future City contractors' bids, and the extent to which such higher wage rates result in higher bids submitted by City contractors. Therefore, such potential increased costs to the City cannot be estimated at this time.

RECOMMENDATION

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

**General Prevailing Wage Determinations Made by the Director of Industrial Relations, State of California
And Categories Requested by the San Francisco Board of Supervisors**

Crafts and Building Trades

Asbestos Removal Worker (Laborer)
Asbestos Worker, Heat and Frost Insulator
Boilermaker-Blacksmith
Brick Tender
Bricklayer, Blocklayer
Building/Construction Inspector
Carpenter
Carpet, Linoleum
Cement Mason
Dredger (Operating Engineer)
Drywall Installer (Carpenter)
Electrical Utility Lineman
Electrician
Elevator Constructor
Field Surveyor
Glazier
Iron Worker
Laborer
Landscape Maintenance Laborer
Light Fixture Maintenance
Marble Finisher
Marble Setter
Modular Furniture Installer (Carpenter)
Operating Engineer
Operating Engineer (Building Construction)
Operating Engineer (Heavy and Highway Work)
Painter
Parking and Highway Improvement Painter (Laborer)

Parking and Highway Improvement Painter (Painter)
Pile Driver (Carpenter)
Pile Driver (Operating Engineer - Building Construction)
Pile Driver (Operating Engineer - Heavy and Highway Work)
Plaster Tender
Plasterer
Plumber
Roofer
Sheet Metal Worker (HVAC)
Slurry Seal Worker
Stator Rewinder
Steel Erector and Fabricator (Operating Engineer - Heavy & Highway Work)
Steel Erector and Fabricator (Operating Engineer - Building Construction)
Teamster
Telecommunications Technician
Telephone Installation Worker
Terrazzo Worker
Tile Finisher
Tile Setter
Traffic Control/Lane Closure (Laborer)
Tree Trimmer (high voltage line clearance)
Tree Trimmer (line clearance)
Tunnel Worker (Laborer)
Tunnel/Underground (Operating Engineer)
Water Well Driller

Other Classifications in the Administrative Code

Janitors
Movers
Parking Garage Attendants
Solid Waste Hauler
Theatrical Stage Employees
Window Cleaner
Trade Show Work

Type of Contract, Lease, or Operating Agreement	Collective Bargaining Agreement and/or Labor Union	Hourly Wage Rate Increase/ Decrease in 2016 compared to 2015	Hourly Fringe Benefits Rate Increase/ Decrease in 2016 compared to 2015	Proposed Prevailing Wage Rates (Hourly Wage Rate + Hourly Fringe Benefit Rate)
Public Works and Construction	California Department of Industrial Relations	Varies by classification, ranging from no change to an increase of \$6.31 per hour for certain roofers.	Varies by classification, ranging from a decrease of \$4.66 for certain plumbers to an increase of \$2.54 for marble masons.	Varies by classification: - The low wage rate is unchanged at \$9.34 per hour for a landscape maintenance laborer - The high wage increases from \$120.00 to \$124.78 per hour for certain Pile Drivers (Diver classification).
Janitorial Services Contract	Collective bargaining agreement between the San Francisco Maintenance Contractors Association and the Service Employees International Union, Local 1877, Division 87.	Varies by classification from no change to an increase of \$0.14 per hour.	Varies by classification and hours worked from a decrease of \$0.20 to an increase of \$1.36. (does not include vacation benefits which vary based on length of employment)	Varies by classification: - The low wage rate is increased from \$22.00 to \$23.51 per hour. - The high wage decreases from \$30.84 to \$30.65 per hour.
Window Services Contract	Collective bargaining agreement between the San Francisco Window Cleaning Contractors Association and Window Cleaners Union – Service Employees International Union Local 1877, AFL-CIO	No changes from 2015 to 2016.	Varies by classification from a decrease of \$0.36 to a decrease of \$0.41.	Varies by classification: - The low wage rate is decreased from \$35.42 to \$35.05. - The high wage decreases from \$38.45 to \$38.03.
Public Off-Street Garage Attendants	Agreement between the Jurisdictional Operators of Parking Facilities and Teamsters Automotive and Allied Workers, Local 665.	No changes from 2015 to 2016.	Varies by classification from no increase to an increase of \$0.31.	Varies by hours worked: - The low wage rate has increased from \$22.80 to \$23.07. - The high wage remains the same at \$35.83 per hour.

Type of Contract, Lease, or Operating Agreement	Collective Bargaining Agreement and/or Labor Union	Hourly Wage Rate Increase/ Decrease in 2016 compared to 2015	Hourly Fringe Benefits Rate Increase/ Decrease in 2016 compared to 2015	Proposed Prevailing Wage Rates (Hourly Wage Rate + Hourly Fringe Benefit Rate)
Theatrical Services	2011 Project Agreement – International Alliance of Theatrical Stage Employees, Local 16, and Moving Picture Technicians, Artists and Allied Crafts.	Varies by classification from \$0.87 to \$1.23 per hour increase.	Varies by classification from \$0.36 to \$1.07 per hour increase	Varies by classification: · The low wage rate increases from \$49.17 to \$50.40 per hour. · The high wage rate increases from \$72.27 to \$74.58 per hour.
Solid Waste Hauling	Collective Bargaining Agreement between Sanitary Truck Drivers and Helpers Union Local 350, International Brotherhood of Teamsters, and NorCal Waste Systems, Inc., Golden Gate Disposal & Recycling Company, and Sunset Scavenger Company.	Varies by classification from an increase of \$ 0.14 to an increase of \$0.18.	Varies by classification from a decrease of \$4.23 to \$4.65 per hour. (does not include vacation benefits which vary based on length of employment)	Varies by classification: · The low wage rate decreases from \$65.01 to \$60.92 per hour. - The high wage rate decreases from \$77.39 to \$ 72.94 per hour.
Moving Services	Agreement, between the Northern California Regional Council of Carpenters and the Carpenters 46 Northern California Counties Conference Board.	Varies by classification from a an increase of \$0.65per hour to an increase of \$0.91 per hour	Increased by \$0.01 per hour.	Varies by classification: · The low wage rate increases from \$30.98 to \$31.90 per hour. · The high wage rate increases from \$31.51 to \$32.17 per hour
Trade Shows	Agreement, between the Convention Services Employer and Allied Trades District Council 36 on behalf of Sign Display and Allied Crafts Local Union 510	Varies by classification from an increase of \$0.63 per hour to an increase of \$2.54 per hour.	Varies by classification from an increase of \$0.03 per hour to an increase of \$0.53 per hour. (does not include vacation benefits which vary based on length of employment).	Varies by classification: - The low wage increases from \$33.11 per hour to \$33.77 per hour. - The high wage increases from \$101.89 to \$104.96

Item 5 File 15-1213	Department: Controller's Office (Controller)
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolution would establish the City's FY 2015-16 appropriations limit at \$2,991,417,308 as calculated by the Controller. Key Points - Article XIII B of the California State Constitution places annual limits on the appropriations of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and adjusted for (1) the change in population, and (2) the change in the cost of living. - Local governments are allowed to calculate the change in the cost of living using (1) the percentage change in California per-capita personal income or (2) the percentage change for the local jurisdiction's assessment roll for non-residential new construction. In 2014, change in per-capita personal income was 3.82 percent and change in assessment roll was 0.33 percent. Fiscal Impact - The Controller calculated the FY 2015-16 appropriations limit to be \$2,991,417,308, using the percentage change in California per-capita personal income. Policy Consideration - The Controller has discretion to calculate the change in the cost of living using (1) the percentage change in California per-capita personal income or (2) the percentage change for the local jurisdiction's assessment roll for non-residential new construction. - The Controller calculated the appropriations limit of \$2,991,417,308 using the change to the per-capita income. Had the Controller elected to use the percentage change in the local assessment roll, the appropriations limit would have been calculated at \$2,890,858,201, which is \$100,559,107 less than the proposed appropriations limit of \$2,991,417,308. Recommendation - Approve the proposed resolution.	

MANDATE STATEMENT

California Constitution Article XIII B states that each local government must set an annual appropriations limit as calculated using the preceding year's appropriations limit adjusted for (1) the change in population and (2) the change in the cost of living.

BACKGROUND

On November 6, 1979, California voters approved Proposition 4, known as the Gann Initiative, which added Article XIII B to the California Constitution. Article XIII B (later amended by State Proposition 111, as approved by the voters in June of 1990) places annual limits on the appropriations of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and adjusted for (1) the change in population, and (2) the change in the cost of living.

Per Article XIII B Section 9 and California Government Code Section 7901, the appropriations limit does not apply to any tax proceeds appropriated for (a) debt service, (b) federally-mandated services, (c) qualified capital outlays, and (d) various hazardous waste programs administered by the Department of Public Health.

California Government Code Section 7901(b) defines the change in population as the population growth for the calendar year preceding the beginning of the fiscal year for which the appropriations limit is to be determined. According to the California Department of Finance, in calendar year 2014, San Francisco's population growth was 1.22 percent.

California Constitution Article XIII B Section 8(e)2 allows the local government to use one of the two following definitions to calculate the cost of living adjustment:

Definition 1: The percentage change in California per-capita personal income from the preceding year, estimated to be 3.82 percent in 2014, or

Definition 2: The percentage change for the local jurisdiction in the assessment roll from the preceding year due to non-residential new construction, estimated to be 0.33 percent in 2014.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish the City's FY 2015-16 appropriations limit at \$2,991,417,308 as calculated by the Controller. The appropriations limit for FY 2015-16 is based on the amount of the FY 2014-15 appropriations limit and adjusted to reflect increases in (1) the population and (2) cost of living (calculated using the increase in per-capita personal income).

FISCAL IMPACT

Per California Constitution Article XIII B, the appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) federally-mandated services, (c) qualified capital outlays, and (d) various hazardous waste programs administered by the Department of Public Health. Consequently, the Controller excluded \$528,378,219 from the City's total FY 2015-16 tax proceeds of \$3,457,779,027 as shown in Table 1 below, resulting in net tax proceeds subject to the appropriations limit of \$2,929,400,807.

Table 1: Estimated Tax Proceeds Subject to the Proposed Appropriations Limit

FY 2015-16 Estimated Total Tax Proceeds*	\$3,457,779,026
Exclusions	
(a) Debt Service	(220,490,340)
(b) Federally-Mandated Services	(140,872,542)
(c) Qualified Capital Outlays	(167,015,337)
(d) Hazardous Waste Program	(0)
Subtotal Exclusions	(528,378,219)
FY 2015-16 Net Tax Proceeds Subject to Appropriations Limit	\$2,929,400,807

*Includes property taxes, business taxes, other local taxes, rents & concessions, interest, and state grants.

The City's FY 2015-16 net proceeds of taxes, as determined by the Controller, are \$2,929,400,807, as shown in Table 1 above, which is \$62,016,501 less than the City's appropriations limit in FY 2015-16 of \$2,991,417,308, as calculated by the Controller, and as shown in Table 2 below.

Table 2: Proposed FY 2015-16 Appropriations Limit

FY 2014-15 Appropriations Limit ^a	\$2,846,620,971
Adjustment Factors	
Increase in Population	1.22%
Increase in Per-Capita Personal Income	3.82%
FY 2015-16 Appropriations Limit ^a	\$2,991,417,308

Source: Controller's Office

^a The annual appropriations limit is a formula set by the California Constitution. The Controller calculated the FY 2015-16 appropriations limit based on the increase in the City's population and the increase in per-capita personal income as follows: \$2,846,620,971 x 1.0122 x 1.0382 equals \$2,991,417,308 (actual total may vary due to rounding).

POLICY CONSIDERATION

As noted in the background section, the Controller has discretion to calculate the cost of living adjustment factor using one of two following definitions:

Definition 1: The percentage change in California per-capita personal income from the preceding year, estimated to be 3.82 percent in 2014, or

Definition 2: The percentage change for the local jurisdiction in the assessment roll from the preceding year due to local non-residential new construction, estimated to be 0.33 percent in 2014.

Table 3 below shows the FY 2015-16 appropriations limit using both definitions.

Table 3: The FY 2015-16 Appropriations Limit Can Vary Depending on Definition

	<u>Definition 1</u>	<u>Definition 2</u>
	Per-Capita Personal Income	Local Assessment Roll from Non- Residential New Construction ^a
FY 2014-15 Appropriations Limit	\$2,846,620,971	\$2,846,620,971
Adjustment Factors		
Increase in Population	1.22%	1.22%
Increase in Per-Capita Personal Income	3.82%	-
Increase in Local Assessment Roll	-	0.33%
FY 2015-16 Appropriations Limit	\$2,991,417,308	\$2,890,858,201

^a Difference due to rounding

For the FY 2015-16 appropriations limit, the Controller elected to use the percentage change in per-capita personal income from the preceding year to calculate the cost of living adjustment, consequently calculating the appropriations limit at \$2,991,417,308, as shown in Table 3 above. Had the Controller elected to use the percentage change in the local assessment roll from the preceding year, the appropriations limit, as shown in Table 3 above, would have been calculated at \$2,890,858,201, which is (a) \$100,559,107 less than the proposed appropriations limit of \$2,991,417,308 and (b) \$38,542,606 less than the Controller's estimate of net tax proceeds subject to the appropriations limit of \$2,929,400,807, as shown in Table 1 above.

RECOMMENDATION

Approve the proposed resolution.

Items 6 and 7 Files 15-1190 & 15-1202	Department: General Services Agency–Department of Technology (DT)
EXECUTIVE SUMMARY	
Legislative Objectives • File 15-1190 - The proposed resolution would authorize an amendment to the license agreement between the City of San Francisco and UnitedLayer, LLC (UnitedLayer) to continue to operate the City Data Center at 200 Paul Avenue by extending the term of the existing license by five years from February 1, 2016 through January 31, 2021. Annual rent to be paid by the City to UnitedLayer in the first year is \$2,227,494. • File 15-1202 - The proposed resolution would authorize an amendment to the license agreement between the City and Telx Group (Telx) to continue to operate the Meet Me Room at 200 Paul Avenue by extending the term of the existing license by two years from February 1, 2016 through January 31, 2018 with three one-year options to extend through January 31, 2021. Annual rent to be paid by the City to Telx in the first year is \$111,780, which includes a one-time setup fee of \$3,780.	
Key Points • The City Data Center at 200 Paul Avenue supports the City’s overall computing needs, including the City’s payroll, email, and financial accounting systems, and various City websites. All servers located at 200 Paul must connect to a connectivity hub, known as the Meet Me Room in order to connect City departments in the City and to the Internet. • In 2011, the Department of Technology (DT) signed a license agreement with UnitedLayer to license 30 server cabinets on the first floor, and two dedicated caged areas totaling approximately 1,500 square feet on the fifth floor at the City Data Center. The term for this agreement was five years, expiring on January 31, 2016. DT also signed a separate license agreement with Telx to provide connectivity services through the Meet Me Room. The term for this agreement was five years, expiring on January 31, 2016.	
Fiscal Impact • The total estimated five-year cost to the City to operate the Data Center at 200 Paul Avenue is \$12,779,698, including \$12,206,311 paid to UnitedLayer, and \$573,387 to Telx.	

Policy Considerations

- The City's Committee on Information Technology (COIT) recommended in a December 2010 report that the City consolidate the locations for housing the City's computer data equipment at two sites: 200 Paul Avenue, and a site to be constructed in 2013 at the San Francisco International Airport. When the Board of Supervisors approved the original license between DT and UnitedLayer for the City Data Center at 200 Paul Avenue, the license provided the option to terminate any time after January 31, 2013 to allow for possible future relocation and consolidation of City data equipment from 200 Paul Avenue to a City-owned facility at the Airport.
- DT is now proposing to extend the existing license agreements by up to five years, rather than end the agreements on the original termination date of January 31, 2016 because there are functions that are only able to be served at 200 Paul Avenue. Mr. German, Policy and Governance Manager at DT, states that even though many departments have consolidated their servers at the Airport, some departments have chosen to maintain their own servers within their departments, and not to consolidate those servers at the Airport. Mr. German states that approximately 70 percent of City departments have located their servers at the Airport.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer or with rent of \$5,000 or more and where the City is the tenant is subject to Board of Supervisors approval.

BACKGROUND

The City Data Center at 200 Paul Avenue supports the City's overall computing needs with (a) approximately 300 servers¹ in 30 server cabinets, (b) mainframe computer, (c) routers and switches, (d) T-1 and T-3 data lines², and (e) other computer hardware equipment. Mr. David German, Policy and Governance Manager at the City's Department of Technology (DT), states that the City's mainframe computer, servers, and other hardware equipment support the City's payroll system, email system, the Financial Accounting Management Information System (FAMIS), various City websites, backup data storage, as well as specific public safety systems, such as the (a) California Law Enforcement Telecommunications System, the law enforcement database for criminal records, (b) Automated Fingerprint Identification System, and (c) Justice Information Tracking System (JUSTIS), which allows public safety agencies to share information. According to Mr. German, the City Data Center must be operational 24 hours per day, seven days per week, even during emergencies, such that the Data Center has dedicated uninterrupted power supply systems, emergency power generators, fire suppression, and air conditioning units.

According to Mr. German, all City servers located at 200 Paul Avenue must connect to a connectivity hub, known as the Meet Me Room, in order to connect to other City departments located throughout the City and to the Internet. The City Data Center at 200 Paul Avenue currently connects through the Meet Me Room using 24-pair wired connections³.

In 2011, the Board of Supervisors approved two license agreements to operate the City Data Center and Meet Me Room at 200 Paul Avenue. DT signed a license agreement with UnitedLayer, LLC (UnitedLayer) to license 30 server cabinets on the first floor, and two dedicated caged areas totaling approximately 1,500 square feet on the fifth floor at the City Data Center. The term for this agreement was five years, expiring on January 31, 2016. DT also signed a separate license agreement with Telx Group (Telx) to provide connectivity services through the Meet Me Room. The term for this agreement was five years⁴, expiring on January 31, 2016.

¹ A server is a computer, or series of computers, that link other computers together through a network. The Department of Technology anticipates housing approximately 300 servers in 30 server cabinets (approximately 10 servers per server cabinet) at 200 Paul Street.

² T-1 and T-3 data lines are high-speed fiber optic wires that transmit large amounts of data.

³ The 12-pair and 24-pair wired connections signify the number of data links that can be made between the City's servers and the connectivity hub, known as the Meet Me Room. 24-pair wired connections have double the number of connections that can be made and carry twice the amount of data, compared to 12-pair wired connections.

⁴ The five-year term included one two-year term and three one-year options to extend the agreement.

DETAILS OF PROPOSED LEGISLATION**Proposed Amendment to License Agreement with UnitedLayer
for the City Data Center (File 15-1190)**

The proposed resolution would authorize an amendment to the license agreement between the City and UnitedLayer to continue to operate the City Data Center at 200 Paul Avenue by extending the term of the existing license by five years from February 1, 2016 through January 31, 2021. Annual rent to be paid by the City to UnitedLayer in the first year is \$2,227,494. Table 1 below shows the key provisions of the license agreement between the City and UnitedLayer.

**Table 1: Key Provisions for License Agreement between
the City and UnitedLayer for the City Data Center**

Licensed area	30 server cabinets at ground floor 1 caged area on the 5 th floor
Term	February 1, 2016 – January 31, 2021 (Five years)
Options to Extend	None
Annual Rent	\$2,227,494 in the first year
Rent Increases	Subject to annual four percent increases
Electrical costs	Paid by City
Services & utilities	Paid by UnitedLayer

Proposed Amendment to License Agreement with Telx for the City Data Center (File 15-1202)

The proposed resolution would authorize an amendment to the license agreement between the City and Telx to continue to operate the Meet Me Room at 200 Paul Avenue by extending the term of the existing license by two years from February 1, 2016 through January 31, 2018 with three one-year options to extend through January 31, 2021. Annual rent to be paid by the City to Telx in the first year is \$111,780, which includes a one-time setup fee of \$3,780. Table 2 below shows the key provisions of the license agreement between the City and Telx.

**Table 2 Key Provisions for License Agreement between
the City and Telx for the Meet Me Room**

Equipment	Two Equipment Racks, 24-Pair Connectivity (48 total pairs of connectivity)
Term	February 1, 2016 through January 31, 2018 (two years)
Options to extend	Three one-year options
Annual rent	\$108,000 in the first year
Rent increases	Subject to annual three percent increases
Fees	One-Time Setup Fee of \$3,780
Electrical costs	Paid by Telx
Services & utilities	Paid by Telx

Extension of License Agreement without a Competitive Process

DT has chosen to extend the license agreements for the City Data Center at 200 Paul Avenue because the proposed rent is lower than other comparable alternatives. According to Mr. Charlie Dunn, Senior Real Property Officer at the Real Estate Department, the cost per server cabinet is \$3,583 compared to \$4,514, \$4,831, and \$5,460 for other tenants at 200 Paul Avenue.⁵ Mr. Dunn estimates that the cost of moving⁶ to another site would range from approximately \$4,000,000 to \$6,500,000, thus making moving to another site to be cost prohibitive.

FISCAL IMPACT

The total estimated five-year cost to the City to operate the Data Center at 200 Paul Avenue is \$12,779,698, as shown in Table 3 below.

Table 3: Estimated Cost to the City for UnitedLayer and Telx License Amendments

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
UnitedLayer License						
Rent	\$2,227,494	\$2,316,594	\$2,409,258	\$2,505,628	\$2,605,853	\$12,064,826
Electrical*	28,297	28,297	28,297	28,297	28,297	141,485
<i>Subtotal UnitedLayer</i>	<i>\$2,255,791</i>	<i>\$2,344,891</i>	<i>\$2,437,555</i>	<i>\$2,533,925</i>	<i>\$2,634,150</i>	<i>\$12,206,311</i>
Telx License**	\$108,000	\$111,240	\$114,577	\$118,015	\$121,555	\$573,387
Total	\$2,363,791	\$2,456,131	\$2,552,132	\$2,651,939	\$2,755,705	\$12,779,698

* Electrical costs are estimates based on 2015 usage. Services and utilities are paid by UnitedLayer.

** Electrical, services, and utilities are paid by Telx and not the City.

*** Rents are increased each year by 4 percent for UnitedLayer and 3 percent for Telx.

Payments to UnitedLayer and Telx under the proposed license agreements are based on the type and number of equipment housed by the City at 200 Paul Avenue. As notes in Table 1

⁵ Typically in real estate transactions, quotes for comparable properties are publicly available, while the cost of data center facilities are not. The comparable quotes provided by Mr. Dunn are from other tenants at 200 Paul and cannot be identified due to confidentiality.

⁶ Costs to move would include transferring fiber to a new location, setup fees, new equipment, costs of moving current equipment, and purchasing new internal connections.

above, the UnitedLayer rent is increased annually by four percent. As noted in Table 2, the Telx rent is increased annually by three percent.

POLICY CONSIDERATION

Data Center Consolidation

The City's Committee on Information Technology (COIT) recommended in a December 2010 report that the City consolidate the locations for housing the City's computer data equipment, including servers, data storage equipment, and mainframe computers. DT recommended consolidating the City's data equipment at two sites: 200 Paul Avenue and a site to be constructed in 2013 at the San Francisco International Airport. When the Board of Supervisors approved the original license between DT and UnitedLayer for the City Data Center at 200 Paul Avenue, the license was for five years from February 1, 2011 through January 31, 2016, with the option to terminate any time after January 31, 2013. The option to terminate early was to allow for possible future relocation and consolidation of City data equipment from 200 Paul Avenue to a City-owned facility at the Airport.

According to Mr. German, DT is now proposing to extend the existing license agreements by up to five years, rather than end the agreements on the original termination date of January 31, 2016, because there are functions that are only able to be served at 200 Paul Avenue. For example, FAMIS and eMerge require a connection to the City's Internet system, which is located at 200 Paul Avenue. Mr. German states that even though many departments have consolidated their servers at the Airport and 200 Paul, some departments have chosen to maintain their own servers within their departments, and not to consolidate those servers at the data centers. Mr. German states that approximately 60 percent of City departments have located their servers at the Airport or 200 Paul.

RECOMMENDATION

Approve the proposed resolutions.

Item 8 File 15-1210	Department: Recreation and Park Department
EXECUTIVE SUMMARY	
Legislative Objectives	
The proposed ordinance would approve an amendment to the lease with Coit Tower, LLC for the operation of Coit Tower, and affirm the Planning Department's determination under the California Environmental Quality Act and making findings of consistency with the General Plan and the eight priority policies of Planning Code, Section 101.1.	
Key Points	
Specific changes to the lease include: (1) a service charge for online elevator ticket sales; (2) the sale of food and beverage from a kiosk exterior to Coit Tower, and provide a (i) one-time rent credit of \$5,000 per month to compensate for prior delays in approving the food and beverage kiosk, and (ii) short-term rent credit of up to \$7,000 per month from February 1, 2016 to July 31, 2016 to compensate for future delays in opening the food and beverage kiosk; (3) an ongoing rent credit of up to \$9,500 per month for enhanced mural protection staffing; (4) a retroactive, ongoing rent credit for credit card fees associated with elevator tickets purchased by credit cards.	
Fiscal Impact	
- The proposed amendment results in net rent credits of \$360,150 to be paid by the Recreation and Park Department to the tenant over the remaining 39-month term of the lease from February 2016 through April 30, 2019. These net rent credits include: (1) one-time credits paid by the Recreation and Park Department to the tenant totaling \$123,150; (2) ongoing credits paid by the Recreation and Park Department to the tenant totaling \$468,000; and (3) the estimated percentage rent to be paid by the tenant to the Recreation and Park Department from food and beverage sales totaling \$231,000. - Considering the proposed rent credits to be paid by the Recreation and Park Department to the tenant, the Recreation and Park Department would receive net revenues of \$3,168,486 over the remaining 39 month term of the lease.	
Policy Consideration	
- Though the staff has been in place for over a year, Recreation and Park Department has not performed an evaluation of the staffing at Coit Tower. Therefore, the proposed ordinance should be amended to (1) limit the rent credit for enhanced mural protection staffing to one year through January 31, 2017, and (2) require an evaluation by Recreation and Department staff and report to the Board of Supervisors by January 31, 2017 of the effectiveness of the enhanced mural protection staffing. - Further, the proposed ordinance should be amended to remove the provision allowing the Recreation and Park Department General Manager to adjust the amount of the rent credit if the number of visitors to Coit Tower increases. Any future increases to the enhanced mural protection staffing rent credit under the Coit Tower lease should be subject to Board of Supervisors approval, pursuant to City Charter Section 9.118(c).	

Recommendations

- Amend the proposed ordinance to correctly state the expiration date of the food and beverage kiosk rent credit as July 31, 2016, not July 31, 2017.
- Amend the proposed ordinance to add percentage rent equal to ten percent of gross receipts from sales at the food and beverage kiosk.
- Amend the proposed ordinance to remove the authority of the Recreation and Park Department General Manager to adjust the amount of the rent credit to be paid to the tenant for enhanced mural staffing.
- Amend the proposed ordinance to (1) require an evaluation by Recreation and Department staff and report to the Board of Supervisors by January 31, 2017 of the effectiveness of the enhanced mural protection staffing. Any future increases to the enhanced mural protection staffing rent credit under the Coit Tower lease would be subject to Board of Supervisors approval, pursuant to City Charter Section 9.118(c).
- Approve the proposed ordinance, 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

Coit Tower is located in the City's Pioneer Park adjacent to Lombard and Montgomery Streets and is under the jurisdiction of the Recreation and Park Department. Coit Tower, which was constructed in 1933, contains murals painted by artists funded by the federal Public Works of Art Project, and was listed on the National Register of Historic Places in 2008. In 2014, a \$1.75 million renovation of Coit Tower was completed, which included cleaning of the tower and base; mechanical, electrical, and accessibility upgrades; and restoration of the murals.

In May 2014, the Board of Supervisors approved a lease with Coit Tower, LLC (tenant) to operate and manage the facility through April 2019. (File No. 14-1066). Under the lease, the tenant agreed to operate the elevator to the top of Coit Tower, provide docent-led tours of the Tower and murals, and operate a gift shop. The tenant agreed to pay the City the greater of Minimum Annual Guarantee (MAG) Rent of \$662,400 or percentage rent based on gross receipts.¹

The lease also specified that the Recreation and Park Department wanted to provide food service at Coit Tower through the use of a kiosk or mobile food facility. After executing the lease and performing an exploratory process including engaging in community outreach, the Recreation and Park Department chose to move forward with implementing a new food service kiosk at Coit Tower. In February 2015 the Recreation and Park Commission authorized staff to seek necessary approvals for the installation of a removable refreshment kiosk on the west side of the Coit Tower parking lot.

Under the original lease, the tenant was required to provide volunteer docents to serve as tour guides to the Tower and murals. Additionally, the tenant was required to provide five full and part time staff to serve as tour guides, staff the bookstore, and provide maintenance. The tenant, in consultation with the Recreation and Park Department, has determined that the appropriate level of staffing is greater than the five positions specified in the lease. The tenant has since provided the additional staffing to protect the murals at its own expense.

¹ Percentage rent is calculated using a combination of the gross receipts of the following sales: 90 percent of admission receipts, 10 percent of audio tours and binocular rentals, 50 percent of telescopic viewers, 10 percent of student or docent led tours, and 20 percent of bookstore sales.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve an amendment to the lease with Coit Tower, LLC for the operation of Coit Tower to:

- (1) allow a service charge for online elevator ticket sales;
- (2) allow the sale of food and beverage from a kiosk exterior to Coit Tower, and provide a (i) one-time rent credit of \$5,000 per month to compensate for prior delays in approving the food and beverage kiosk, and (ii) short-term rent credit of up to \$7,000 per month from February 1, 2016 to July 31, 2016 to compensate for future delays in opening the food and beverage kiosk;
- (3) provide an ongoing rent credit of up to \$9,500 per month, of \$114,000 annually, for enhanced mural protection staffing;
- (4) allow a one-time retroactive rent credit of \$11,150.45, and an ongoing rent credit for credit card fees associated with elevator tickets purchased by credit cards; and
- 5) affirm the Planning Department's determination under the California Environmental Quality Act and making findings of consistency with the General Plan and the eight priority policies of Planning Code, Section 101.1.

Service Charge for Online Elevator Ticket Sales

According to Ms. Cassandra Costello, Property Manager at the Recreation and Park Department, the Department has received requests from the public to be able to purchase online tickets to the elevator at Coit Tower. The proposed ordinance would amend the lease to allow the tenant to charge a service fee of \$1 per ticket for online ticket sales for Coit Tower elevator tickets. The increase of \$1 per ticket will not be included in the gross receipts calculation of percentage rent paid to the City; therefore there will be no change in revenues paid to the City resulting from this change.

Food and Beverage Kiosk

A food and beverage kiosk had been contemplated as part of the original lease. The Recreation and Park Department has engaged in a community outreach process to determine the appropriateness of such a kiosk, which extended beyond the amount of time anticipated for the outreach process and delayed the implementation of the kiosk. These delays have resulted in lower revenue to the tenant than had been anticipated.

The proposed amendment would provide a rent credit to the tenant in the amount of \$5,000 per month retroactive to December 1, 2014 through the effective date of the lease amendment (or approximately January 31 2016, a period of 14 months), and an additional six-month rent credit of \$7,000 per month from the effective date of the lease amendment or approximately February 1, 2016 until the beginning of sales at the kiosk, but no later than July 31, 2016.² The proposed ordinance specifies that the rent credit will expire on July 31, 2017, rather than the

² July 31, 2016 is sixty days after the estimated date in which the kiosk area will be transferred to the Recreation and Park Department and the tenant may begin constructing the kiosk.

correct date of July 31, 2016, and therefore should be amended to state the correct expiration date of July 31, 2016 for the rent credit.

The proposed amendment would also revise the percentage rent payable by adding a percentage rent payment to the City equal to 10 percent of gross receipts from any food and beverages sold at the kiosk.

The proposed ordinance does not specify the addition of food and beverage concessions to the percentage rent calculation, and therefore should be amended to include the new food and beverage percentage rent calculation.

Ms. Costello states that the Recreation and Park Department agreed to the proposed 14-month rent credit of \$5,000 per month from December 1, 2014 through January 31, 2016 to compensate the tenant for the lack of food and beverage sales revenues during the longer than anticipated community engagement process. According to Ms. Costello, the lease was originally established to reflect a timely process and the expected revenues from the food and beverage kiosk were a factor in awarding the lease to the tenant. Ms. Costello further states that the six-month rent credit of \$7,000 per month from February 1, 2016 through July 31, 2016 will provide additional relief to the tenant during the time in which the kiosk location is being considered by the Board of Supervisors and the tenant is constructing the kiosk.³ The maximum amount of the food kiosk rent credit is shown in Table 1 below.

Table 1: Maximum Rent Credit for Food and Beverage Kiosk

Credit Date	Amount per Month	Total
12/1/2014 - 1/31/2016 (14 months)	\$5,000	\$70,000
2/1/2016 - 7/31/2016 (6 months)	7,000	42,000
Total		\$112,000

Enhanced Mural Protection

The proposed lease amendment will provide a rent credit of up to \$9,500 per month, or \$114,000 per year for five additional staff to protect the murals at Coit Tower. The five additional staff includes:

- 1) guest greeter upon entrance to Coit Tower;
- 2) elevator loader/crowd manager;
- 3) staff person in Observation Deck to greet guests and provide information;
- 4) “floater” staff person to provide relief breaks to other employees;
- 5) second “floater” during peak season of March through October.

These five staff are in addition to the existing five staff, including two tour guides, two book shop staff and one maintenance staff. Ms. Costello states that additional staff are required to protect the murals per the Mural Protection Guidelines set forth by the Arts Commission and

³ The Department of Public Works will submit separate legislation to the Board of Supervisors to approve the location of the kiosk.

provide an enhanced guest experience, which the Department believes is necessary to ensure that Coit Tower is a world class tourism destination. Both the guest greeter and the elevator loader/crowd manager will remind guests of the need to protect the murals. The staff person in the observation deck will answer guest questions, take pictures, provide information on Coit Tower and the views from the deck, and serve as a deterrent for any potential graffiti or defacement of the Tower. The credit amount of up to \$114,000 is the cost of approximately 2.5 to 4 full-time equivalent (FTE) positions, depending on the season.

According to Ms. Costello, the enhanced mural protection staff have been in place for more than one year. According to the staffing budget provided by Ms. Costello, the tenant has paid average monthly salary costs of \$18,913 for these staff. The proposed rent credit of \$9,500 per month is intended to offset the tenant's costs for the enhanced mural protection staff.

Rent Credit for Credit Card Fees for Elevator Ticket Sales

The tenant currently pays all credit card fees for elevator ticket sales. The lease amendment provides a one-time rent credit to the tenant of \$11,150.45 for credit card fees attributable to elevator ticket sales from July 1, 2014 through September 30, 2015. The tenant will also receive an ongoing rent credit for credit card fees attributable to elevator ticket sales. The Recreation and Park Department estimates these fees to be approximately \$2,500 per month. According to Ms. Costello, the Recreation and Park Department agreed to the credit card fee rent credit because the Department receives percentage rent totaling 90 percent of elevator ticket sales, and considered it reasonable to share the credit card fee cost with the tenant.

Affirmation of California Environmental Quality Act (CEQA) and General Plan Findings

The proposed ordinance would affirm the Planning Department's determination that the installation of a refreshment kiosk at Coit Tower complies with CEQA, and that the kiosk is consistent with the City's General Plan and the eight priority policies of Planning Code Section 101.1.⁴

FISCAL IMPACT

Table 2 below shows net rent credits of \$360,150 to be paid by the Recreation and Park Department to the tenant over the remaining 39-month term of the lease from February 2016 through April 30, 2019. These net rent credits include: (1) one-time credits paid by the Recreation and Park Department to the tenant totaling \$123,150; (2) ongoing credits paid by the Recreation and Park Department to the tenant totaling \$468,000; and (3) the estimated percentage rent to be paid by the tenant to the Recreation and Park Department from food and beverage sales totaling \$231,000.

⁴ The eight priority policies include: (1) That existing neighborhood-serving retail uses be preserved and enhanced; (2) That existing housing and neighborhood character be conserved and protected; (3) That the City's supply of affordable housing be preserved and enhanced; (4) That commuter traffic not impede Muni transit service, streets, or neighborhood parking; (5) That a diverse economic base be maintained; (6) That the City achieve the greatest possible preparedness in an earthquake; (7) That landmarks and historic buildings be preserved; and, (8) That our parks be protected from development.

Table 2: Credits and Revenues from Proposed Lease Amendment

Credit/Revenue	One-Time Credit Amount	Ongoing Credit Amount	Ongoing Revenue Amount	Total
Food & Beverage Kiosk Credit (see Table 1 above)	(\$112,000)			(\$112,000)
Credit Card Fee Credit	(11,150)	(97,500) ^a		(108,650)
Mural Protection Credit		(\$370,500) ^b		(370,500)
Food & Beverage Percentage Revenue			\$231,000 ^c	231,000
Total	(\$123,150)	(\$468,000)	\$231,000	(\$360,150)

^a \$2,500 per month for 39 months from the commencement of the lease amendment in February 2016

^b \$9,500 per month for 39 months from the commencement of the lease amendment February 2016

^c \$7,000 per month for 33 months from the opening of the food and beverage kiosk in August 2016

Ms. Costello reports that the funds for the one-time credits will be included in the Recreation and Park Department's FY 2016-17 budget.

The Recreation and Park Department received rent from the tenant for the Coit Tower lease in FY 2014-15 of \$1,085,734, or an average of \$90,478 per month. Using the average \$90,478 monthly rent, as shown in Table 3 below, the Budget and Legislative Analyst estimates that the total rent to be received by the Recreation and Park Department over the remaining term of the lease at \$3,528,636.⁵ Considering the proposed rent credits to be paid by the Recreation and Park Department to the tenant, the Recreation and Park Department would receive net revenues of \$3,168,486 over the remaining 39 month term of the lease.

Table 3: Net Revenues Received by City Over Remaining Term of Lease

Net Rent Credits to be Paid to Tenant	(\$360,150)
Rent to be Received by Recreation and Park Department from tenant	\$3,528,636
Net Revenues Received By Recreation and Park Department	\$3,168,486

POLICY CONSIDERATION

The proposed lease amendment will provide a rent credit of up to \$114,000 per year to the tenant to pay for the 2.5 to 4 additional staff to protect the murals and provide guest services at Coit Tower.⁶ These 2.5 to 4 staff are in addition to the existing five full time and part time staff, including two staff who serve as tour guides, as specified in the original lease.

Though the staff has been in place for over a year, Recreation and Park Department has not performed an evaluation of the staffing at Coit Tower. Therefore, the proposed ordinance should be amended to require an evaluation by Recreation and Department staff and report to the Board of Supervisors by January 31, 2017 of the effectiveness of the enhanced mural protection staffing. The evaluation should determine the efficiency of staff assignments, whether these assignments correspond to the volume of visitors to the Coit Tower, and

⁵ \$90,478 monthly rent for 39 months from the commencement of the lease amendment.

⁶ According to the lease, if the tenant fails to provide the full minimum enhanced mural protection staffing, the amount of the rent credit will be prorated based on the staff provided.

whether staff are surplus to the needs of Coit Tower visitors and movement through the Tower. The evaluation should also determine if the tenant is in full compliance with the San Francisco Art Commission Mural Protection Guidelines and if the enhanced mural protection staff contributed to compliance.

Further, the proposed ordinance should be amended to remove the provision allowing the Recreation and Park Department General Manager to adjust the amount of the rent credit if the number of visitors to Coit Tower increases. Any future increases to the enhanced mural protection staffing rent credit under the Coit Tower lease should be subject to Board of Supervisors approval, pursuant to City Charter Section 9.118(c).

RECOMMENDATIONS

1. Amend the proposed ordinance to correctly state the expiration date of the food and beverage kiosk rent credit as July 31, 2016, not July 31, 2017.
2. Amend the proposed ordinance to add percentage rent equal to ten percent of gross receipts from sales at the food and beverage kiosk.
3. Amend the proposed ordinance to remove the authority of the Recreation and Park Department General Manager to adjust the amount of the rent credit to be paid to the tenant for enhanced mural staffing.
4. Amend the proposed ordinance to (1) require an evaluation by Recreation and Department staff and report to the Board of Supervisors by January 31, 2017 of the effectiveness of the enhanced mural protection staffing. Any future increases to the enhanced mural protection staffing rent credit under the Coit Tower lease would be subject to Board of Supervisors approval, pursuant to City Charter Section 9.118(c).
5. Approve the proposed ordinance, as amended.

Item 9 File 15-1221	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
Legislative Objectives The proposed resolution would retroactively approve a new three-year lease between the San Francisco International Airport (Airport) and the U.S. Government for occupancy by the Federal Bureau of Investigation (FBI) for the continued use of 2,396 square feet of office space located at the International Terminal of the Airport. Key Points • In 2011, the Airport executed a five-year lease with the FBI for 2,396 square feet of office space in the International Terminal of the Airport, which terminated on January 3, 2016. • The FBI sought to continue using the same office space in the International Terminal after their original lease ended. As a result, the Airport and FBI negotiated a new three-year lease which commenced on January 4, 2016, and will end January 3, 2019. Fiscal Impact • Annual payments made by the FBI to the Airport would be \$519,429 in rent, and \$23,337 in operating costs, for a total of \$542,766 annually. • The total payments to be made by the FBI to the Airport over the three year term of the lease will be \$1,628,298, including \$1,558,287 in rent, and \$70,011 in operating costs. Recommendations • Amend the proposed resolution to retroactively approve the lease. • Approve the proposed resolution, as amended.	

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 2011, the San Francisco International Airport (Airport) executed a five-year lease with the U.S. Government for occupancy by the Federal Bureau of Investigation (FBI) for 2,396 square feet of office space in the International Terminal of the San Francisco International Airport. Under the existing lease, annual rent, including operating costs payable by the FBI to the Airport is \$362,560. The current lease term ended on January 3, 2016.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new three-year lease between the Airport and the FBI for the continued use of 2,396 square feet of office space located at the International Terminal of the Airport. The new lease commenced on January 4, 2016 and therefore the resolution should be amended to provide retroactive approval. The lease will end on January 3, 2019. Annual payments made by the FBI to the Airport would be \$519,429 in rent, and \$23,337 in operating costs, for a total of \$542,766 annually. Key lease provisions are shown in Table 1 below.

Table 1: Key Lease Terms

Lease Term	January 4, 2016 – January 3, 2019 (3 years)
Size of Leased Space	2,396 square feet (SF) of office space, 8 parking spaces
Annual Rent	\$519,429 (\$216.79 per SF)
Annual Operating Costs	\$23,337 (\$9.74 per SF)
Consumer Price Index (CPI) Adjustments	None. Fixed annual rent for the entire term based on negotiated escalation rates.
Utilities and Services	FBI pays operating costs as part of the rent, and the Airport provides all utilities and janitorial services.
Options to Extend	None

The lease includes fixed annual rent and operating costs over the three-year term. To account for rate escalation over the term of the lease, the Airport projects annual increases, and then calculates the net present value (NPV) of the expected escalation in order to determine a fixed rental rate.

The fixed annual rent of \$216.79 per sf, per year was derived from the current Category II rental rate of \$206.66 per sf, per year, and a seven percent annual escalation. The NPV of the fixed rent over the term of the lease, assuming a discount rate of 4.6 percent, is \$216.79 per sf, per year.

The same methodology was used to determine the operating costs. The annual base year operating costs are \$9.46 per SF, as determined by the Airport's custodial and utility staff. Airport staff project a five percent inflation escalation for operating costs over the term of the lease. The NPV calculation for the fixed three-year term of the lease is \$9.74 per SF.

The calculations for both rental rate and operating costs are shown in Table 2 below.

Table 2: Rental Rate and Operation Cost Calculation

Rent Component (SF/Year)	Rent per Square Foot per Year	Square Feet	Annual Rent
Office Space Rent	\$216.79	2,396	\$519,429
Operating Cost	\$9.74	2,396	\$23,337
Total	\$226.53	2,396	\$542,766

According to Ms. Diane Artz, Senior Property Manager at the Airport, the FBI requested a five year term, similar to the existing lease. However, the Airport anticipates future airline requests for space to develop additional VIP lounges in the International Terminal, and therefore did not want to commit to a five-year term for the FBI's proposed office space. The Airport negotiated a three-year lease term with the FBI instead.

FISCAL IMPACT

The total payments to be made by the FBI to the Airport over the three year term of the lease will be \$1,628,298, including \$1,558,287 in rent, and \$70,011 in operating costs, as shown in Table 3 below.

Table 3: Total Payments from FBI to Airport

Year	Annual Rent	Operating Costs	Annual Payment
1	\$519,429	\$23,337	\$542,766
2	\$519,429	\$23,337	\$542,766
3	\$519,429	\$23,337	\$542,766
Total	\$1,558,287	\$70,011	\$1,628,298

RECOMMENDATIONS

1. Amend the proposed resolution to retroactively approve the lease.
2. Approve the proposed resolution, as amended.

Item 10 File 15-1222	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
Legislative Objectives The proposed resolution would approve an early lease termination between PiQ and the Airport, for 2,734 square feet of food and beverage space in the pre-security section of Terminal 1 near Boarding Area B of the San Francisco International Airport. Key Points - On November 15, 2011, Sistina II, LP, which operates as “PiQ,” an Italian bakery and pizzeria, was assigned a lease agreement with the San Francisco International Airport (Airport) for a 4,108 square foot (SF) food and beverage facility located in the pre-security section of Terminal 1 near Boarding Area B. PiQ’s 4,108 SF leased facility was reduced to 2,734 SF in September 2013 due to the anticipated redevelopment of Terminal 1, Boarding Areas B and C. - The Terminal 1 Redevelopment Plan will reconstruct Terminal 1, Boarding Areas B and C, including the facility where PiQ is located. The Airport’s design and construction team believes they could begin work on the current PiQ premises by early 2016, approximately six months earlier than originally planned. - According to Ms. Sharon Perez, Property Manager at the Airport, PiQ is amenable to an early lease termination for its facility at the Airport. PiQ has experienced declining sales and lower than anticipated earnings recently. Airline moves and terminal re-configuration have negatively impacted enplanements, and therefore have resulted in reduced sales in this area for PiQ. Fiscal Impact - An early termination date of February 1, 2016 of the lease between PiQ and the Airport would result in estimated \$287,710 in reduced revenues to the Airport. - Under the Airport’s “residual rate-setting methodology”, a break-even policy used by the Airport to determine rental rates, landing fees, and related fees for all airlines, the loss of rent and related fees due to the termination of the PiQ lease will not result in any budgetary shortfall for the Airport. Recommendation - Approve the proposed resolution.	

MANDATE STATEMENT

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

BACKGROUND

On November 15, 2011, Sistina II, LP, which operates as “PiQ,” an Italian bakery and pizzeria, was assigned a lease agreement with the San Francisco International Airport (Airport) for a 4,108 square foot (SF) food and beverage facility located in the pre-security section of Terminal 1 near Boarding Area B.

Based on a competitive process, Creative Host Services, Inc. was the original awardee of the lease in September 2003, which was approved by the Board of Supervisors. The rent commencement date for the original lease commenced on July 15, 2005, and had a base term of ten years with one two-year option to extend, through July 14, 2017. The lease was assigned to two other companies before PiQ assumed the lease in November 2011.

Under this lease, the annual rent payable by PiQ to the Airport is the greater of (a) Minimum Annual Guarantee (MAG) or (b) percentage rent calculated as:

- 8% of Gross Revenues up to and including \$600,000; plus
- 10% of Gross Revenues achieved from \$600,000.01 up to and including \$1,000,000; plus
- 12% of Gross Revenues achieved over \$1,000,000.

The MAG is adjusted annually by the Consumer Price Index (CPI) and adjustments to reflect changes in enplanements. The 2016 annual MAG rent is \$156,795.

PiQ’s 4,108 SF leased facility was reduced to 2,734 SF in September 2013 due to the anticipated redevelopment of Terminal 1, Boarding Areas B and C.

Terminal 1 Redevelopment

The Terminal 1 Redevelopment Plan will reconstruct Terminal 1, Boarding Areas B and C. Boarding Area B will be redeveloped first, and will include 24 gates opening in phases between 2018 and 2020. Boarding Area C will be renovated at a later date. Construction is currently underway and planned to continue through 2024.

The Terminal 1 Redevelopment Plan was developed after the PiQ lease was awarded in 2011. Construction in the portion of Terminal 1 where PiQ is located was originally scheduled to begin in mid-2016, approximately one year prior to the termination of the PiQ lease on July 14, 2017. However, the Airport’s design and construction team believes they could begin work on the current PiQ premises by early 2016, approximately six months earlier than originally planned.

Early Lease Termination

According to Ms. Sharon Perez, Property Manager at the Airport, PiQ is amenable to an early lease termination for its facility at the Airport. PiQ has experienced declining sales and lower

than anticipated earnings recently. Airline moves and terminal re-configuration have negatively impacted enplanements, and therefore have resulted in reduced sales in this area for PiQ.

If the proposed early lease termination is approved, PiQ would work with the Local 2 Union to attempt to ensure current PiQ employees are placed in other concession facilities at the Airport.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an early lease termination between PiQ and the Airport, for 2,734 square feet of food and beverage space in the pre-security section of Terminal 1 near Boarding Area B of the San Francisco International Airport.

Both PiQ and the Airport are amenable to the early lease termination agreement, as the Airport seeks to begin construction on redevelopment of Terminal 1 earlier than originally planned, and PiQ is experiencing declining sales and profits and therefore is willing to close the facility. The Airport Commission approved the early lease termination agreement with PiQ on October 27, 2015.

FISCAL IMPACT

An early termination date of February 1, 2016 of the lease between PiQ and the Airport would result in estimated \$287,710 in reduced revenues to the Airport, as shown in Table 1 below.

Table 1: Reduced Revenues Due to Early Termination of PiQ Lease

Year	MAG	Fees	Total
Feb 1 - Dec 31, 2016 (11 months)	\$143,729	\$40,099	\$183,827
Jan 1 - July 14, 2017 (6.5 months)	\$80,189	\$23,695	\$103,883
Total	\$223,918	\$63,794	\$287,710

This reduced revenue calculation assumes a February 1st, 2016 lease termination date, a three percent MAG rent increase in 2017, and the same fees that have been charged in 2014 and 2015.

Airport Break Even Policy

Under the Airport's "residual rate-setting methodology", a break-even policy used by the Airport to determine rental rates, landing fees, and related fees for all airlines, the loss of rent and related fees due to the termination of the PiQ lease will not result in any budgetary shortfall for the Airport. The residual rate-setting methodology is a formula that sets the schedule of all rental rates, landing fees and related fees to a level that 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.

RECOMMENDATION

Approve the proposed resolution.

Item 11 File 15-1148 <i>(Continued from December 9, 2016)</i>	Department: Municipal Transportation Agency (MTA)
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolution (1) approves an agreement between the San Francisco Municipal Transportation Agency (SFMTA) and the Peninsula Corridor Joint Powers Board regarding administration of capital funding for the design and construction of the Communications-Based Overlay Signal System Positive Train Control (CBOSS) and the Peninsula Corridor Electrification Project (PCEP); and (2) concurs with SFMTA that the PCEP's Final Environmental Impact Report is adequate and agrees to Mitigation Measure TRA-3b. Key Points - CBOSS will track train locations and prevent unsafe train movements through the use of equipment on-board moving trains and in the field. CBOSS commenced in February 2012 and is estimated to be completed in November 2016. PCEP will electrify the Caltrain Corridor from San Francisco's 4th and King Caltrain Station to approximately the Tamien Caltrain Station in San Jose, and convert diesel-hauled trains to electric multiple unit trains, thereby increasing up to six additional Caltrain trains in service per peak hour per direction. PCEP commenced in July 2014 and is expected to be completed in 2020. Fiscal Impact - The total estimated cost to implement the CBOSS project is \$231,000,000, and the PCEP is \$1,531,000,000. Funding for these projects will be provided by members of the Joint Powers Board, State of California, Federal Government, the Metropolitan Transportation Commission, and the Bay Area Air Quality Management District. - SFMTA's responsibilities under the agreement are to act as fiscal agent and disburse up to \$39,000,000 of Proposition A Transportation and Road Improvement General Obligation Bond proceeds to the Joint Powers Board, including an initial outlay of \$7,760,000 in previously appropriated Bond proceeds for the CBOSS. Recommendation - Approve the proposed resolution.	

MANDATE STATEMENT

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

BACKGROUND

In 1988, the City and County of San Francisco, the San Mateo County Transit District, and the Santa Clara Valley Transportation Authority entered into a Joint Powers Agreement creating the Peninsula Corridor Joint Powers Board (Joint Powers Board) to operate CalTrain and conduct planning studies related to Peninsula commute service. Through this agreement, the members of the Joint Powers Board have agreed to share the costs of capital projects that are not covered by outside sources.

The Joint Powers Board is proceeding with the design and installation of two projects, the Communications-Based Overlay Signal System Positive Train Control (CBOSS) and the Peninsula Corridor Electrification Project (PCEP). CBOSS will track train locations and prevent unsafe train movements through the use of equipment on-board moving trains. CBOSS commenced in February 2012 and is anticipated to be completed in November 2016. PCEP will electrify the Caltrain Corridor from San Francisco's 4th and King Caltrain Station to approximately the Tamien Caltrain Station in San Jose, and convert diesel-hauled trains to electric multiple unit trains, thereby increasing up to six additional Caltrain trains in service per peak hour per direction. PCEP commenced in July 2014 and is expected to be completed in 2020.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the agreement between SFMTA and the Peninsula Corridor Joint Powers Board regarding administration of capital funding for the design and construction of the CBOSS and the PCEP. The agreement is for (i) an amount up to \$39,000,000 and (ii) a term that begins on Board of Supervisors approval and extends through December 31, 2020, or three and a half years after the sale of the last issuance of a Transportation and Road Improvement General Obligation Bond, whichever is later.

The proposed resolution also concurs with SFMTA that the PCEP's Final Environmental Impact Report is adequate and agrees to Mitigation Measure TRA-3b. Mitigation Measure TRA-3b provides for surface pedestrian facility improvements to address pedestrian access adjacent to the San Francisco 4th and King Station.

Agreement Between SFMTA and Peninsula Corridor Joint Powers Board

The agreement will commence upon approval by the Board of Supervisors and will terminate on December 31, 2020, which is the expected completion date of CBOSS and PCEP. As noted above, the agreement term may be extended until three and a half years after the sale of the

last issuance of a Transportation and Road Improvement General Obligation Bond, if that date is later than December 31, 2020.

SFMTA's responsibilities under the agreement are to act as fiscal agent and disburse up to \$39,000,000 of Proposition A Transportation and Road Improvement General Obligation Bond proceeds to the Joint Powers Board, including an initial outlay of \$7,760,000 in bond proceeds previously appropriated by the Board of Supervisors for the CBOSS (see Fiscal Impact Section below). SFMTA will disburse funds to the Joint Powers Board as costs are incurred and invoices are submitted by the Joint Powers Board.

Responsibilities of the Joint Powers Board include implementation of the CBOSS and the PCEP, recordkeeping and reporting, and submission of requests for reimbursement of costs to SFMTA.

The City will have no obligation to make funding allocations under this agreement should the City fail to appropriate funds for CBOSS or PCEP. The agreement will automatically terminate without expense of any kind to the City, if at the end of any fiscal year the funds are not appropriated for the succeeding fiscal year. In the event of default by the Joint Powers Board, the City may withhold any portion of Bond funds not yet disbursed, and may also demand immediate return of any previously disbursed Bond funds that have been claimed or expended by the Joint Powers Board in breach of the agreement.

PCEP Mitigation Measure TRA-3b

The Joint Powers Board will cooperate with the City of San Francisco to implement surface pedestrian facility improvements to address the PCEP's additional pedestrian traffic at the San Francisco 4th and King Station. The Joint Powers Board will perform improvements within the Caltrain station and areas of the right-of-way owned by the Joint Powers Board. The City of San Francisco will perform improvements on City streets and the public right-of-way surrounding the station.

FISCAL IMPACT

The total estimated cost to implement (1) the Communications-Based Overlay Signal System Positive Train Control (CBOSS) project is \$231,000,000, and (2) the Peninsula Corridor Electrification Project (PCEP) is \$1,531,000,000. Funding for these projects will be provided by members of the Joint Powers Board, State of California, Federal Government, the Metropolitan Transportation Commission, and the Bay Area Air Quality Management District.

The City's share of estimated costs to implement both of these projects is \$60,000,000, \$39,000,000 are Proposition A Transportation and Road Improvement General Obligation Bond funds, previously approved by the San Francisco voters in November 2014. The balance of \$21,000,000 was previously authorized by the San Francisco County Transportation Authority (SFCTA)¹. Both projects are included in San Francisco's 10-Year Capital Plan.

¹ The additional \$21,000,000 from SFCTA was authorized through SFCTA resolutions 15-28, 14-29, 13-17 and 07-52.

On June 9, 2015, the Board of Supervisors appropriated \$7,760,000 of the \$39,000,000 in Proposition A Transportation and Road Improvement General Obligation Bond funds for CBOSS (File 15-0459), with \$31,240,000 remaining to be appropriated.

The total CBOSS budget is \$231,000,000, of which \$167,205,858 has been expended and \$63,794,142 remains unexpended, as shown in Table 1 below.

Table 1: Budget and Expenditures to Date for CBOSS

Project Category	Budget	Expenditures to Date	Remaining Unexpended Budget
Consultants and Staffing	\$49,726,798	\$48,078,155	\$1,648,643
Design and Construction	138,135,673	116,733,999	21,401,674
Contract Options	35,647,734	2,393,704	33,254,030
Contingency	7,489,795	-	7,489,795
Total	\$231,000,000	\$167,205,858	\$63,794,142

The total PCEP budget is \$1,531,000,000. The PCEP budget consists of \$958,000,000 for design and construction of electrification infrastructure, and \$573,000,000 to purchase new train cars to replace the aging train cars. The Joint Powers Board has expended \$22,121,550 to date for PCEP costs, including environmental and real estate consultants, and Joint Power Board staff costs.

RECOMMENDATION

Approve the proposed resolution.

Item 12 File 15-1214	Department: Real Estate Division
EXECUTIVE SUMMARY	
Legislative Objectives - The proposed resolution would approve a new lease agreement between Sprint Spectrum Limited Partnership (tenant) and the City's Real Estate Division (landlord), in order for Sprint to continue to occupy 189 square feet of space on the roof of 887 Potrero Avenue at a base rent of \$69,600 per year (\$5,800 per month) for a total lease term of five years through January 2021, with one option to extend the lease by five years. Key Points - The original lease agreement was for a five-year term from August 2002 through August 2007 with one five-year option to extend the lease agreement through August 2012. Sprint used the leased space to store and operate telecommunications equipment. - Since September 2012, Sprint has leased this space from the Real Estate Division on a month-to-month basis and now pays a holdover rental rate of \$10,640 per month, which equals 150 percent of the base rent of \$7,093 at the expiration of the original lease. The delay is partly due to the City's intention to update the Communications Site Lease language and San Francisco General Hospital's desire to restrict when Sprint could enter the property to complete tenant improvement and maintenance projects. Fiscal Impact - The proposed lease agreement would generate an estimated \$369,516 in rent paid by Sprint to the City over the initial five-year lease period, including annual adjustments of at least 3 percent to account for consumer price index increases. - According to Ms. Bayol, the proposed monthly rent of \$5,800 per month is consistent with the market rate of other cellular sites in San Francisco. Policy Consideration - The Real Estate Division determined that competitively bidding this site was not practicable because wireless carriers often have varying and specific needs for cell phone transmitters, and generally only one company has an interest in a selected site. Recommendation - Approve the proposed resolution.	

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 2002, the Board of Supervisors approved the original lease agreement between the City's Real Estate Division as landlord, and Sprint Spectrum Limited Partnership (Sprint) as tenant, for 189 square feet of space on the roof of the San Francisco General Hospital Mental Health Rehabilitation Facility located at 887 Potrero Avenue. The original lease agreement was for a five-year term from August 2002 through August 2007 with one five-year option to extend the lease agreement through August 2012.¹ Under the original lease agreement, Sprint used the leased space to store and operate telecommunication equipment.²

The lease was extended through August 2012. Since September 2012, Sprint has leased this space from the Real Estate Division on a month-to-month basis and now pays a holdover rental rate of \$10,640 per month, which equals 150 percent of the base rent of \$7,093 at the expiration of the original lease. According to Ms. Marta Bayol of the City's Real Estate Division (RED), the approximately three year and four month delay in drafting a new lease agreement is partly due to the City's intention to update the Communications Site Lease language and San Francisco General Hospital's desire to restrict when Sprint could enter the property to complete tenant improvement and maintenance projects.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease agreement between Sprint Spectrum Limited Partnership (tenant) and the City's Real Estate Division (landlord), in order for Sprint to continue to occupy 189 square feet of space on the roof of the building at 887 Potrero Avenue at a base rent of \$69,600 per year (\$5,800 per month) for a total lease term of five years through January 2021, with one option to extend the lease by five years through January 2026. Table 1 below shows the major provisions in the proposed lease agreement.

¹ The original lease on file, dated August 31, 2001, was the draft used during the 2001 negotiation process. The original lease, which was approved by the Board of Supervisors in February 2002, began in August 2012 after securing the building permits.

² Under the existing lease agreement, Sprint was also authorized to install wiring and conduit within the leased space, and construct and maintain five equipment cabinets and six antennas during their tenancy.

Table 1. Proposed Lease Terms for 887 Potrero Avenue

Lease Agreement Terms	Proposed Lease
Size of property	189 square feet
Lease period	5-year initial term (anticipated from February 1, 2016 through January 31, 2021, pending Board of Supervisors approval)
Extension options	One five-year option to extend through January 31, 2026
Base rent	\$5,800 per month; \$69,600 per year
Annual adjustments to base rent	Annual adjustments on January 1 st of each year by no less than 3 percent and no more than 6 percent.
Rent adjustment for lease extension	Adjusted to fair market value
Tenant Improvements	Sprint will pay for all tenant improvements, which include 3 antennas and 2 equipment cabinets.
Utilities	Sprint is responsible for all utility costs.
Timing of Tenant Improvements and Maintenance Projects	Tenant may complete tenant improvements and maintenance projects only if the City receives advance notice of at least 48 hours.

Source: Real Estate Division staff.

FISCAL IMPACT

As shown in Table 2 below, the proposed lease agreement would generate an estimated \$369,516 in rent paid by Sprint to the City over the initial five-year lease period, including annual adjustments of at least 3 percent to account for consumer price index increases.

Table 2. Projected Revenues from Proposed Lease Agreement

Lease Year	Monthly Base Rent	Yearly Base Rent (annual 3% consumer price index increases)
Year 1	\$5,800	\$69,600
Year 2	5,974	71,688
Year 3	6,153	73,839
Year 4	6,338	76,054
Year 5	6,528	78,335
Total		\$369,516

Source: Real Estate Division staff.

The first year rent of \$5,800 per month is \$1,293 or approximately 18 percent less than the rent of \$7,093 per month in effect on expiration of the original lease. According to Ms. Bayol, Sprint approached the Real Estate Division to negotiate a market-based rental rate for 887 Potrero Avenue, as Sprint has been paying above market rate for the duration of this lease agreement. According to Ms. Bayol, the proposed monthly rent of \$5,800 per month is consistent with the market rate of other cellular sites in San Francisco. Ms. Bayol also explained that rental rates for cellular sites are based on the service and connectivity provided to cell phone users and whether the area is considered to be high-profile. 887 Potrero Avenue is viewed as a less desirable location than other high-profile areas.

POLICY CONSIDERATION

According to the proposed resolution, the Board of Supervisors finds that it is in the best interest of the City to enter into the proposed lease with Sprint based on direct negotiations without a competitive bid process, and that competitive bidding in this situation would be impracticable or impossible.

According to Ms. Bayol, the Real Estate Division determined that competitively bidding this site was not practicable because wireless carriers often have varying and specific needs for cell phone transmitters, and generally only one company has an interest in a selected site. For instance, AT&T may need additional coverage in an area where Sprint does not. The wireless carriers, based upon network demands and technologies used then determines where to place the transmitter and antennae and approaches the property owner.

RECOMMENDATION

Approve the proposed resolution.

Item 19 File 15-1145 <i>(Continued from December 2, 2015)</i>	Department: Mayor Board of Supervisors
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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution adopts a two-year fixed budget for multiple City departments for FY 2016-17 and FY 2017-18, including: (1) Academy of Sciences; (2) Adult Probation; (3) Airport; (4) Arts Commission; (5) Asian Art Museum; (6) Assessor-Recorder; (7) Board of Appeals; (8) Building Inspection; (9) Child Support Services; (10) Children and Families Commission; (11) City Attorney; (12) City Planning; (13) Civil Service; (14) Controller; (15) County Education; (16) District Attorney; (17) Economic and Workforce Development; (18) Elections; (19) Retirement System; (20) Environment; (21) Ethics; (22) Fine Arts Museums; (23) Administrative Services; (24) Technology; (25) Health Service System; (26) Human Resources; (27) Human Rights; (28) Juvenile Probation; (29) Law Library; (30) Mayor; (31) Port; (32) Public Library; (33) Public Utilities Commission; (34) Rent Arbitration; (35) Status of Women; (36) Treasurer-Tax Collector; (37) Superior Court; and, (38) War Memorial.

Key Points

- Under City Charter Section 9.101, the Mayor and Board of Supervisors are authorized to determine in an even-numbered fiscal year that the upcoming budget for some or all City departments should be a fixed two-year budget. The Board of Supervisors only reviews the budget in the second year if there are significant changes in revenues or expenditures.

Policy Consideration

- According to several reports reviewed by the Budget and Legislative Analyst, there are advantages and disadvantages to two-year fixed budgets, but one of the main disadvantages is that it reduces the Board of Supervisors appropriation authority.

Recommendation

- In general, the Budget and Legislative Analyst does not recommend removing any budgetary appropriation authority away from the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.101 states that no later than February 1 of any even-numbered fiscal year, the Mayor and the Board of Supervisors by resolution may determine that the upcoming budgetary cycle or cycles for some or all City departments and offices shall be a fixed budgetary cycle or cycles in which the biennial budget will remain in effect for two fiscal years.

BACKGROUND

In November 2009, the voters passed Proposition A, which, among other changes to the budget process, amended the City Charter to adopt rolling two-year budget cycles and allow for the Mayor and the Board of Supervisors to establish fixed two-year budget cycles for some or all departments. Previous to the passage of Proposition A, the City adopted one-year budgets for all departments, except for the Municipal Transportation Agency (MTA).

As shown in Table 1 below, the MTA was the first City department to implement a two-year fixed budget. Following the passage of Proposition A in 2009, the City implemented fixed two-year budget cycles for three enterprise departments: the Airport, Port, and Public Utilities Commission in FY 2012-13 and FY 2013-14. The City subsequently implemented a two-year fixed budget cycle for Child Support Services, the Public Library, and the Retirement System in FY 2014-15 and FY 2015-16.

Table 1: Implementation of Fixed Two-Year Budget Cycles

Department	1st Two-Year Fixed Budget
Municipal Transportation Agency	FY 2008-09 & 2009-10
Airport	FY 2012-13 & 2013-14
Port	FY 2012-13 & 2013-14
Public Utilities Commission	FY 2012-13 & 2013-14
Child Support Services	FY 2014-15 & 2015-16
Public Library	FY 2014-15 & 2015-16
Retirement System	FY 2014-15 & 2015-16

DETAILS OF PROPOSED LEGISLATION

The proposed resolution expands the two-year fixed budget cycle from seven departments to 39, including 25 departments that receive General Fund support as shown in Table 2 below. In all, the resolution would place \$377.6 million in General Fund support and \$2.4 billion in overall funds into a fixed two-year budget cycle.

**Table 2: FY 2016-17 General Fund Support in New Departments
Proposed for Two-Year Fixed Budget**

Department	FY 2016-17 General Fund Support
District Attorney	\$46,779,572
GSA- City Administrator	43,183,060
Juvenile Probation	35,368,183
Superior Court	31,232,757
Economic & Workforce Development	25,973,700
Treasurer/Tax Collector	24,431,883
Assessor/Recorder	19,028,332
Mayor	19,269,306
Adult Probation	17,549,597
Fine Arts Museum	15,560,242
Human Resources	14,887,246
Elections	13,206,118
City Attorney	12,905,153
Controller	10,929,462
Asian Art Museum	9,617,919
Arts Commission	9,721,933
Status of Women	6,415,560
Academy of Sciences	5,408,021
Ethics Commission	4,640,260
GSA- Technology	3,766,057
Human Rights Commission	2,509,244
City Planning	2,603,268
Law Library	1,642,927
Civil Service Commission	832,490
County Education Office	116,000
Environment	0
Board of Appeals	0
Building Inspection	0
Children & Families Commission	0
Health Service System	0
Rent Arbitration Board	0
War Memorial	0
Total	\$377,578,290

Source: FY 2015-16 and FY 2016-17 Annual Appropriation Ordinance

According to the proposed resolution, the budgets of the departments on the two-year fixed budget may be adjusted for the following significant increases or decreases in revenues and expenditures:

- More than 5 percent revenue increase or decrease in the budgets of the Airport, Building Inspection, Child Support Services, Children and Families Commission, Environment, Public Library, Port, Public Utilities Commission, Rent Arbitration Board, Retirement, and War Memorial;
- More than 2.5 percent revenue increase or decrease in the General Fund; and
- Increase or decrease in expenditures due to the revenue increases or decreases noted above.

The proposed resolution requires (a) the Controller to submit a report on significant increases or decreases in revenues or expenditures to the Board of Supervisors by May 1, 2017; and (b) the Mayor to submit proposed budget amendments responding to the Controller's report to the Board of Supervisors by June 1, 2017. The proposed budget amendments are subject to Board of Supervisors appropriation approval.

POLICY CONSIDERATION

Comparison of Two-Year Fixed and Two-Year Rolling Budgets

Except for the seven City departments shown in Table 1 above that have fixed two-year budgets, City departments have two-year rolling budgets. Under two-year rolling budgets, the Board of Supervisors has annual appropriation authority. The Board of Supervisors has appropriation authority over each year of the two-year rolling budget in the first fiscal year, and retains appropriation authority over the second year of the two-year rolling budget in the following fiscal year.¹ Under two-year fixed budgets, the Board of Supervisors only has appropriation authority every other year.

According to several reports reviewed by the Budget and Legislative Analyst, there are advantages and disadvantages to two-year fixed budgets, but one of the main disadvantages is that it reduces the Board of Supervisors appropriation authority. The budget approval process is one of the Board of Supervisors main tools under the Charter to set City policy.²

RECOMMENDATION

In general, the Budget and Legislative Analyst does not recommend removing any budgetary appropriation authority away from the Board of Supervisors.

¹ For example, for City departments with two-year rolling budgets the Board of Supervisors reviewed the FY 2015-16 and FY 2016-17 budgets in June 2015 and the Board of Supervisors will review the FY 2016-17 and FY 2017-18 budgets in June 2016.

² According to the Government Finance Officers Association report, "An Elected Official's Guide to Multi-Year Budgeting", November 2006, legislative bodies may perceive a loss of budgetary control and oversight when two-year budgets are implemented.