CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

March 12, 2021

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: March 17, 2021 Budget and Finance Committee Meeting

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Item 1 File 21-0175	Department: Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the third amendment to the contract between San Francisco Municipal Transportation Agency (SFMTA) and TEGSCO, LLC, dba San Francisco AutoReturn (AutoReturn) for services related to towing, storage, and disposal of abandoned and illegally parked vehicles, increasing the not-to-exceed amount of the contract by $23,200,000, for a total not to exceed $88,600,000.

Key Points

- In 2016, the Board of Supervisors approved an agreement with AutoReturn to provide towing services, for a term of five years and an amount not to exceed $65,400,000, with an option to extend an additional five years. In February 2021, the SFMTA Board approved the third amendment to the agreement, exercising the option to extend and increasing the not-to-exceed amount to $88,600,000. SFMTA has requested two years of spending authority to allow time for SFMTA to assess how COVID-19 impacts pre-pandemic towing program costs and to reevaluate the program's policies and funding needs as the City emerges from sustained shelter-in-place conditions under the pandemic.
- Under the contract, AutoReturn collects fees from the owners of towed vehicles and remits those fees to SFMTA. SFMTA then pays AutoReturn a fixed management fee and reimburses AutoReturn for towing and related services, including a per tow charge paid to tow truck subcontractors. SFMTA rents a short-term facility for AutoReturn at 450 7th Street and a storage, office, and auction facility at 2650 Bayshore Boulevard in Daly City.

Fiscal Impact

- Actual and projected AutoReturn contract expenditures through March 2023 total approximately $88,154,960. In addition to the contract costs, the tow program costs include rent for the two facilities and SFMTA administrative costs. Over the initial five-year term and the first two years of the extension term, total actual and projected tow program costs are approximately $165,785,442 and revenues are approximately $123,879,825, for total net program costs to SFMTA of approximately $41,905,617.

Policy Consideration

- Because of the increasing costs to operate the tow program, the Budget and Legislative Analyst recommends amending the resolution to request that SFMTA provides a comprehensive report on the tow program and cost containment strategies to the Board of Supervisors by March 31, 2023.

Recommendations

- Amend the proposed resolution to (i) reduce the not-to-exceed amount of the contract by $400,000, for a total not to exceed $88,200,000, and (ii) request that SFMTA provides a comprehensive report on the tow program and cost containment strategies by March 31, 2023.
- Approve the resolution as amended.

MANDATE STATEMENT

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

BACKGROUND

In June 2015, the San Francisco Municipal Transportation Agency (SFMTA) issued a Request for Proposals (RFP) to select a towing service provider. TEGSCO, LLC, dba San Francisco AutoReturn (AutoReturn), which had provided the service since 2004, was deemed the highest scoring responsive and responsible proposer and was awarded a contract. In March 2016, the Board of Supervisors approved a five-year contract with AutoReturn, from April 2016 through March 2021, for an amount not to exceed $65,400,000, and an option to extend an additional five years through March 2026 (File 16-0134). Under the contract, AutoReturn provides customer service for towed vehicles, tow truck dispatching, vehicle storage, and lien processing and vehicle auctions.

The AutoReturn contract has been amended twice. The first amendment, approved by the SFMTA Board in September 2016, allowed AutoReturn to use the short-term storage facility at 450 7th Street. The second amendment, approved by the Director of Transportation in July 2019, documented service requirement adjustments to customer service and tow request response times and provided clarification on the process to calculate annual Consumer Price Index (CPI) increases for management and variable fees paid to AutoReturn.

While the existing contract allows for SFMTA to extend the term five years through March 2026, the not-to-exceed amount of $65,400,000 does not provide sufficient funding for the contract extension term. In February 2021, the SFMTA approved the third amendment to the contract, exercising the five-year option to extend the term through March 2026 and increasing the not-to-exceed amount by $23,200,000, for a total not to exceed $88,600,000.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third amendment to SFMTA's contract with AutoReturn, increasing the not-to-exceed amount by $23,200,000, for a total not to exceed $88,600,000.[1]

The proposed contract increase of $23,200,000 is intended to provide sufficient spending authority for the first two years of the extension term, through March 2023. SFMTA has requested two years of spending authority to allow time for SFMTA to assess how COVID-19 impacts pre-pandemic towing program costs and to reevaluate the program's policies and funding needs as the City emerges from sustained shelter-in-place conditions under the

[1] The resolution in File 16-0134 authorized SFMTA to exercise the five-year option to extend the contract, however Board of Supervisors approval is required to increase the not-to-exceed amount of the contract to fund the extended term.

pandemic. SFMTA intends to request spending authority for the remaining three years of the contract by March 2023.

Under the contract, AutoReturn collects fees from the owners of towed vehicles and remits those fees to SFMTA. SFMTA then pays AutoReturn a fixed management fee and reimburses AutoReturn for towing and related services, including a per tow charge paid to tow truck subcontractors. AutoReturn's variable fees are adjusted annually based on the lesser of three percent or the Consumer Price Index (CPI). Fees charged to vehicle owners are set by SFMTA.

SFMTA leases 556,055 square feet of space at a facility located at 2650 Bayshore Boulevard in Daly City. Under the contract, AutoReturn uses 330,771 square feet for storage and transfer of vehicles, public lien sale auctions, and office space. AutoReturn does not pay rent but pays all utilities, services, and security for the space. SFMTA also rents 450 7th Street for AutoReturn to use as its short-term storage facility.

According to Mr. Steven Lee, SFMTA Streets Division Manager, AutoReturn has been meeting or exceeding performance measures for the contract. The three key performance measures are timeliness of revenue deposits into SFMTA's account (within 24 hours), tow truck dispatch response times (35 minutes during peak commute hours and 25 minutes during non-peak hours), and customer service wait times (average of seven minutes). According to Mr. Lee, revenues have been deposited without any delays. Tow trucks have a 97 percent on-time rate, above the 90 percent contract requirement, and the average customer service wait time is two minutes.

FISCAL IMPACT

The proposed third amendment would increase the not-to-exceed amount of the AutoReturn contract by $23,200,000, for a total not to exceed $88,600,000. According to Mr. Lee, actual expenditures through February 2021 total $63,251,753. Actual and projected expenditures are shown in Table 1 below.

Table 1: Actual and Projected Contract Expenditures

Year	Management Fee	Variable Fee	Total Expenditures
Year 1[2]	$8,704,272	$4,413,678	$13,117,950
Year 2	8,203,839	4,776,759	12,980,598
Year 3	8,449,856	5,441,590	13,891,446
Year 4	8,703,444	5,198,730	13,902,174
Year 5[3]	8,928,568	2,094,654	11,023,222
Subtotal – Actual Expenditures	$42,989,979	$21,925,410	$64,915,390
Proposed Year 6	$8,468,188	$2,701,718	$11,169,906
Proposed Year 7	8,722,233	3,347,431	12,069,664
Subtotal – Proposed Expenditures	$17,190,421	$6,049,149	$23,239,570
Total	**$60,180,400**	**$27,974,559**	**$88,154,960**

[2] The Management Fee in Year 1 includes $720,000 in rent payments for the 7th Street facility paid by AutoReturn and reimbursed by SFMTA because Caltrans, the landlord, was not compliant with Chapter 12B of the City's Administrative Code. AutoReturn, which had previously rented the facility directly from Caltrans, paid eight months of rent until the City Administrator's Office approved the Chapter 12B waiver, allowing SFMTA to assume the lease.

[3] Year 5 expenditures are a combination of actual expenditures through February 2021 ($63,251,753) and projected expenditures for March 2021 ($943,636).

Total actual and projected contract expenditures through March 2023 are approximately $88,154,960, or approximately $445,040 less than the not-to-exceed amount of $88,600,000 in the proposed third amendment. Therefore, the Budget and Legislative Analyst recommends amending the proposed resolution to reduce the not-to-exceed amount of the contract to $88,200,000, allowing sufficient funding authority for the contract.

According to Mr. Lee, SFMTA expects to have received $97,435,112 in revenues from the tow program through the initial five-year term of the contract.[4] Projected revenues for the next two years are approximately $26,444,713. According to Mr. Lee, the tow program is a cost-recovery program and funded by tow fee revenues and the SFMTA operating budget. SFMTA cannot make a profit from the tow program. Over the next two years, the projected net cost to SFMTA for the tow program, or costs minus revenues, is approximately $16,649,969. The total net cost through the seven years of the contract is projected to be approximately $41,891,662, as shown in Table 2 below.

Table 2: Tow Program Costs and Revenues

Year	AutoReturn Contract	Rent	SFMTA Administrative Cost[5]	Total Program Cost	Tow Revenues	Net Program Cost
Year 1[6]	$13,117,950	$1,995,469	$9,247,156	$24,360,575	$20,769,426	$3,591,149
Year 2	12,980,598	2,789,312	9,475,761	25,245,671	21,968,176	3,277,495
Year 3	13,891,446	2,939,229	10,166,840	26,997,515	23,768,474	3,229,041
Year 4	13,902,174	3,039,396	10,545,264	27,486,834	23,083,883	4,402,951
Year 5	11,023,222	3,134,545	4,442,398	18,600,165	7,845,153	10,755,012
Subtotal – Actuals	*$64,915,390*	*$13,897,951*	*$43,877,419*	*$122,690,760*	*$97,435,112*	*$25,255,648*
Proposed Year 6	$11,169,906	$3,257,017	5,879,716	$20,306,639	$11,810,943	$8,495,696
Proposed Year 7	12,069,664	3,398,733	7,319,647	22,788,044	14,633,769	8,154,275
Subtotal – Proposed	*$23,239,570*	*$6,655,749*	*$13,199,363*	*$43,094,682*	*$26,444,713*	*$16,649,969*
Total	**$88,154,960**	**$20,553,700**	**$57,076,782**	**$165,785,442**	**$123,879,825**	**$41,905,617**

POLICY CONSIDERATION

SFMTA incurred a net program cost of $25.2 million over the initial five-year term of the tow program, which is funded through SFMTA revenues that would otherwise be available for transit operations and SFMTA projects. According to Mr. Lee, SFMTA has not increased tow fees to fully cover tow program costs because of Board of Supervisors policy direction to reduce fees. As an alternative to increasing tow fees, which tend to impact lower income residents more than other San Francisco residents, SFMTA should evaluate reduction in costs.

The Budget and Legislative Analyst noted in our report to the March 2, 2016 Budget and Finance Committee that the management fee paid to AutoReturn was based on an estimated 44,000

[4] Actual expenditures through February 2021 total $96,795,494, and projected revenues in March 2021 are $639,618.

[5] Administrative costs include SFMTA staff time, overhead, work orders, and credit card processing charges.

[6] As described in Footnote 2 above, the AutoReturn contract amount in Year 1 includes $720,000 for eight months' rent paid by AutoReturn and reimbursed by SFMTA.

towed vehicles each year. According to our March 2, 2016 report, because the tow fees charged to owners of vehicles are based on the tow program costs and the number of towed vehicles, if the number of towed vehicles decreases, SFMTA will have to consider increasing tow fees to cover program costs, including the management fee. In response, SFMTA told the Budget and Legislative Analyst that SFMTA had included a clause in the contract stating that should tow volume increase or decrease significantly, the SFMTA and AutoReturn will renegotiate the fixed management fee to ensure that the cost per tow to the public is not impacted. According to Mr. Lee, the contract clause was not intended to address temporary reductions in tow volume, such as COVID-19, but sustained reductions in volume that would enable operations to be consolidated into a singular location where operating cost savings could be realized. The intent of the flat Management Fee and a Variable Fee was to ensure a stable operation to address fluctuations in tow volume. Due to COVID-19, SFMTA negotiated a five percent Management Fee reduction in FY 2021-22. According to Mr. Lee, AutoReturn operates on a slim margin and further reductions to the Management Fee would result in staff layoffs. Because of the increasing costs to operate the tow program, the Budget and Legislative Analyst recommends amending the resolution to request that SFMTA provides a comprehensive report on the tow program and cost containment strategies to the Board of Supervisors by March 31, 2023.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not-to-exceed amount of the contract by $400,000, for a total not to exceed $88,200,000.
2. Amend the proposed resolution to request that SFMTA provides a comprehensive report on the tow program and cost containment strategies by March 31, 2023.
3. Approve the resolution as amended.

Item 4 **File 21-0219**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Airport Commission to accept and expend one or more grants from the Federal Aviation Administration (FAA) Airport Coronavirus Response Grant Program (ACRGP) in the amount of up to $46,543,901, plus additional amounts up to 15 percent of the original grant amount that may be offered.

Key Points

- The federal Coronavirus Response and Relief Supplemental Appropriation (CRRSA) Act passed on December 27, 2020, provides over $2 billion in economic relief funds for eligible U.S. airports and eligible concessions at airports affected by the COVID-19 public health emergency. The Federal Aviation Administration (FAA) has established the Airport Coronavirus Response Grant Program (ACRGP) to distribute these funds. San Francisco International Airport (Airport) received notice via email on February 16, 2021 that it is eligible for two types of ACRGP funding: General funding and Concessions Relief funding.
- The FAA has not approved the Airport's grant application yet but is expected to do so. On March 2, 2021, the Airport Commission authorized the Airport Director to accept and expend the anticipated ACRGP funding, subject to approval by resolution of the Board of Supervisors.

Fiscal Impact

- The proposed ACRGP funds are awarded to airports based on a formula. Of the $46,543,901 expected grant to the San Francisco International Airport: (a) $40,594,314 in General funding would be allocated to reimburse Airport costs incurred for certain general airport purposes including operations, personnel, cleaning, sanitization, janitorial services, combating the spread of pathogens at the Airport, and debt service payments incurred on or after January 20, 2020; and (b) $5,949,587 would reimburse Airport costs of providing financial relief to eligible airport concessions, including on-Airport car rental, on-Airport parking, and in-terminal Airport concessions. Only relief associated with rent due for concession occupancy or commercial use after December 27, 2020 (the date the CRRSA Act was enacted) is eligible for grant payment.

Policy Consideration

- The Controller's FY 2020-21 Six-Month Budget Status Report issued February 12, 2021, reports that the Airport projects a net operating surplus of $26.2 million for FY 2020-21. If this resolution is approved, then the net operating surplus would increase by the ACRGP grant award amount to $66.9 million ($40.6 million in General Purpose Funding plus $118,991 in Administration Fees for Concessions Relief).

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code, Section 10.170-1 mandates that any department, board, or commission that seeks to accept and expend federal, State, or other grant funds in the amount of $100,000 or more is subject to approval by resolution of the Board of Supervisors.

BACKGROUND

The federal Coronavirus Response and Relief Supplemental Appropriation (CRRSA) Act passed on December 27, 2020, provides over $2 billion in economic relief funds for eligible U.S. airports and eligible concessions at airports affected by the COVID-19 public health emergency. The Federal Aviation Administration (FAA) has established the Airport Coronavirus Response Grant Program (ACRGP) to distribute these funds, which come directly from the U.S. Treasury's General Fund, and are designed to support the economic recovery of the national airport system.

San Francisco International Airport (Airport) received notice via email on February 16, 2021 that it is eligible for two types of ACRGP funding: General funding and Concessions Relief funding. The Airport was provided prepopulated application forms, including the dollar amount it had been allocated for each funding category.[1] The Airport returned the ACRGP applications (over three months in advance of the June 30, 2021 application deadline), and as of March 11, 2021 is awaiting FAA approval of the grant. According to the FAA, all ACRGP funds will be fully executed and obligated by September 30, 2021.

On March 2, 2021, pursuant to Resolution No. 21-0047, the Airport Commission authorized the Airport Director to accept and expend the anticipated ACRGP funding, subject to approval by resolution of the Board of Supervisors.

The grant funds will not be used to add new positions - therefore, acceptance and expenditure of these grants do not require an Annual Salary Ordinance amendment.

The Airport is meeting the employee retention requirement for receiving the ACRGP funds, according to Ronda Chu, Airport Capital Finance Director and Acting Budget Director. As of February 15, 2021, the Airport exceeded the 90 percent workforce retention requirement with an overall employee retention percentage of 100.4 percent, after adjusting the March 27, 2020 baseline Full Time Equivalent (FTE) report for retirements and voluntary employee separations. The workforce retention report was submitted to the FAA prior to the March 1, 2021 deadline.

The $46,543,901 that would be provided to the Airport by the ACRGP is less than the $254.8 million previously provided to the Airport by the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020. Acceptance of ACRGP does not preclude the Airport from receiving other future federal funds.

[1] According to the FAA ACRGP website, grant allocations are distributed formulaically to primary commercial service airports based on the number of annual passenger boardings, in a model similar to the distribution of Airport Improvement Program (AIP) entitlement funds.

DETAILS OF PROPOSED LEGISLATION

The resolution would authorize the Airport Commission to accept and expend one or more grants from the FAA's ACRGP in the amount of up to $46,543,901, plus additional amounts up to 15 percent of the original grant amount that may be offered.[2]

The Airport is poised to receive up to $40,594,314 to reimburse costs incurred for certain general airport purposes including operations, personnel, cleaning, sanitization, janitorial services, combating the spread of pathogens at the Airport, and debt service payments incurred on or after January 20, 2020.

The Airport also expects to receive up to $5,949,587 to reimburse costs of providing financial relief to eligible airport concessions, for providing relief from rent and minimum annual guarantees (MAG) to on-Airport car rental, on-Airport parking, and in-terminal Airport concessions. Only relief associated with rent due for concession occupancy or commercial use after December 27, 2020 (the date the CRRSA Act was enacted) is eligible for grant payment.

The FAA has not approved the Airport's grant application yet but is expected to do so. Under the ACRGP, Airport will submit payment requests for expenses already incurred.

The legislation allows for a maximum grant agreement term of four years from the date of acceptance (with the latest being on September 30, 2021). If the grant offer is accepted on September 30, 2021, the grant agreement term would extend through September 30, 2025, allowing the Airport to reimburse allowable costs until the grant is fully expended, but no later than September 30, 2025.

FISCAL IMPACT

According to Airport Grant Development Program Manager Ms. Tina Ko, the Airport anticipates using the total amount of ACRGP General Purpose funds provided ($40,594,314) to reimburse approximately two months of personnel costs that were paid for with Airport Operating funds. Ms. Ko anticipates that the funds will be reimbursed in FY 2020-21 and/or FY 2021-22.

The expected $5,830,596 ACRGP Concessions Relief funding does not overlap with other Airport grants.[3] ACRGP Funds would be distributed proportionally to eligible concessionaires, according

[2] According to Airport Grant Development Program Manager Ms. Tina Ko, this "15 percent" clause is standard language included in all Airport grant resolutions in case additional grant funding becomes available.

[3] The March 2020 CARES Act provided the Airport with $254.8 million to pay for operations and maintenance expenses. The Airport provided approximately $21.8 million financial relief for Airport tenants through the Airport's "2020 COVID-19 Emergency Rent Relief Program" which is separate from federal ACRGP Concessions Relief funding. In December 2020 (File No. 20-1278), the Board authorized the Airport to amend concession leases to waive rent and other fees for the time from March through December 2020. Since that program ended in December 2020, Airport concessions are resuming operations in phases, and reassuming their obligations to pay Percentage Rent of gross revenues, but not MAG rent which is currently suspended due to the impact of COVID-19 on air travel.

to grant guidelines,[4] in the form of rent credits. The concessionaires can apply these rent credits towards the percentage rent, office rent, and/or storage rent that is due to the Airport after December 27, 2020. If a concession is currently not operating, and not paying rent, the rent credit will remain on the books and available to use when the concession re-opens. Ms. Ko estimates that the $5,830,596 rent credits equate to one to two months of concessions' rent payment. In the absence of the ACRGP Concessions Relief funding, the Airport would have received the $5,830,596 in rent dues from the concessions.

As authorized by the CRRSA Act, the Airport would retain up to 2 percent of $5,949,587 (or $118,991) for reimbursing direct costs of administering the ACRGP Concessions Relief funding. No indirect costs will be included for reimbursement.

As shown in Table 1, the grant funding is available at a 100 percent Federal share, with no Airport matching funding required.

Table 1. Grant Budget Summary

	Grant Total	FAA Share	Airport Share
General Purpose Funding	**$40,594,314**	**$40,594,314**	**-**
Concessions Relief from Rent and MAG	5,830,596	5,830,596	-
Concessions Relief Administration Fee	118,991	118,991	-
Subtotal Concessions Relief Funding	**5,949,587**	**5,949,587**	**-**
Total	**$46,543,901**	**$46,543,901**	**-**

Source: Airport

POLICY CONSIDERATION

General Fund Impact

According to the Controller's FY 2020-21 Six-Month Budget Status Report, issued February 12, 2021, the Airport projects a net operating surplus of $26.2 million for FY 2020-21. If this resolution is approved, then the net operating surplus would increase by the ACRGP grant award amount to $66.9 million ($40.6 million in General Purpose Funding plus $118,991 in Administration Fees for Concessions Relief).

RECOMMENDATION

Approve the proposed resolution.

[4] ACRGP guidelines for administering concession relief funds require airports to distribute funds proportionally according to the concessionaire's percent share of total base-line rent income. Source: https://www.faa.gov/airports/crrsaa/media/ACRGP-FAQs-20210212.pdf

Items 5 & 6 Files 21-0028 & 21-0183	Department: Controller's Office

EXECUTIVE SUMMARY

Legislative Objectives

- File 21-0028 is an ordinance appropriating $220,000,000 of the refunding bond series to be sold in 2021.
- File 21-0183 is a resolution approving the sale of refunding bonds, designated as Series 2021-R1 and Series 2021-R2, in an amount not to exceed $220 million, to refund all or a portion of prior bonds.

Key Points

- In March 2020, the Board approved a resolution which authorized the Director of Public Finance to determine the amount, date, and other provisions for the future sale of refunding bonds, up to $1,482,995,000 (File 20-0088), which would be sold in series. Sales of all series of refunding bonds are subject to Board of Supervisors approval. The Office of Public Finance has identified $239.6 million in outstanding general obligation bonds, of which $206.2 million can be paid before the bonds reach their stated maturity date. This includes general obligation bonds issued in 2013 and prior refunding bonds issued in 2011.
- The Office of Public Finance plans to issue refunding bonds in two series, Series 2021 R1 and Series 2021 R2, in an amount not to exceed $220 million. The first series, 2021-R1, would refund general obligation bonds issued in 2013 that can be refinanced beginning June 15, 2021, and the second series, 2021-R2, would refund the prior refunding bonds issued in 2011 that can be refinanced beginning December 15, 2021.

Fiscal Impact

- Based on bond market conditions as of February 2021, the City could issue Series 2021-R1 and 2021-R2 tax-exempt refunding bonds in the Spring of 2021 in order to realize savings. The 2021 refunding bonds will be sold at an interest rate of 1.86 percent and result in an estimated $25.2 million in total debt service savings.
- The combined cost of issuance and underwriters discount of the 2021 Refunding Bonds is estimated at $1.1 million which is less than 1 percent of the principal amount, below the maximum allowed. The Office of Public Finance proposes allowing for a negotiated sale of the refunding bonds.
- The Office of Public Finance will monitor market conditions to determine whether it is beneficial to issue Series R2 as forward to delivery bonds, essentially locking in refunding savings in the current market, at a time where interest rates are low.
- The debt ratio is estimated to slightly decrease after the proposed issuance of the 2021 Refunding Bonds.

Recommendation

- Approve the proposed resolution and ordinance.

MANDATE STATEMENT

City Charter Section 9.109 authorizes the Board of Supervisors to approve the refunding or general obligation bonds which are expected to result in net debt service savings.

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

The City's Debt Policy

California Senate Bill (SB) 1029 provides for the issuer of state or local government debt, no later than 30 days prior to the issuance of debt, to certify that the issuer has adopted local debt polices and that the issuance is consistent with the debt policies. The Board of Supervisors previously approved the City's Debt Policy as recommended by the Controller's Office of Public Finance in February 2020 (File 20-0089).

In March 2020, the Board approved a resolution which authorized the Director of Public Finance to determine the amount, date, and other provisions for the future sale of refunding bonds, up to $1,482,995,000 (File 20-0088), which would be sold in series. Sales of all series of refunding bonds are subject to Board of Supervisors approval.

In March 2020, the Board approved "Series 2020-R1", the first series of refunding bonds in an amount not to exceed $255,000,000 (File 20-0088).

DETAILS OF PROPOSED LEGISLATION

The Board of Supervisors is being asked to approve the following resolution and ordinance:

File 21-0183: The proposed resolution approves the sale of refunding bonds, designated as Series 2021-R1 and Series 2021-R2, in an amount not to exceed $220 million, to refund all or a portion of prior bonds. The first series, 2021-R1, would refund prior bonds that can be refinanced beginning June 15, 2021, and the second series, 2021-R2, would refund the prior bonds that can be refinanced beginning December 15, 2021. The resolution authorizes the Controller or the Director of Public Finance to finalize and distribute the official Preliminary Statement for the sale of the Series 2021 Bonds and for City officials to take other actions necessary to finalize the agreements for the bond transactions.

The legislation also amends Section 13 of the 2020 resolution authorizing the issuance of refunding bonds (File 20-0088) in order to correct for a definition error, replacing the term "Prior Bonds" with "applicable Series of Bonds".

File 21-0028: The proposed ordinance appropriates $220,000,000 of the refunding bond series to be sold in 2021.

FISCAL IMPACT

The Office of Public Finance has identified $239.6 million in outstanding general obligation bonds of which $206.2 million can be paid before the bonds reach their stated maturity date, as shown in Exhibit 1 below.

Exhibit 1: Series 2021-R1 & Series 2021-R2 General Obligation Bond Refunding Candidates

Prior Bonds	Original Par Amount	Outstanding Par Amount	Callable Par Amount [a]
Series 2021-R1			
Series 2013A (Clean & Safe Neighborhood Parks, 2012)	$71,970,000	$36,785,000	$34,690,000
Series 2013B (Earthquake Safety & Emergency Response, 2010	31,020,000	15,860,000	14,955,000
Series 2013C (Road Repaving & Street Safety, 2011)	129,560,000	66,195,000	62,425,000
Series 2021-R2			
Refunding Series 2011-R1	339,475,000	120,760,000	94,125,000
Total	**$572,025,000**	**$239,600,000**	**$206,195,000**

Source: Office of the Controller Memo to Board of Supervisors, February 22, 2021

[a] "Callable" amount is the amount of outstanding bonds that can be paid prior to their maturity date.

The Office of Public Finance plans to issue refunding bonds in two series, Series 2021 R1 and Series 2021 R2, in an amount not to exceed $220 million.

File 21-0028 is an ordinance that would appropriate up to $220 million in bond proceeds, shown in Exhibit 2 below. According to the Office of Public Finance, the requested not-to-exceed par amount of $220,000,000 exceeds the current estimated refunding bond proceeds amount of $212,084,563, in order to provide flexibility in case of fluctuations in market interest rates between the date of Board authorization and bonds sale, changes in the refunding escrow or changes in estimated delivery date expenses.

Exhibit 2: Estimated Source & Uses of 2021 Refunding Bonds

	Appropriation (File 21-0028)	Estimated Actuals Series 2021-R1	Estimated Actuals Series 2021-R2	Total
Sources				
Refunding Bond Proceeds				
Par Amount		95,850,000	87,810,000	183,660,000
Premium		19,326,284	9,098,279	28,424,563
Total Sources	**$220,000,000**	**$115,176,284**	**$96,908,279**	**$212,084,563**
Uses				
Refunding Escrow	217,916,150	$114,594,953	$96,376,085	$210,971,038
Delivery Date Expenses				
Cost of Issuance	1,203,850	$407,854	373,268	781,122
Underwriter's Discount	880,000	$173,477	158,926	332,403
Subtotal Delivery Date Expenses	*$2,083,850*	*$581,331*	*532,194*	*1,113,525*
Total Uses	**$220,000,000**	**$115,176,284**	**$96,908,279**	**$212,084,563**
Reserve for Market Uncertainty				7,915,437
Not-to-Exceed Par Amount	**$220,000,000**			**$220,000,000**

Source: Office of Public Finance, Montague DeRose and Associates, LLC

Debt Service Savings

According to the Office of Public Finance, based on bond market conditions as of February 2021, the City could issue Series 2021-R1 and 2021-R2 tax-exempt refunding bonds in the Spring of 2021 in order to realize savings[1]. Based on current market conditions, the Office of Public Finance estimates that the 2021 refunding bonds will be sold at an interest rate of 1.86 percent and result in $25.2 million in total debt service savings.

The proposed resolution requires refunding bonds to achieve 3 percent present value savings of the par value of the refunded bonds, in accordance with the City's debt policy. The net present value of the debt service savings of the proposed refunding bonds is estimated to be $23.0 million, equal to 11.17 percent of the par value of the refunded bonds, well above the 3 percent minimum present value savings threshold.

Debt Issuance Costs

The resolution previously approved by the Board of Supervisors authorizing issuance of up to $1.5 billion in refunding bonds requires the costs of issuance to not exceed 2 percent, and for a negotiated sale, the underwriter's discount to not exceed 1 percent of the principal amount of the refunding bonds. The combined cost of issuance and underwriters discount of the 2021

[1] According to the Office of Public Finance memorandum to the Board of Supervisors, although Series 2021-R2 will refund $94.1 million in bonds not callable until December 2021, the City can issue Series 2021-R2 as forward delivery bonds, for which investors agree to negotiated interest rates at a specified date in the future.

Refunding Bonds is estimated at $1.1 million which is less than 1 percent of the principal amount, below the maximum allowed. The Office of Public Finance proposes allowing for a negotiated sale of the refunding bonds because of the series to be refunded includes multiple separate series with different initial origination dates, and multiple interest rates payable over time on each of the refunded series.

The Office of Public Finance will monitor market conditions to determine whether it is beneficial to issue Series R2 as forward to delivery bonds, essentially locking in refunding savings in the current market, at a time where interest rates are low. With forward delivery, both Series R1 and R2 would be priced at the same time, expected in April 2021, but Series R2 would not be issued until a future date, expected in September 2021.

Debt Limit

The City Charter imposes a limit on general obligation bond debt of 3 percent of the assessed value of property in the City. As of February 1, 2021, the City has approximately $2.5 billion in aggregate principal amount of general obligation bonds outstanding, equal to approximately 0.83 percent of the net assessed value in FY 2020-21. According to the Office of Public Finance, the debt ratio is estimated to slightly decrease after the proposed issuance of the 2021 Refunding Bonds.

RECOMMENDATION

Approve the proposed resolution and ordinance.

Item 8 **File 21-0185**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an agreement between the Department of Public Health (DPH) and Color Health, Inc. for COVID-19 testing services, for an amount not to exceed $65,500,000 and a term of approximately one year from April 6, 2021 through March 31, 2022.

Key Points

- In September 2020, the Controller's Office issued a Request for Proposals (RFP) on behalf of DPH to select a COVID-19 testing provider. Color Health, which had been providing COVID-19 testing services through an emergency contract since April 2020, was determined to be the highest scoring responsible and responsive proposer and was awarded a contract.
- Under the proposed agreement, Color Health would manage both stationary and mobile sites capable of administering 3,000 tests per day, seven days a week. Over the approximately one-year term of the agreement, Color Health would administer up to approximately 703,200 tests. Color Health would charge DPH $75 per test collected at a stationary site and $81 per test collected at a mobile site. Color Health is contracted with four insurance providers to provide reimbursement for testing. Color Health would bill the insurance providers, retaining 7.5 percent of reimbursements as its billing fee, and credit the remaining 92.5 percent of reimbursements to DPH.

Fiscal Impact

- Projected expenditures (after insurance reimbursements) through March 2022, including a 12 percent contingency, are approximately $52,289,523. DPH estimates that approximately $35,015,305 would be funded by the Federal Emergency Management Agency (FEMA), and the remaining approximately $17,274,217 of costs would be funded by the City's General Fund.

Recommendations

- Amend the proposed resolution to reduce the not-to-exceed amount of the agreement by $13,210,477, for a total not to exceed $52,289,523.
- Approve the resolution as amended.

MANDATE STATEMENT

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

BACKGROUND

In April 2020, the Department of Public Health (DPH) entered into an agreement with Color Genomics, Inc. (now known as Color Health) to provide COVID-19 testing on an emergency basis, with an initial not-to-exceed amount of $7,999,702. DPH subsequently executed two amendments to the agreement, adding a testing site and mobile testing unit and increasing the not-to-exceed amount to $9,900,000. In December 2020, the Board of Supervisors approved Amendment No. 3 to the agreement, increasing the not-to-exceed amount to $84,382,042 (File 20-1192). The existing agreement with Color provides for 772,650 tests through March 31, 2021. As of March 2, 2021, according to DPH, 637,940 have been conducted.

The current agreement with Color Health expires the earlier of (i) the award of a new agreement through a competitive Request for Proposal (RFP), or (ii) April 5, 2021. In September 2020, the Controller's Office conducted an RFP on behalf of DPH to select a new COVID-19 testing provider. The Controller's Office received 21 proposals and a four-member panel scored them, as shown in Table 1 below.[1]

[1] The panel consisted of the Deputy Controller, a Department of Homelessness and Supportive Housing Manager, a DPH Integration Director, and a Controller's Office Analyst.

Table 1: Proposers and Scores from RFP

Rank	Proposer	Average Score
1	Color Health	85.46
2	Virus Geeks, Inc.	84.12
3	Sensiva Health, LLC	82.87
4	Ecolog, Inc.	79.47
5	Basis Diagnostics, Inc.	78.36
6	CIC Health, LLC	75.85
7	Stem Express, LLC	75.05
8	OptumServe powered by Logistics Health, Inc. (LHI)	74.35
9	Signal Diagnostics, LLC	73.68
10	WellHealth Management, LLC	72.62
11	LongView International Technology Solutions, Inc. dba LTS	72.02
12	Transplant Genomics Inc.	71.67
13	BioReference Laboratories, Inc.	68.85
14	Dascena Inc.	68.48
15	Sterling Pathology	61.48
16	Vault Medical Services, P.A.	60.93
17	Clinistic Medical Staffing, Inc.	57.69
18	Danner Laboratory Inc.	57.38
19	Virtual Benefit Solutions Inc.	55.44
20	Health Care Providers Laboratory	54.48
21	Health Screening Systems, LLC dba Health Screening Solutions	52.59

The top three scoring proposers (Color Health, Virus Geeks, and Sensiva Health) were invited to interview with the scoring panel. The panel then scored the three finalists based on their interviews and combined those scores with the initial proposal scores to determine final scores, as shown in Table 2 below.

Table 2: Final Scores from RFP

Rank	Proposer	Proposal Score	Interview Score	Final Score
1	Color Health	85.46	93.50	178.96
2	Virus Geeks, Inc.	84.12	89.75	173.87
3	Sensiva Health, LLC	82.87	84.50	167.37

Color Health was deemed the highest scoring responsive and responsible proposer and was awarded a contract.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new agreement between DPH and Color Health for COVID-19 testing services, for an amount not to exceed $65,500,000 and a term of approximately one year from April 6, 2021 through March 31, 2022. Color Health would continue to provide the following services: scheduling and testing result notifications, specimen collection at two stationary and up to three mobile sites, lab testing, and insurance billing.

Under the proposed agreement, Color Health would manage both stationary and mobile sites capable of administering 3,000 tests per day, seven days a week. DPH estimates that Color Health would administer approximately 33,000 monthly tests at the Embarcadero (Piers 30/32), 13,600 monthly tests at the Alemany Farmer's Market, and 12,000 monthly tests through the mobile testing units, for a total of approximately 58,600 monthly tests, or approximately 703,200 tests over the approximately one-year contract term.

Color Health would bill DPH $75 per test for the Embarcadero and Alemany sites and $81 per test for the mobile sites, which is a lower cost per test than the existing agreement with Color.[2] The testing costs under the proposed agreement are consistent with the national benchmarks reported by the U.S. Centers for Medicare & Medicaid Services.[3] The proposed agreement also sets a billing rate of $75 per lab test conducted by Color Health but collected elsewhere. According to Mr. Drew Murrell, DPH Deputy Finance Officer, Color Health had previously processed lab tests collected by DPH at Laguna Honda Hospital, but these tests are now processed internally by DPH.

According to Mr. Murrell, Color Health is contracted with four insurance providers (Kaiser, Anthem Blue Cross, United Healthcare, and Cigna) to provide reimbursement for COVID-19 testing costs. DPH estimates that approximately 18.6 percent of patients tested through the program are covered by these four insurance providers. Under the proposed agreement, Color Health would conduct the insurance billing and retain 7.5 percent of reimbursements received as its billing fee, which is higher than the 7.0 percent fee under the existing contract with Color. Color Health would then credit the remaining 92.5 percent of reimbursements to DPH on the next monthly invoice.

The proposed agreement includes two 1-year options to extend through March 21, 2024. Future Board of Supervisors approval would be required to exercise these options if the not-to-exceed amount needs to be increased to fund the extension term.

FISCAL IMPACT

The not-to-exceed amount of the proposed agreement is $65,500,000. According to Mr. Murrell, DPH had previously anticipated that the agreement would expire June 30, 2022, but it will instead expire March 31, 2022. The projected expenditures through March 2022, including a 12 percent contingency, are approximately $52,289,523, as shown in Table 3 below.

[2] Under the existing agreement with Color, the City pays $86 per test, which includes a base cost of $75 per test plus costs for site management, clinical management, language interpretation, and scheduling and notification costs.

[3] Medicare pays $100 per COVID-19 test completed within two calendar days and $75 per test completed in more than two calendar days.

Table 3: Projected Contract Expenditures

	Embarcadero	Alemany	Mobile	Subtotal	Insurance Reimbursement[4]	Total Cost
Monthly Tests	33,000	13,600	12,000	*58,600*		
Cost per Test	$75	$75	$81			
Monthly Cost	$2,475,000	$1,020,000	$972,000	*$4,467,000*	($576,411)	$3,890,589
Cost over 12-Month Term	$29,700,000	$12,240,000	$11,664,000	*$53,604,000*	($6,916,926)	$46,687,074
Contingency (12%)						$5,602,449
Total Not-to-Exceed Amount						**$52,289,523**

According to Mr. Murrell, DPH estimates that, after insurance reimbursements, approximately 75 percent of the pre-contingency costs, or $35,015,305, would be funded by the Federal Emergency Management Agency (FEMA), and the remaining approximately $17,274,217 of costs would be funded by the City's General Fund. If demand for COVID-19 testing decreases over the next year, due to increased vaccinations or herd immunity, actual expenditures would be less than the $52,289,523 not-to-exceed amount.

The Budget and Legislative Analyst recommends amending the proposed resolution to reduce the not-to-exceed amount of the agreement by $13,210,477, for a total not to exceed $52,289,523, to be consistent with the expected costs over the term of the agreement.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not-to-exceed amount by $13,210,477, for a total not to exceed $52,289,523.
2. Approve the resolution as amended.

[4] The estimated insurance reimbursement amount assumes that 18.6 percent of tests are given to patients insured by a provider contracted with Color Health (Kaiser, Anthem Blue Cross, United Healthcare, or Cigna), 75 percent of insurance claims are approved, and 92.5 percent of reimbursements are credited to DPH (Color Health retains 7.5 percent as its billing fee).