CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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July 7, 2023

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: July 12, 2023 Budget and Finance Committee Meeting

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Item 3 **File 23-0773**	**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 spend $800,000 from the SoMa Community Stabilization Fund.

Key Points

- Pursuant to a 2015 Development Agreement with the City (File 15-0788), 5M LLC deposited $800,000 into the SOMA Community Stabilization Fund to support the Filipino Cultural Heritage District. Spending from the Fund requires Board of Supervisors' approval.
- In January 2023, MOHCD issued a Request for Proposals (RFP) for non-profit organizations to apply for funding from the SoMa Community Stabilization Fund to provide services in the Filipino Cultural Heritage District. An evaluation panel reviewed and scored proposals recommended awarding three grants in the three categories: public realm improvements, language access, and capacity building. The Filipino American Development Foundation, which is the fiscal sponsor for SOMA Pilipinas, was the only respondent to each service category and was recommended to receive the entire $800,000 in monies available for programming.

Fiscal Impact

- The proposed resolution would authorize MOHCD to expend $800,000 from the SoMa Community Stabilization Fund. After the grant expenditures, the fund balance would be $4.2 million.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

In accordance with Planning Code Section 418.7, all funds in the South of Market Area (SoMa) Community Stabilization Fund are to be expended to address the effects of destabilization on residents and businesses in SOMA due to new residential development in the Rincon Hill Area. SoMa Community Stabilization Fund expenditures are administered by the Mayor's Office of Housing and Community Development (MOHCD), subject to approval by resolution of the Board of Supervisors.

BACKGROUND

Soma Community Stabilization Fund

Pursuant to a 2015 Development Agreement with the City (File 15-0788), 5M LLC deposited $800,000 into the SOMA Community Stabilization Fund to support the Filipino Cultural Heritage District. Spending from the Fund requires Board of Supervisors' approval.

Procurement of Services

In January 2023, MOHCD issued a Request for Proposals (RFP) for non-profit organizations to apply for funding from the SoMa Community Stabilization Fund to provide services in the Filipino Cultural Heritage District. An evaluation panel reviewed and scored proposals and recommended awarding three grants in the three service categories: (1) public realm improvements, (2) language access, and (3) capacity building.

Proposals were evaluated based on the following: SoMa Target Population (5 points), Program Design (15 points), CHHESS[1] Alignment (15 points), Experience (10 points), Staffing (10 points), Partnerships (10 points), Racial Equity (10 points), Impact (10 points), Evaluation (5 points), and Budget (10 points). MOHCD received one proposal for each of the three service categories, each of which scored an average of 92 to 97 points out of 100 possible points. The Filipino American Development Foundation, which is the fiscal sponsor for SOMA Pilipinas, was the only respondent to each service category and was recommended to receive the entire $800,000 in monies available for programming.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes MOHCD to spend $800,000 from the SoMa Community Stabilization Fund.

[1] CHHESS refers to Cultural History, Housing and Economic Sustainability Strategies.

FISCAL IMPACT

According to MOHCD staff, if the proposed $800,000 in spending is approved, SOMA Community Stabilization Fund would be reduced to $4,176,150.

RECOMMENDATION

Approve the proposed resolution.

Item 5 File 23-0765	Department: Health Service System (HSS)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would approve the San Francisco Health Service System's (HSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year (CY) 2024.

Key Points

- The HSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board provides the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by HSS employers, including the City, and members.
- Health plans include Kaiser Permanente, Blue Shield, Health Net CanopyCare, and UnitedHealthcare. HSS offers three dental plans, including one PPO (Delta Dental PPO) and two HMOs (DeltaCare USA and UnitedHealthcare Dental). Vision coverage is provided by Vision Service Plan. No plan design changes for the health, vision, and dental plans have been approved for 2024.

Fiscal Impact

- The total cost of the plans would be $954,209,014 or 10.27 percent more than the $865,327,866 costs in 2023. Of the total, the City's costs would be $837,333,532, with the balance of $116,875,482 paid by employees and retirees.
- In 2024, the average medical monthly contribution per member will be $168.54 per member per month for all members (actives and retirees combined), $190.31 per member per month for active employees, and $140.92 per member per month for retirees.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Charter Section A8.423 states that the Health Service Board is required to conduct a survey of the 10 most populous California counties, excluding San Francisco, to determine the average contribution made by each county toward health plan premiums for employees, excluding dental plan premiums. The Health Service Board is then required to certify to the Board of Supervisors the average contribution as determined by this survey. City Charter Section A8.428 also requires the City to contribute to the Health Service System Trust Fund to pay the costs of health plan premiums.

BACKGROUND

The Health Service Board oversees the San Francisco Health Service System (HSS). The HSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board provides the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by HSS employers and members.

- HSS employers include the City and County of San Francisco (City), the San Francisco Unified School District (SFUSD), the San Francisco Community College District (SFCCD), and the San Francisco Superior Court (Superior Court).
- HSS members are active and retired employees of the above noted employers, their dependents, and members of eligible boards and commissions. Dependents include children, spouses, domestic partners, surviving spouses of deceased members, and other legal dependents.

City and Employee Contribution Models

Most contribution formulas for City employees negotiated as part of their labor agreements fall into the following two percentage-based employee premium contribution models:

- Under the '93/93/83 Contribution Model', the City contributes up to 93 percent of the total health insurance premium for employee-only and employee plus one dependent coverage, capped at 93 percent of the second-highest cost plan. The City also contributes up to 83 percent of the total health insurance premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan. According to Mr. Yuriy Gologorskiy, Principal Administrative Analyst at the San Francisco Health Service System, there are 17,141 members (excluding dependents) who are covered by this contribution model.
- Under the '100/96/83 Contribution Model', the City contributes 100 percent of total health insurance premiums for employee-only coverage. The City contributes up to 96 percent of the total health insurance premiums for employees with one dependent, capped at 96 percent of the second-highest cost plan. The City also contributes up to 83 percent of the total health insurance premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan. According to Mr.

Gologorskiy, there are 11,869 members (excluding dependents) who are covered by this contribution model.

Retiree Health Plan Premium Contributions

The 10-county survey average is used as a basis for calculating the employer contribution to the monthly health plan premium for all retirees.[1] Based on the survey, the 10-county average employer contribution for calendar year 2024 is $805.85 per member per month. The $805.85 average contribution per month for retiree healthcare premiums paid by the City is $25.09 or approximately 3.21 percent more than the average monthly contribution of $780.76 in 2023.

Health Service System Trust Fund

Under Charter Section A8.428, employer and HSS member contributions to health plan premiums are deposited in the Health Service System Trust Fund. As of June 30, 2022, the Health Service System Trust Fund balance was approximately $106.7 million and is projected to be approximately $104.8 million as of June 2023.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve the San Francisco Health Service System's (HSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year (CY) 2024. The total cost of the plans would be $954,209,014 or 10.27 percent more than the $865,327,866 costs in 2023. Of the total, the City's costs would be $837,333,532, with the balance of $116,875,482 paid by employees and retirees. Table 1 below provides a summary of health insurance costs for 2024.

The Health Service Board approved the following health, vision, dental, life and long-term disability insurance plans and premiums for the period from January 1, 2024 through December 31, 2024 on the following dates in 2023: February 9, March 23, April 13, May 11, May 25, and June 8.

Health Plans and Premiums

Kaiser Permanente HMO[2]

Kaiser Permanente (Kaiser) covers active, early retirees[3] and Medicare retirees. The total Kaiser HMO premium amounts to be paid by the City as employer are $386,158,625, or 11.63 percent, more in CY 2024 than in CY 2023.[4] These amounts are shown in Table 1 below.

[1] In June 2014, the impact of the "average contribution" on HSS rates was eliminated in the calculation of premiums for almost all active employees represented by most unions, in exchange for a percentage-based employee premium contribution model noted above. Presently, HSS utilizes the 10-County Survey amount as one of the elements that determine HSS employer contributions for retirees. In the event the premium is higher than the 10-county "average contribution", the City will pay the "average contribution" amount. In the event the premium is less than the "average contribution," the City will pay one hundred percent of the premium.

[2] An HMO (Health Maintenance Organization) offers care through a closed panel of providers, in which members select a primary care physician, who manages their care. The HMOs pay the medical groups on a per capita basis.

[3] Retired employees of less than 65 years of age and therefore not eligible for Medicare.

[4] This includes the following plans: Kaiser HMO (actives and early retirees) and Kaiser KPSA HMO (Medicare retirees).

There are no plan design changes approved by the Health Service Board for active employees, early retirees or Medicare retirees for 2024.

According to Mr. Gologorskiy, the Kaiser HMO for active employees and early retirees sustained higher than typical rate increases from 2023 to 2024 because Kaiser is increasing premiums to recover from an operating loss in 2022 and due to escalating labor costs and prescription drug costs.

Blue Shield of California HMOs

The total Blue Shield of California (BSC) Access+ and Trio plans are flex-funded[5] HMOs for active employees and early retirees. The BSC flex-funded HMO plan premium amounts paid by the City as employer are $281,753,519, or 10.93 percent, more in CY 2024 than in CY 2023. No plan design changes were approved for the Blue Shield Access+ and Trio plans by the Health Service Board for 2024.

According to Mr. Gologorskiy, the Blue Shield Access+ HMO for active employees and early retirees sustained higher than typical rate increases from 2023 to 2024 because of higher claim levels from 2021 to 2022, as well as reported increases in patient utilization and severity in 2022.

Blue Shield of California PPO (with Accolade)[6]

The Blue Shield of California (BSC) PPO plan (with Accolade) is self-funded for active employees and early retirees. Accolade is the service partner for Blue Shield for additional member engagement, navigational and clinical advocacy services. The BSC self-funded HMO plan premium amounts paid by the City as employer are $36,742,406, or 6.16 percent more in CY 2024 than in CY 2023. No plan design changes were approved for the BSC PPO plan by the Health Service Board for 2024.

Health Net CanopyCare HMO

The Health Net CanopyCare HMO plan is flex-funded for active employees and early retirees. CanopyCare provides access to the Canopy Health Alliance of over 5,000 providers in five large medical groups and major regional medical centers and hospitals covering the greater Bay Area. The Health Net CanopyCare flex-funded HMO plan premium amounts paid by the City as employer are $5,527,472, or 3.67 percent more in CY 2024 than in CY 2023. No plan design changes were approved for the Health Net CanopyCare plan by the Health Service Board for 2024.

UnitedHealthcare (UHC) PPO and EPOs for non-Kaiser, "Split Families" in 2023

Starting in 2023, UHC became the plan administrator for the three plans available to Non-Medicare covered individuals in a family where one or more covered individual in the family is Medicare eligible and enrolled in the UHC Medicare Advantage (MAPD) plan. This is referred to as "Split Families" because one or more individual in the family is not yet Medicare-eligible and

[5] Under flex-funding, the HMO pays the medical groups on a per capita basis and plan sponsor (HSS) pays the variable claims other than the fixed medical group amounts.

[6] Under a PPO (Preferred Provider Organization), the member's cost-share are lower when using physicians, hospitals, and other providers in the preferred network versus and non-preferred providers. This self-funded arrangement means the plan sponsor (HSS) pays the purchaser (through a third-party administrator) on a fee for service basis based on negotiated contracts.

enrolls in the enrolls in a Non-Medicare UHC PPO or EPO plan and one or more individual is Medicare-eligible. These Non-Medicare covered individuals have the choice between the UHC PPO plan, the UHC Select Network Exclusive Provider Organization or EPO plan (broader network similar to the BSC Access+ plan), and the UHC Doctors EPO plan (narrow network similar to the BSC Trio plan).

The UHC PPO plan and EPO plans for Non-Medicare Split Family covered individuals are self-funded for these eligible individuals. The UHC PPO/EPO plans premium amounts paid by the City as employer are $3,093,002, or 14.84 percent more in CY 2024 than in CY 2023. No plan design changes were approved for the UHC PPO/EPO plans by the Health Service Board for 2024.

UHC Medicare Advantage (MA) PPO

The total UHC Medicare Advantage PPO Plan premium amounts paid by the City as employer are $82,402,809, or 14.78 percent, more in CY 2024 than in CY 2023.

The UHC Medicare Advantage PPO Plan, covers all non-Kaiser Medicare eligible retirees. No plan changes were approved by the Health Service Board for 2024.

According to Mr. Gologorskiy, the UHC Medicare Advantage PPO for Medicare retirees sustained higher than typical rate increases from 2023 to 2024 because of Centers for Medicare and Medicaid funding methodology changes that are creating a lower increase in payments into Medicare Advantage Prescription Drug (MAPD) plans for the 2024 plan year relative to prior year actions.[7]

Vision Plan

Members enrolled in any of the health plans receive vision benefits through Vision Service Plan (VSP), a third-party insurer. The cost of the Basic Plan vision benefit is included in the cost of the medical plan for all monthly health plan premiums. Employees and retirees who choose to enroll in the Premier Plan pay the full premium difference between Premier Plan rates and Basic Plan rates, in the form of member contributions.

In 2024, all vision plan premiums are remaining at 2023 vision plan premium levels.

Dental Plans

HSS offers three dental plans, including one PPO (Delta Dental PPO) and two HMOs (DeltaCare USA and UnitedHealthcare Dental). The City pays most of the cost of dental benefits for active employees enrolled in the Delta Dental PPO, and the full cost of the dental HMOs for active employees. Retirees pay the full cost of their dental plans.

For plan year 2024, the City will contribute (1) the total premium toward each of the dental HMO plans for City active employees, and (2) the monthly premium minus employee contributions ranging from $5.00 for employee only coverage to $15.00 per month for full family coverage, for the self-funded Dental PPO plan. Member contributions for the three dental plans remain unchanged from the 2023 plan year.

[7] According to HSS, the majority of MAPD plan funding comes from the federal government; the premium paid to UHC by HSS represents the difference between overall plan costs and what is funded by the federal government.

The total dental plan premium amounts across the three active employee dental plans paid by the City as employer are $35,261,054, or 7.44 percent less in CY 2024 than in CY 2023. No plan design changes were approved for the dental PPO/HMO plans by the Health Service Board for 2024.

Life and Long-Term Disability Insurance

The Hartford Life and Accident Insurance Company (The Hartford) is the insuring entity for the HSS life insurance, accidental death and dismemberment (AD&D) insurance, and long-term disability (LTD) insurance. In 2024, all life insurance, AD&D, and LTD plan premiums are remaining at 2023 premium levels for a City contribution of $6,394,644.

Federal Affordable Care Act Requirements

In 2010, the Patient Protection and Affordable Care Act (also known as the Affordable Care Act) created a Health Insurance Tax (HIT) and two direct fees were passed through to employers – the Transitional Reinsurance Fee (TRF) and the Patient Centered Outcomes Research Institute (PCORI) fee. The HIT and TRF are no longer in effect. The PCORI fee[8] was originally set to expire after 2019, but it was extended through 2029 as part of the SECURE Act passed by the federal government in December 2019. HSS pays this fee to the federal government for the self-funded BSC PPO and UHC PPO plans—while Kaiser, Blue Shield, and Health Net pay this fee on HSS's behalf for fully insured/flex funded plans. The fee was $3.00 per covered person per year in CY 2023 and is expected to be "slightly higher" in CY 2024, according to the City's actuarial consultant, Aon.

FISCAL IMPACT

2024 Total City Costs

As shown in Table 1 below, the total estimated cost for active and retired City employees for health, vision, and dental plans, as well as long-term disability and life insurance, will be $954,209,014 in 2024, which is a $88,881,148 or a 10.27 percent increase from $865,327,866 in 2023.

The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance, for the City as employer in 2024 is $837,333,532 which is a $78,490,435 or 10.34 percent increase from $758,843,097 in 2023. The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance that will be paid by employees and retirees is $116,875,482 in 2024, or 9.76 percent more than the 2023 costs of $106,484,769.

According to HSS, in 2024, the average medical monthly contribution per member will be $168.54 per member per month for all members (actives and retirees combined), $190.31 per member per month for active employees, and $140.92 per member per month for retirees.

[8] The PCORI fee was established as part of the Affordable Care Act to fund research to evaluate the effectiveness of medical treatments, procedures and strategies that treat, manage, diagnose, or prevent illness or injury. The ACA requires certain carriers and health plan sponsors (i.e., employers) to pay the PCORI fee annually.

Table 1: Total Plan Costs for the City, Employees and Retirees in 2024 Compared to 2023 Current Membership[9]

	2023 Forecast	2024 Forecast	Increase/ (Decrease)	Percent Change
City Costs Only				
Kaiser HMO (Actives and Early Retirees)	$309,804,421	$347,838,074	$38,033,653	12.28%
Blue Shield HMO (Actives and Early Retirees)	$253,990,768	$281,753,519	$27,762,751	10.93%
Blue Shield-Accolade PPO (Actives and Early Retirees)	$34,610,303	$36,742,406	$2,132,104	6.16%
Health Net CanopyCare HMO (Actives and Early Retirees)	$5,331,577	$5,527,472	$195,896	3.67%
UHC PPO / EPO (Non-Medicare Split Family Lives)	$2,693,326	$3,093,002	$399,676	14.84%
Kaiser KPSA HMO (Medicare Retirees)	$36,131,272	$38,320,552	$2,189,280	6.06%
UHC MA PPO (Medicare Retirees)	$71,793,270	$82,402,809	$10,609,539	14.78%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	*$714,354,936*	*$795,677,833*	*$81,322,898*	*11.38%*
Dental (Actives Only)[10]	$38,093,517	$35,261,054	($2,832,463)	-7.44%
Long Term Disability and Life Insurance (Actives Only)[11]	$6,394,644	$6,394,644	$0	0.00%
Total City Costs	**$758,843,097**	**$837,333,532**	**$78,490,435**	**10.34%**
Employee and Retiree Costs Only				
Kaiser HMO (Actives and Early Retirees)	$37,040,916	$42,041,374	$5,000,458	13.50%
Blue Shield HMO (Actives and Early Retirees)	$33,391,398	$37,722,540	$4,331,141	12.97%
Blue Shield-Accolade PPO (Actives and Early Retirees)	$11,097,532	$10,208,211	($889,321)	-8.01%
Health Net CanopyCare HMO (Actives and Early Retirees)	$553,286	$573,622	$20,337	3.68%
UHC PPO / EPO (Non-Medicare Split Family Lives)	$5,080,141	$5,228,659	$148,518	2.92%
Kaiser KPSA HMO (Medicare Retirees)	$5,580,258	$5,962,413	$382,156	6.85%
UHC MA PPO (Medicare Retirees)	$9,400,405	$10,797,829	$1,397,424	14.87%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	*$102,143,936*	*$112,534,649*	*$10,390,713*	*10.17%*
Dental (Actives Only)	$3,561,840	$3,561,840	$0	0.00%
Long Term Disability and Life Insurance (Actives Only)	$778,993	$778,993	$0	0.00%
Total Employee and Retiree Costs	**$106,484,769**	**$116,875,482**	**$10,390,713**	**9.76%**
Total Costs				
Kaiser HMO (Actives and Early Retirees)	$346,845,337	$389,879,448	$43,034,111	12.41%
Blue Shield HMO (Actives and Early Retirees)	$287,382,167	$319,476,059	$32,093,892	11.17%
Blue Shield-Accolade PPO (Actives and Early Retirees)	$45,707,835	$46,950,618	$1,242,783	2.72%
Health Net CanopyCare HMO (Actives and Early Retirees)	$5,884,862	$6,101,095	$216,232	3.67%
UHC PPO / EPO (Non-Medicare Split Family Lives)	$7,773,467	$8,321,660	$548,194	7.05%
Kaiser KPSA HMO (Medicare Retirees)	$41,711,529	$44,282,965	$2,571,435	6.16%
UHC MA PPO (Medicare Retirees)	$81,193,675	$93,200,638	$12,006,963	14.79%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	*$816,498,872*	*$908,212,483*	*$91,713,611*	*11.23%*
Dental (Actives Only)	$41,655,357	$38,822,894	($2,832,463)	-6.80%
Long Term Disability and Life Insurance (Actives Only)	$7,173,637	$7,173,637	$0	0.00%
Total Costs	**$865,327,866**	**$954,209,014**	**$88,881,148**	**10.27%**

Source: San Francisco Health Service System

RECOMMENDATION

Approve the proposed ordinance.

[9] According to HSS, both 2023 and 2024 forecasted costs are based on the May 2023 headcount.
[10] Dental costs are fully paid by retirees.
[11] Long term disability and life insurance plans are not offered to retirees.

Item 6 File 23-0694	Department: General Services Agency - Department of Technology (DOT)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a Microsoft enterprise contract between the Department of Technology (DT) and Zones, LLC, for a term of three years from September 2023 through August 2026, for an amount not to exceed $55,000,000, with six one-year options to extend through August 2032.

Key Points

- The City uses Microsoft software products, which are only sold through resellers. In May 2023, DT and the Office of Contract Administration (OCA) issued an Invitation for Bids (IFB) to select an authorized Microsoft reseller. Zones, which has been the City's existing Microsoft provider since 2020, was deemed the lowest bidder and was awarded a contract.
- Under the proposed contract, the City would be able to purchase all Microsoft products for all City Departments, except for the Municipal Transportation Agency (MTA), which has its own Microsoft enterprise contract. While Zones includes a 0.5 percent markup over Microsoft's large government pricing, Microsoft's large government pricing is up to a 12 percent discount from its market list prices.
- DT sends monthly lists of accounts suspected to be inactive to each department and asks for confirmation if the accounts can be closed out. DT closes out approximately 3,000 inactive accounts every three years upon contract renewal/extension, providing annual savings of approximately $414,000. Additionally, DT has negotiated with Microsoft to continue providing 28,000 audio conference licenses at no cost for the initial three-year term, providing $2,318,400 in savings ($772,800 per year).

Fiscal Impact

- The proposed contract would have a total amount not to exceed $55,000,000 over the initial three-year term. This includes an estimated spend amount of $45,955,000, based on the City's current spend levels (with five percent annual escalation), as well as $9,000,000 for possible upgrades to email accounts with enhanced security features and as-needed products.
- Approximately 71 percent of anticipated expenditures would be purchased by DT for Office 365 licenses, which would be charged to various City departments through its internal service fund. Other products would be purchased directly by City departments.

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

The City uses Microsoft software products, which are only sold through resellers. In May 2023, the Department of Technology (DT) and Office of Contract Administration (OCA) issued an Invitation for Bids (IFB) to select an authorized Microsoft reseller. The City received two bids, which were evaluated on a low-bid basis as a markup over Microsoft's standardized pricing for large government entities, as shown in Exhibit 1 below.

Exhibit 1: IFB Bids Received

Bidder	Markup Amount
Zones, LLC	0.50%
CDW Government LLC	1.25%

Source: DT

Zones, LLC, which has been the City's existing Microsoft provider since 2020, was deemed the lowest bidder and was awarded a contract.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a Microsoft enterprise contract between DT and Zones, LLC, for a term of three years from September 2023 through August 2026, for an amount not to exceed $55,000,000, with six one-year options to extend through August 2032. Exercising the options to extend would require future Board of Supervisors approval, assuming that the contract not-to-exceed amount increases by at least $500,000.

Under the proposed contract, the City would be able to purchase all Microsoft products for all City Departments, except for the Municipal Transportation Agency (MTA), which has its own Microsoft enterprise contract. While Zones includes a 0.5 percent markup over Microsoft's large government pricing, Microsoft's large government pricing is up to a 12 percent discount from its market list prices. A list of products is shown in Exhibit 2 below.

Exhibit 2: Microsoft Products Available Under Proposed Agreement

Microsoft Category	Microsoft Products
Enterprise Online Services	Basic Office 365 Enterprise and Windows 10 Enterprise
Enterprise Products	Office 365 Pro Plus, Enhanced Windows 10 Enterprise, Core CAL Suite, Enterprise CAL Suite
Additional Products	Enhanced Office 365 Enterprise, Project Online, Visio Online, Dynamics 365, Azure, SQL Server, Windows Server
Server & Tools Products	SharePoint Server, SQL Server, BizTalk Server, Visual Server, Core Infrastructure Suites

Source: DT, Proposed Contract

According to Hao Xie, DT Strategic Sourcing Manager, Office 365 licenses are managed centrally by DT. For departments seeking to purchase other products, such as Azure or SQL, they submit purchase orders to Zones after getting approval from DT.

According to Strategic Sourcing Manager Xie, DT sends monthly lists of accounts suspected to be inactive to each department and asks for confirmation if the accounts can be closed out. DT closes out approximately 3,000 inactive accounts every three years upon contract renewal/extension, providing annual savings of approximately $414,000. Additionally, DT has negotiated with Microsoft to continue providing 28,000 audio conference licenses at no cost for the initial three-year term, providing $2,318,400 in savings ($772,800 per year).

FISCAL IMPACT

The proposed contract would have a total amount not to exceed $55,000,000 over the initial three-year term. This includes an estimated spend amount of $45,955,000, based on the City's current spend levels (with five percent annual escalation), as well as $9,000,000 for possible upgrades to email accounts with enhanced security features and as-needed products. Projected annual expenditures are shown in Exhibit 3 below.

Exhibit 3: Projected Annual Expenditures

Year	Amount
Year 1	$12,991,956
Year 2	13,309,626
Year 3	13,659,424
Subtotal, Projected Expenditures	*$39,961,006*
Contingency (15%)	5,994,151
Possible Email Upgrades and As-Needed Products	9,000,000
Total	**$54,955,157**

Source: DT

According to Strategic Sourcing Manger Xie, the contract not-to-exceed amount includes a 15 percent contingency because departments must constantly add or upgrade existing licenses due to employee or technology changes. Of the $39,961,006 in anticipated expenditures, approximately $28,293,660, or 71 percent, would be purchased by DT for Office 365 licenses, which would be charged to various City departments through its internal service fund. Over the initial three years of the contract, the departments with the most expenditures are projected to be Public Utilities Commission ($5,030,294), Department of Public Health ($2,610,671), Airport ($1,381,547), City Attorney's Office ($718,008), Human Services Agency ($480,944), and Police Department ($466,237).

RECOMMENDATION

Approve the proposed resolution.

Item 9 File 23-0625	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an emergency declaration of the San Francisco Public Utilities Commission (SFPUC) to repair road failures on Cherry Lake Road and Hetch Hetchy Road, with a total cost not to exceed $20,000,000.

Key Points

- In March 2023, a series of storms brought heavy rainfall to SFPUC's upcountry locations, which had already been covered in snow. Cherry Lake Road, which provides access to SFPUC facilities, was eroded and blocked by debris, with the potential for additional hazards due to changes in the landscape. Hetch Hetchy Road failed completely in a steep location and was not passable. SFPUC declared an emergency, and after a competitive process, SFPUC awarded an emergency construction contract to Sierra Mountain construction for an amount not to exceed $11,541,525.
- In addition to the emergency contract with Sierra Mountain Construction, SFPUC anticipates that approximately $8.5 million is needed for work at an additional location on Hetch Hetchy Road, repair to further damage caused by construction equipment, and contingencies associated with uncertain field conditions and partial designs at time of bid. The additional construction work would be added to the scope of Sierra Mountain Construction's contract through change orders.

Fiscal Impact

- The total cost of the emergency declaration is not to exceed $20,000,000. In addition to Sierra Mountain Construction's emergency contract amount of $11,541,525, the total amount includes approximately $8.5 million for additional anticipated construction work and design contingencies.
- In addition to the $20 million amount of the emergency declaration, the emergency response also includes approximately $5 million for preliminary tasks completed by Sierra Mountain Construction under an existing on-call contract and $3.4 million in professional services for planning and design, construction management, and environmental management. Including these tasks, the total emergency response budget is approximately $28.4 million. Emergency Response costs are funded by SFPUC's Hetch Hetchy Water and Power Enterprises

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Section 6.60(D) states that contracts entered into for emergency work that are more than $250,000 are subject to Board of Supervisors approval. Prior to the commencement of emergency work above the $250,000 threshold, the Department must also secure approval in writing from the Mayor, the President of the Board, or the Commission. If the emergency does not permit approval of the emergency determination by the Board of Supervisors before work begins, the Department head must submit a resolution approving the emergency determination to the Board of Supervisors within 60 days.

BACKGROUND

The State of California experienced above normal precipitation from November 2022 through March 2023, resulting in one of the wettest years on record. In March 2023, a series of storms brought heavy rainfall to the San Francisco Public Utilities Commission's (SFPUC) upcountry locations, which had already been covered in snow. Cherry Lake Road, which provides access to SFPUC facilities, was eroded and blocked by debris, with the potential for additional hazards due to changes in the landscape. Hetch Hetchy Road failed completely in a steep location and was not passable. Under the federal Raker Act, which authorized construction of the O'Shaughnessy Dam, SFPUC is responsible for maintaining these roads. On March 22, 2023, SFPUC General Manager Dennis Herrera declared an emergency, which was approved by SFPUC Commission President Newsha Ajami.

On April 20, 2023, SFPUC issued a Request for Qualifications (RFQ) to identify qualified firms to perform the road repairs through an emergency contract. SFPUC determined that six respondents were qualified and issued a Request for Bids (RFB) to these respondents. Two firms submitted bids, which were evaluated on a low-bid basis, as shown in Exhibit 1 below.

Exhibit 1: Respondents and Bids from RFB

Proposer	Bid Amount
Sierra Mountain Construction, Inc.	$11,541,525
Wilson Utility Construction Company	17,352,792
Engineer's Estimate	*$14,000,000*

Source: SFPUC

Sierra Mountain Construction, which also performed approximately $5,000,000 of preliminary construction work through an existing on-call contract,[1] was deemed the lowest bidder at an amount of $11,541,525, which was below the engineer's estimate of $14,000,000, and was awarded an emergency contract. SFPUC submitted a resolution approving the emergency declaration to the Board of Supervisors on May 22, 2023, or 61 days after General Manager Herrera's declaration, which is one day after the deadline required by Administrative Code Section 6.60(D).

[1] Following a Request for Proposals (RFP) process, SFPUC awarded Sierra Mountain Construction an on-call construction contract in (2023) for an amount not to exceed ($5,000,000).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve SFPUC's emergency declaration to repair road failures on Cherry Lake Road and Hetch Hetchy Road, with a total cost not to exceed $20,000,000.

According to Jeremy Spitz, SFPUC Local and Regional Government Affairs Manager, Sierra Mountain Construction has begun construction. SFPUC anticipates that Cherry Lake Road construction will be complete in August 2023 and Hetch Hetchy Road construction will be complete in October 2023. SFPUC utilized Sierra Mountain Construction through an existing on-call contract to complete preliminary tasks, such as removing debris from the roadway, placing traffic safety barricades, clearing damaged/blocked culverts and diverting runoff, installing erosion protection measures, constructing small repairs, and removing additional hazard rocks from above the roadway. SFPUC has also used professional service contractors for planning and design, construction management, and environmental management work.

The City Attorney's Office has advised SFPUC that only new contracts, and not tasks initiated from existing contracts, should be counted towards the proposed $20,000,000 not-to-exceed amount of the requested emergency declaration. For this reason, initial work undertaken by Sierra Mountain Construction and professional service contractors does not count towards the proposed resolution's $20,000,000 not to exceed amount.

In addition to the emergency contract with Sierra Mountain Construction, SFPUC anticipates that approximately $8.5 million is needed for work at an additional location on Hetch Hetchy Road, repair to further damage caused by construction equipment, and contingencies associated with uncertain field conditions and partial designs at time of bid. The additional construction work would be added to the scope of Sierra Mountain Construction's contract through change orders.

FISCAL IMPACT

The total cost of the emergency declaration is not to exceed $20,000,000. In addition to Sierra Mountain Construction's emergency contract amount of $11,541,525, the total amount includes approximately $8.5 million for additional anticipated construction work and design contingencies, as shown in Exhibit 2 below.

Exhibit 2: Estimated Emergency Declaration Budget

Scope	Amount
Sierra Mountain Construction- Emergency Contract	$11,541,525
Additional Sites Work	1,687,950
Pavement Repairs (Due to Construction Equipment)	4,375,800
Contingency (Due to Partial Design at Time of Bid)	2,390,000
Total	**$19,995,275**

Source: SFPUC

In addition to the $20 million amount of the emergency declaration, the emergency response also includes approximately $5 million for preliminary tasks completed by Sierra Mountain Construction under an existing on-call contract and $3.4 million in professional services for planning and design, construction management and environmental management. Including these tasks, the total emergency response budget is approximately $28.4 million. Emergency Response costs are funded by SFPUC's Hetch Hetchy Water and Power Enterprises.

RECOMMENDATION

Approve the proposed resolution.

Items 10 - 14 **Files 23-0620, 23-0621, 23-0622, 23-0623, 23-0624**	**Department:** Municipal Transportation Agency (SFMTA) and Public Utilities Commission (SFPUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize five new 12-year Master License Agreements between the San Francisco Municipal Transportation Agency (SFMTA) and the San Francisco Public Utilities Commission (SFPUC) and AT&T, Crown Castle Fiber, ExteNet, Mobilitie, and Verizon Wireless for the use of publicly-owned poles to install Outdoor Distributed Antenna Systems (ODAS) equipment to support 5G telecommunications service.

Key Points

- The Board of Supervisors previously approved master license agreements (MLAs) with telecommunications companies. The proposed resolutions would authorize five new 12-year MLAs with SFPUC and SFMTA and the aforementioned telecommunications providers, establishing lower annual license fees, increased one-time charges, shortened review periods, and other conditions under which SFMTA and SFPUC may grant permission to the telecommunications companies to install equipment on City-owned poles.
- The 2023 MLAs were negotiated over more than a two-year period between the City and County of San Francisco and telecommunications companies to comply with Federal Communications Commission (FCC) requirements to limit pole license fees to cost recovery and to shorten the review period to 60 days for existing poles and 90 days for new poles.

Fiscal Impact

- Revenue generated from existing licenses will continue to be collected at the previously agreed upon rates until those licenses expire. Once the licenses are renewed under the proposed agreements, SFMTA and SFPUC will incur a reduction in annual pole license revenue totaling approximately $3.2 million.
- These revenues losses will be partially offset by an increase in one-time fee revenues from new licenses and by a projected increase in licenses. MTA projects negative net income through FY 2028-29. Based on information provided by PUC, we project their net income to be positive most years through FY 2032-33.

Policy Consideration

- In the past, the Board has required that all revenues from these types of agreements be appropriated to the streetlight program.

Recommendations

- Amend the proposed resolutions to require that all revenue from the proposed MLAs generated from PUC poles be appropriated to the SFPUC Streetlight Program and all MLA revenue generated from MTA poles be appropriated to Transit Operations.
- Approve the resolutions, as amended.

MANDATE STATEMENT

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

BACKGROUND

In 2014, the San Francisco Municipal Transportation Agency (SFMTA) and the San Francisco Public Utilities Commission (SFPUC) each entered into master license agreements (MLAs) by which telecommunications companies could request pole licenses—permitting the installation of a network of cell phone antennae and equipment that facilitates connectivity for an area (known as “Outdoor Distributed Antenna Systems,” or ODAS)—on the City’s poles in the public right-of-way. The 2014 MLAs established contractual terms and conditions, administrative and review procedures, as well as application fees and annually adjusted rents that a telecommunications carrier would pay for a pole license. The SFMTA owns 10,000 poles on which telecommunications providers might install ODAS, and the SFPUC owns 30,000 such poles; to date, SFMTA has issued 253 pole licenses to a total of four telecommunications carriers, and SFPUC has issued approximately 578 pole licenses to a total of five carriers. Telecommunications companies are seeking to install additional ODAS facilities on SFMTA and SFPUC poles to support 5G service.

Under federal law, the City is required to provide access to publicly-owned poles to telecommunications companies. Further, according to the proposed legislation, the Federal Communications Commission (FCC) interpreted federal law in 2018 to limit to cost recovery the amount of license fees that states and local governments can impose on telecommunications carriers for the use of publicly-owned poles in the public right-of-way. In August 2020, the Ninth Circuit Court of Appeal upheld the FCC order, and in June 2021, the U.S. Supreme Court denied further appeal. SFMTA and SFPUC are therefore required to lower their pole license fees and shorten their review period to 60 days for existing poles and 90 days for new poles. After more than two years of negotiation among telecommunications carriers and the SFPUC and SFMTA, (assisted by the City Attorney, the Office of Economic and Workforce Development, and the Department of Technology), City staff now believe that the proposed 2023 MLAs align with the new requirements under the FCC’s order.

The SFMTA’s four current 2014 MLAs will remain in effect until they expire in 2023-2024; SFPUC’s five existing 2014 MLAs will remain in effect until they expire in 2027. The 2014 MLAs will continue to yield higher revenue for the City until their expiration. If the proposed legislation approving the 2023 MLAs is adopted, then there will be a period of time during which the 2014 MLAs are applicable for existing pole licenses and the 2023 MLAs would be applied to new pole licenses.

DETAILS OF PROPOSED LEGISLATION

File 23-0620: is a resolution that approves a Master License Agreement with GTE Mobilnet of California Limited Partnership, (dba Verizon Wireless).

File 23-0621: is a resolution that approves a Master License Agreement with Mobilitie, LLC.

File 23-0622: is a resolution that approves a Master License Agreement with ExteNet Systems, LLC.

File 23-0623: is a resolution that approves a Master License Agreement with Crown Castle Fiber, LLC.

File 23-0624: is a resolution that approves a Master License Agreement with New Cingular Wireless PCS, LLC, (dba AT&T).

Master License Agreements

The 2023 MLAs with the five aforementioned telecommunications companies are intended to comply with the fee requirement under federal law, which limits to cost recovery the amount that local governments can charge wireless carriers to license a publicly-owned pole. Each of the five agreements is valid for a term of 12 years and could result in revenue that exceeds $1 million. However, revenue is likely to be less than under the current 2014 MLAs due to the decrease in the annual pole license fee that the City may charge. We discuss the fiscal impact at length in the following section.

The City is required under federal law to provide telecommunications companies with access to publicly-owned poles in the public right-of-way. The current pole license review process was amended in 2019 to be more efficient (under changes to Public Works Code Article 25) to enable processing within the FCC-require timeline of 60 days for existing poles and 90 days for new poles. Under the 2023 MLAs, the City is also required to lower its pole license fee and other charges to cost recovery, per the FCC order. SFMTA and SFPUC staff administer the pole licensing program, which includes reviewing applications and inspecting poles. The telecommunications companies are responsible for installing their equipment on the City's poles.

The City's use of its poles for transit and streetlights would continue to take priority over telecommunication equipment uses. Key provisions of the 2023 MLAs are shown in Exhibit 1.

Exhibit 1: Key Provisions of the 2023 Master License Agreements

Permitted Use	Installation, operation, and maintenance of cell phone antennae and equipment for the transmission and reception of wireless phone and data communications
Term	12 years, beginning on the effective date for each license
SFMTA Annual Pole License Fee	$813 ($864.22 adjusted for 2023)
SFPUC Annual Pole License Fees	$270 Steel Pole ($287.01 adjusted for 2023) $360 Concrete Pole ($382.68 adjusted for 2023)
Pole License Fee Adjustment Due to Inflation	4 percent; or the Consumer Price Index For All Urban Consumers (CPI-U) Index rate, if the CPI-U is 6 percent or more for the previous year
One-Time Fees	• Master License Application Fee: $7,500 ($7,972.50 adjusted for 2023) • Pole License Administrative Fee: $2,000 ($2,126.00 adjusted for 2023) • Security Deposit: $75,000

Note: Fees reflect 2022 rates negotiated by the City and County of San Francisco and telecommunications carriers.
Source: SFMTA and SFPUC

Pursuant to federal law that limits the amount that the City may charge for a pole license to cost recovery, the SFPUC has determined that its actual costs in 2022 to process, review, and maintain the pole licensing program do not exceed the combined total of $270 per year for steel poles, $360 per year for concrete poles, conduit license fees, and other charges. Similarly, SFMTA has determined that its actual costs are at least $813 per pole for 2022. The 2023 MLAs provide an annual fee escalation rate of four percent; if the Consumer Price Index For All Urban Consumers (CPI-U) Index rate is six percent or more, then the escalator is the CPI-U Index rate for the previous year.

FISCAL IMPACT

The 2023 negotiated rates are shown in Exhibit 2 below.

Exhibit 2: All Fees Associated with the 2023 and 2014 Master License Agreements

Fee	Current Fees 2014 MLAs	Proposed Fees 2023 MLAs	Difference
Annual Fees			
SFPUC Steel Pole Annual License Fee	$5,300	$270	($5,030)
SFPUC Concrete Pole Annual License Fee	$5,300	$360	($4,940)
SFMTA Pole Annual License Fee	$5,300	$813	($4,487)
One-Time Fees			
Master License Application Fee	$7,500	$7,500	$0
Pole License Administrative Fee	$900	$2,000	$1,100
Security Deposit	$75,000	$75,000	$0
Service Connection Fee	$440	$2,500	$2,060
Pole Modification Application Fee	*NA*	$1,500	$1,500
Batch Reservation Fee	*NA*	$300	$300
Renewal Fee	*NA*	$200	$200
Conduit License Fee	*NA*	$500-$1,500, depending on length	$500 - $1,500
Foundation Inspection Fee	*NA*	$1,000	$1,000
Site Visit Request Fee	*NA*	$1,000	$1,000
Compliance Fee	$1,500	*NA*	($1,500)

Source: SFMTA & SFPUC Summaries of 2023 Master License Agreements and 2014 Master License Agreements

The pole license rates from the 2023 MLAs shown in Exhibit 2 above represent a significant reduction from the prior market rate established under the 2014 MLAs of approximately $5,300 per pole annually. The reduced license fee will only enable SFMTA and SFPUC to recover certain costs for the licensing program, consistent with federal law.

Decrease in Revenues

As shown above, under the 2014 MLAs, the SFMTA and SFPUC each charge approximately $5,300 annually per licensed pole. The SFMTA has issued 253 pole licenses, generating more than $1.3 million per year in revenue; the SFPUC has issued 578 pole licenses, generating more than $3.1 million in annual revenue.

The SFMTA's four existing 2014 MLAs and the SFPUC's five existing 2014 MLAs will remain in effect for existing equipment until they expire. The telecommunications carriers have agreed to continue to pay the license fee of $5,300 annually per pole until the 2014 MLAs expire in 2023-2024 (for SFMTA) and in 2027 (for SFPUC), at which time, each department will receive lower revenue from existing equipment if owners renew their licenses. The SFMTA estimates that it will incur a 57 percent reduction in pole license revenue, about $800,000—from $1.4 million to $600,000 when the 2023 MLAs are effectuated. The SFPUC could experience a 65 percent drop in pole license revenue, about $2.4 million—from $3.7 million to $1.3 million, as shown in Exhibit 3.

Exhibit 3: Estimated Annual Revenue Loss Associated with Lower Pole License Fee in 2023 Master License Agreements

Department	2023 Projected Revenue	Estimated Annual Revenue in Year 1 of 2023 MLAs*	Difference
SFPUC	$3,700,000	$1,300,000	($2,400,000)
SFMTA	$1,400,000	$600,000	($800,000)
Total	$5,100,000	$1,900,000	($3,200,000)

*Note: Over time, the departments project that revenue will continue to increase under the 2023 MLAs as more poles are licensed.
Source: SFMTA and SFPUC

These revenues losses will be partially offset by an increase in one-time fee revenues from new licenses and by a projected increase in licenses. Based on City costs to manage the program and projected fee revenue from the current and proposed MLAS, MTA projects negative net income through FY 2028-29. Based on information provided by PUC, we project their net income to be positive most years through FY 2032-33.

PG&E Now Required to Provide Electric Service to Equipment on Poles

Finally, the SFPUC has been providing electricity for telecommunication equipment on publicly-owned poles. However, PG&E has challenged this arrangement and is now requiring that new equipment receive utility service from PG&E, resulting in revenue loss for the SFPUC Power Enterprise of an amount to be determined depending on the number of poles licensed under these conditions by the telecommunications companies. The SFPUC is disputing PG&E's new requirement with the Federal Energy Regulatory Commission, which may take several years to resolve.

POLICY CONSIDERATION

Previous Policy Discussions: Use of Revenues

In the past for previous resolutions approving MLAs between SFPUC and telecommunications companies, the Board of Supervisors amended the legislation to require that all revenues from those agreements be appropriated to the streetlight program in the Annual Appropriation Ordinance. Specifically, this occurred for the December 2016 resolution approving the MLA between SFPUC and ExteNet Systems, AT&T, and Verizon Wireless (File 16-1186), the July 2016 resolution approving the MLA between SFPUC and AT&T (File 16-0539), the December 2014 resolution approving the two MLAs between SFPUC and ExteNet and Verizon (File 14-1162), and under the January 2015 resolution approving the MLA between SFPUC and Mobilitie (File 15-0015).

The Budget and Legislative Analyst again recommends amending the proposed resolutions to require that all revenue from the proposed MLAs generated from PUC poles be appropriated to the SFPUC Streetlight Program and all MLA revenue generated from MTA poles be appropriated to Transit Operations.

RECOMMENDATIONS

1. Amend the proposed resolutions to require that all revenue from the proposed MLAs generated from PUC poles be appropriated to the SFPUC Streetlight Program and all MLA revenue generated from MTA poles be appropriated to Transit Operations.
2. Approve the resolutions, as amended.