CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: November 6, 2013 Budget and Finance Committee Meeting

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Item 3 File 13-0860	Department: San Francisco Municipal Transportation Agency

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would appropriate a total of $13,786,681 of SFMTA parking garage revenues and expenditures, including (a) $8,513,825 for the 5th and Mission Parking Garage and (b) $5,272,856 for the Ellis-O'Farrell Parking Garage in FY 2013-14.

Key Points

- The SFMTA had long-term leases with (a) the non-profit Downtown Parking Corporation for the Fifth & Mission Parking Garage and (b) the non-profit Ellis-O'Farrell Parking Corporation for the Ellis-O'Farrell Parking Garage to finance and manage these operations. The Board of Supervisors approved the termination of the (a) Downtown Parking Corporation lease in December of 2012 and (b) Ellis-O'Farrell Corporation lease in February 2013.
- Although the leases with the two non-profit corporations were terminated in FY 2012-13, the SFMTA budget approved for FY 2013-14 included net revenues to be paid by these two non-profit corporations to the SFMTA. The proposed supplemental appropriation would update the FY 2013-14 SFMTA budget to accurately reflect the existing SFMTA operations at these two City parking garages.

Fiscal Impact

- The SFMTA approved FY 2013-14 budget included net revenues of $9,962,386 for the 5th and Mission Garage and $1,828,012 for the Ellis-O'Farrell Garage. The current SFMTA projections for FY 2013-14 include (a) $18,476,211 of adjusted revenues and $8,513,825 of expenses for the 5th and Mission garage and (b) $7,100,868 of adjusted revenues and $5,272,856 of expenses for the Ellis-O'Farrell garage. The proposed supplemental appropriation reflects a $5,000 difference due to minor miscellaneous non-parking revenues from vending machines and parking card deposits, which should be amended.
- While the nonprofit corporations were operating these two parking garages, the SFMTA received total average annual net revenues (gross revenues received less expenditures incurred) of $11,173,588 over the past three fiscal years.
- In FY 2013-14, the SFMTA is projected to receive net revenues of $12,664,749 from both the 5th and Mission and Ellis-O'Farrell parking garages. This $12,664,749 net revenue projection is $1,491,161 or 13.4% more than the $11,173,588 average net revenues received by the SFMTA over the past three years from these two parking garages.

Recommendations

- Amend the proposed supplemental appropriation (a) on page 1, line 18 to increase the $7,294,231 by $5,000 to $7,299,231; (b) on page 1, line 22 to reduce the $1,219,594 by $5,000 to $1,214,594; (c) on page 2, line 2 to increase the $4,238,722 by $5,000 to $4,243,722; and (d) on page 2, line 6 to reduce the $1,034,134 by $5,000 to $1,029,134.
- Approve the proposed ordinance, as amended.

MANDATE STATEMENT

In accordance with Charter Section 9.105, after the Controller certifies the availability of funds, amendments to the Annual Appropriation Ordinance are subject to Board of Supervisors approval.

BACKGROUND

Both the Fifth and Mission Garage located at 833 Mission Street and the Ellis-O'Farrell Garage located at 123 O'Farrell Street are City-owned parking garages under the jurisdiction of the San Francisco Municipal Transportation Agency (SFMTA). The Fifth and Mission Garage has 2,585 parking spaces, provides over 25,000 square feet of retail space leased to various tenants and generates over $19,000,000 in annual gross revenue. The Ellis-O'Farrell Garage has 950 parking spaces, provides over 11,000 square feet of retail/commercial space leased to three tenants and generates over $6,000,000 in annual gross revenue.

Between 1957 and 2012, under various lease agreements, the nonprofit Downtown Parking Corporation assisted the City in financing the construction and renovation and managed the day-to-day operations of the Fifth and Mission Garage. Between 1965 and 2013, under various lease agreements, the nonprofit Ellis-O'Farrell Parking Corporation assisted the City in financing the construction and renovation and managed the day-to-day operations of the Ellis-O'Farrell Garage. In July of 2012, the SFMTA issued $37,960,000 of 2012 Series A Parking Garage Refunding Revenue Bonds, which included (a) $6,095,000 to pay off the outstanding Downtown Parking Corporation debt for the Fifth and Mission Garage, and (b) $2,535,000 to pay off the outstanding Ellis-O'Farrell Parking Corporation debt for the Ellis-O'Farrell Garage.

On December 18, 2012, the Board of Supervisors approved a resolution (File 12-1138; Resolution 464-12) to terminate the lease between the City and County of San Francisco (City), on behalf of the SFMTA, and the non-profit Downtown Parking Corporation for the Fifth and Mission Garage. On February 12, 2013, the Board of Supervisors approved a separate resolution (File 13-0057; Resolution 039-13) to terminate the lease between the City, on behalf of the SFMTA, and the non-profit Ellis-O'Farrell Parking Corporation, for the Ellis-O'Farrell Garage.

As a result of the termination of both of these leases with the non-profit corporations, the SFMTA is now directly responsible for the management and daily operation of the Fifth and Mission and Ellis-O'Farrell parking garages, which includes receipt of daily gross parking revenues, managing retail commercial leases, and paying all operating expenses, including taxes. Ms. Sonali Bose, SFMTA Chief Financial Officer, advises that under the prior leases, the nonprofit organizations remitted their net income (revenues less expenses) to the SFMTA on an annual basis, which was included in the SFMTA's annual operating budget.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate an additional $13,786,681 of SFMTA parking garage revenues and expenditures, including (a) $8,513,825 for the 5th and Mission Parking Garage and (b) $5,272,856 for the Ellis-O'Farrell Parking Garage for FY 2013-14 as shown in Table 1 below.

Table 1: Proposed Additional Revenues and Expenditures for the Fifth and Mission and Ellis-O'Farrell Parking Garages

Revenues		
Fifth and Mission Garage		
Parking Revenues	$7,294,231	
Commercial Revenues	1,219,594	
Subtotal		$8,513,825
Ellis-O'Farrell Garage		
Parking Revenues	4,238,722	
Commercial Revenues	1,034,134	
Subtotal		5,272,856
Total		**$13,786,681**
Expenditures		
Fifth and Mission Garage		
Other Professional Services	$4,802,812	
Taxes	3,711,013	
Subtotal		$8,513,825
Ellis-O'Farrell Garage		
Other Professional Services	$4,142,329	
Taxes	1,130,527	
Subtotal		$5,272,856
Total		**$13,786,681**

According to Mr. Steven Lee, Manager of Financial Services for the SFMTA, although the leases with the non-profit corporations for the 5th and Mission and Ellis-O'Farrell parking garages were terminated in FY2012-13, due to the two-year budget cycle, the SFMTA budget approved for both FY2012-13 and FY2013-14, which was approved by the Board of Supervisors in June of 2012, included net revenues as previously paid by these two non-profit corporations to the SFMTA. The proposed supplemental appropriation would update the FY 2013-14 SFMTA budget to accurately reflect the existing SFMTA operations at these two City parking garages, including the additional revenues to be realized and expenses to be incurred by the SFMTA in FY 2013-14.

FISCAL IMPACT

Table 2 below shows the SFMTA's current projected revenues and expenses for FY 2013-14, SFMTA's FY 2013-14 approved budget and the differences, which reflects the proposed supplemental appropriation, for both the 5th and Mission and Ellis-O'Farrell Parking Garages.

Table 2: 5th and Mission and Ellis-O'Farrell Parking Garages FY 2013-14 Budgets

	Projected for FY 2013-14	FY 2013-14 Approved Budget	Difference Proposed Supplemental Appropriation
5th and Mission Garage			
Parking Revenues	$18,555,067		
Adjustments[1]	(1,293,450)		$7,299,231
Commercial Revenues[2]	1,214,594		1,214,594
Total Revenues	**$18,476,211**	**$9,962,386**	**$8,513,825**
Operating Expenses	$3,902,104		
Bond Refunding/new Capital Bonds[3]	900,708		
Subtotal Expenses	$4,802,812		$4,802,812
Parking Taxes (20% of parking revenues)	3,711,013		3,711,013
Total Expenses	**$8,513,825**		**$8,513,825**
Ellis-O'Farrell Garage			
Parking Revenues	$5,652,635		
Adjustments	419,099		$4,243,722
Commercial Revenues	1,029,134		1,029,134
Total Revenues	**$7,100,868**	**$1,828,012**	**$5,272,856**
Operating Expenses	$3,707,681		
Bond Refunding/new Capital Bonds	434,648		
Subtotal Expenses	$4,142,329		$4,142,329
Parking Taxes (20% of parking revenues)	1,130,527		1,130,527
Total Expenses	**$5,272,856**		**$5,272,856**

[1] The adjustments reflect both lower actual operating expenses and differences between the approved gross and net revenues and the actual projected FY 2013-14 revenues.

[2] Commercial revenues reflect both lease revenues received from commercial tenants plus minor miscellaneous non-parking revenues from vending machines and parking card deposits.

[3] In July 2012, the SFMTA issued $37,960,000 of Parking Garage Refunding Revenue Bonds and $25,835,000 of new Capital Improvement Bonds, for which the debt service on these bonds is being partially repaid from these two parking garages.

As shown in Table 2 above, the SFMTA approved FY 2013-14 budget included revenues of \$9,962,386 for the 5th and Mission Garage and \$1,828,012 for the Ellis-O'Farrell Garage. Under the previous lease agreements between the SFMTA and the nonprofit parking corporations, the revenue from parking and other sources was collected by the non-profit parking corporations which, in turn, paid for all of the daily operating expenses upon SFMTA's approval; the net annual revenues were included in the SFMTA's annual budget.

A comparison of Table 1 and Table 2 above reflects differences of \$5,000 in revenues, such that the proposed supplemental appropriation should be amended

(a) on page 1, line 18 to increase the \$7,294,231 by \$5,000 to \$7,299,231;

(b) on page 1, line 22 to reduce the \$1,219,594 by \$5,000 to \$1,214,594;

(c) on page 2, line 2 to increase the \$4,238,722 by \$5,000 to \$4,243,722; and

(d) on page 2, line 6 to reduce the \$1,034,134 by \$5,000 to \$1,029,134.

The \$5,000 difference reflects minor miscellaneous non-parking revenues from vending machines and parking card deposits, which would not be subject to the City's parking taxes.

Net Revenues to SFMTA With Nonprofit Operations in Prior Years

Table 3 below identifies the net revenues received by the SFMTA over the past three fiscal years from the nonprofit Downtown Parking Corporation, which managed the 5th and Mission Garage, and from the nonprofit Ellis-O'Farrell Parking Corporation, which managed the Ellis-O'Farrell Garage.

Table 3: Net Amounts of Revenues Remitted to SFMTA in Past Three Fiscal Years

Fiscal Years	5th and Mission Garage	Ellis-O'Farrell Garage	Total Revenues to SFMTA from two Parking Garages
FY 2010-11	\$10,118,992	\$1,649,162	\$11,768,154
FY 2011-12	9,670,342	1,774,424	11,444,766
FY 2012-13	8,983,323	1,324,521	10,307,844
Average	**\$9,590,886**	**\$1,582,702**	**\$11,173,588**

Mr. Lee advises that annual net revenues to the SFMTA from the 5th and Mission parking garage declined from FY 2010-11 through FY 2012-13 due to (a) annual increases in the nonprofit's operating costs, and (b) additional SFMTA administrative fees beginning in 2012. According to Mr. Lee, the reduction in annual net revenues to the SFMTA from the Ellis-O'Farrell parking garage declined in FY 2012-13 due to reduced hours for Early Bird rates and difficulty for parkers to access this garage because of the construction on the Central Subway. As shown in

Table 3 above, the SFMTA received total average annual net revenues (gross revenues received less expenditures incurred) of $11,173,588 from these two garages over this three-year period.

Projected Net Revenues to SFMTA in FY 2013-14

Table 4 below shows the projected FY 2013-14 net revenues of $12,664,749 to be realized from both the 5th and Mission and Ellis-O'Farrell parking garages. This $12,664,749 net revenue projection is $1,491,161 or 13.4% more than the $11,173,588 average net revenues received by the SFMTA over the past three years from these two parking garages.

Table 4: Projected Net Revenues to the SFMTA

5th and Mission Garage		
Parking Revenues	$18,555,067	
Commercial Revenues	1,214,594	
Total Revenues	$19,769,661	
Less Total Expenses	$8,513,825	
Net Revenues to SFMTA		**$11,255,836**
Ellis-O'Farrell Garage		
Parking Revenues	$5,652,635	
Commercial Revenues	1,029,134	
Total Revenues	$6,681,769	
Less Total Expenses	5,272,856	
Net Revenues to SFMTA		**$1,408,913**
Projected Net Revenues to SFMTA from Both Garages		**$12,664,749**

Ms. Bose advises that the FY 2014-15 and subsequent fiscal year revenues and expenditures from these two garages will be included in SFMTA's annual budget.

RECOMMENDATIONS

1. Amend the proposed supplemental appropriation (a) on page 1, line 18 to increase the $7,294,231 by $5,000 to $7,299,231; (b) on page 1, line 22 to reduce the $1,219,594 by $5,000 to $1,214,594; (c) on page 2, line 2 to increase the $4,238,722 by $5,000 to $4,243,722; and (d) on page 2, line 6 to reduce the $1,034,134 by $5,000 to $1,029,134.
2. Approve the proposed ordinance, as amended.

Item 4 **File 13-0962**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would (a) exercise the first two-year option to extend the existing contract between the City, on behalf of the PUC, and S&S Trucking Corporation from December 20, 2013 through December 19, 2015 and (b) increase the not-to-exceed contract amount from $9,000,000 to $13,500,000 for hauling biosolids and grit, pursuant to Charter Section 9.118(b).

Key Points

- The Public Utilities Commission (PUC) operates four sewage/wastewater treatment plants which together generate approximately 80,000 tons of biosolids and grit material annually.
- In 2007, the Office of Contract Administration (OCA) working with the PUC competitively bid the City's biosolids and grit hauling services for the PUC and selected S&S Trucking Corporation (S&S Trucking) as the lowest bidder. Although the Board of Supervisors did not approve a resolution authorizing the City to enter into this contract (File 07-1386), based on a subsequent court ruling, on December 20, 2008, the OCA awarded a not-to-exceed $9,000,000 contract to S&S Trucking. Based on subsequent amendments, the existing contract with S&S Trucking is through December 19, 2013, with two, two-year options to extend, or through December 19, 2017.

Fiscal Impact

- As of September 30, 2013, the PUC had expended $8,236,805 to haul 385,564 tons of biosolids and grit from the City's wastewater treatment plants. Based on these costs incurred to date, if the proposed contract with S&S Trucking is extended for two additional years or through December 19, 2015, the PUC would incur an estimated total of $12,627,162 in costs. An additional contingency factor of $872,838 or approximately 6.9% is included, for an additional $4,500,000 or a total of $13,500,000.

Policy Consideration

- Administrative Code Section 21C.5 subjects employees who haul solid waste, including sludge, to the City's prevailing wage provisions. However, S&S Trucking's drivers/haulers are independent contractors and not employees. The PUC intends to competitively bid the subject sludge hauling contract during the first two-year extension period.

Recommendations

- Amend the proposed resolution to confirm the PUC's intention not to exercise the second two-year option to extend the existing S&S Trucking contract.
- Approve the proposed resolution as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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

Background

The Public Utilities Commission (PUC) operates the following four sewage/wastewater treatment plants:

- Oceanside Plant on the Great Highway near Sloat Boulevard;
- Southeast Plant near Third Street and Cesar Chavez Boulevard;
- Treasure Island on Treasure Island; and
- Northpoint near Fisherman's Wharf.

Three of these sewage/wastewater treatment plants operate 24 hours a day, 365 days a year and together generate approximately 80,000 tons of biosolids and grit[1] material annually[2].

In 2007, the Office of Contract Administration (OCA) working with the PUC competitively bid the City's biosolids and grit (sludge) hauling services for the PUC. The OCA and PUC received five bids and selected S&S Trucking Corporation (S&S Trucking) as the lowest responsive and responsible bidder for a five-year contract estimated at a cost of approximately $8.58 million. However, on November 13, 2007, the Board of Supervisors, following the recommendation of their Budget and Finance Committee, voted not to approve the proposed resolution authorizing the OCA and PUC to enter into a contract with S&S Trucking (File 07-1386).

As a result, in November of 2007, the PUC extended the existing contract with Sunset Scavenger[3], which had historically provided the sludge hauling services for the PUC on a sole source basis from the early 1950s until 2007.

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[1] Biosolids are treated sludge that comes out of the wastewater treatment plants. Grit is the particulate matter (e.g., sand and rocks) that is removed before treatment at the wastewater plants.

[2] Approximately 73% of the loads are hauled from the Southeast Plant, which generally serves the eastern portion of the City, 27% is hauled from Oceanside Plant, which generally serves the western portion of the City, and less than 1% is hauled from the Treasure Island Plant, which serves Treasure Island. The Northpoint Plant generally only operates during the rainy season to handle stormwater overflow.

[3] Sunset Scavenger is currently known as Recology, which provides garbage and recycling services for all City residents and commercial customers.

On November 20, 2007, S&S Trucking filed a petition in Superior Court alleging that the Board of Supervisors could not interfere with the PUC's and OCA's award of this contract to S&S Trucking because the contract did not have a term of ten years or more or anticipated expenditures of $10,000,000 or more, in accordance with the City's Charter. Both the Superior Court and subsequently the State Court of Appeal ruled that the Board of Supervisors lacked the authority to approve or disapprove the S&S Trucking contract, in accordance with the City's Charter and the PUC and OCA had the sole authority to award the contract.

On December 20, 2008, the OCA awarded an approximately three-year and four-month contract from December 20, 2008 through April 30, 2012 for a total not-to-exceed $9,000,000, with two, two-year options to extend, or through April 30, 2016, to S&S Trucking to haul the PUC's biosolids and grit. This original contract with S&S Trucking has been subsequently modified by OCA four times, to update contract conditions, increase prices, add new services and extend the initial contract term through December 19, 2013, with two, two-year options to extend, or through December 19, 2017.

Under the existing S&S Trucking contract, costs are charged to the PUC on a per mile basis, with additional fuel and bridge toll costs passed through to the PUC. The costs vary depending on the season, the materials being hauled and the distance to the disposal location. Based on the modifications to the contract, the rates per mile have increased since the contract began in 2008, as shown in Table 1 below.

Table 1: S&S Rates Charged per Mile for Biosolids and Grit Hauling

Effective Dates	Biosolids	Grit		
		M-F	**Sat**	**Sun**
12/20/08	$3.32	$3.14	$3.30	$3.45
1/1/11	$3.36	$3.18	$3.34	$3.49
2/1/12	$3.44	$3.26	$3.42	$3.57

Biosolids are disposed in various locations, requiring hauling of different mileage distances from each sewage treatment plant, including:

1. Various land application sites to enhance pastures in Solano and Sonoma counties;
2. Recology's Hay Road land fill site in Vacaville, Solano County; and
3. Synagro Central Valley Compost Facility in Merced County.

Grit is disposed in the Keller Canyon Landfill owned by Allied Waste Industries in Solano County.

As shown in Table 2 below, as of September 30, 2013, the PUC had expended a total of $8,236,805 to haul 385,564 tons of biosolids and grit from the City's wastewater treatment plants under the existing S&S Trucking contract, at an average cost of $21.36 per ton.

Table 2: Total Costs, Tonnage and Average Costs by Calendar Year from December 20, 2008 through September 30, 2013

Year	Biosolids	Grit	Total	Total Tons	Average Cost/Ton
2008*	$63,825	$5,733	$69,558	3,132	$22.21
2009	1,534,441	41,725	1,576,166	80,474	19.59
2010	1,612,059	51,360	1,663,420	80,906	20.56
2011	1,573,205	91,674	1,664,878	78,760	21.14
2012	1,794,764	52,689	1,847,454	81,110	22.78
2013**	1,391,558	23,771	1,415,329	61,182	23.13
Total	**$7,969,852**	**$266,952**	**$8,236,805**	**385,564**	**$21.36**

*Reflects costs from December 20-December 31, 2008.

**Reflects tonnage and costs from January through September of 2013.

From 2009 through 2013, the hauling cost per ton has increased at an average rate of 4.3 percent per year.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (a) exercise the first two-year option to extend the existing contract between the City, on behalf of the PUC, and S&S Trucking Corporation from December 20, 2013 through December 19, 2015 and (b) increase the not-to-exceed contract amount from $9,000,000 to $13,500,000 for hauling biosolids and grit, pursuant to Charter Section 9.118(b).

FISCAL IMPACT

The existing contract with S&S Trucking is for a period of five years and for a not to exceed $9,000,000. The proposed contract would be extended for two years, through December 19, 2015 for an additional $4,500,000 or a total of $13,500,000. As shown in Table 2 above,

$7,969,852 or 97% of the total $8,236,805 costs incurred to date by the PUC are from hauling and disposing of biosolids from the City's wastewater treatment plants.

As shown in Table 3 below, based on actual costs incurred to date, if the proposed contract with S&S Trucking is extended for two additional years or through December 19, 2015, the PUC would incur an estimated total of $12,627,162 in costs.

Table 3: Projected Costs to Extend the S&S Trucking Contract by Two Years

Year	Total
Total through September 30, 2013 (Table 2)	$8,236,805
October 1-December 31, 2013 Projected	471,775
2014 Projected	1,959,291
2015 Projected	1,959,291
Subtotal	**$12,627,162**
Contingency (6.9%)	**872,838**
Total	**$13,500,000**

However, Ms. Bonnie Jones, Biosolids Coordinator at the PUC advises that the PUC has included a contingency factor of $872,838 or approximately 6.9% because:

- Projected rates do not assume any increases in fuel or bridge tolls, which may be passed through to the PUC, as increases in rates;
- Actual tonnage of biosolids and grit being hauled each year has been increasing as the economy improves and the residential and work population in San Francisco increases. An estimated 81,576 tons are projected to be hauled in 2013, which may further increase over the next two years; and
- The existing Recology Hay Road land fill contract in Vacaville, Solano County expires on November 30, 2014, such that the PUC does not currently know where or what the costs will be to haul and dispose of biosolids as of December 1, 2014. Currently, approximately 52% of all biosolids are disposed at the Hay Road land fill.

According to Mr. Carlos Jacobo, PUC Budget Manager, the Wastewater Enterprise operating budget includes the cost of the S&S Trucking contract, which is funded from sewer service charges to customers.

POLICY CONSIDERATION

According to Ms. Donna Levitt, Labor Standards Enforcement Officer in the City's Office of Labor Standards Enforcement (OLSE), in accordance with City Administrative Code Section 21C.5, the Board of Supervisors is responsible for determining the prevailing wage rates paid to ***employees*** (emphasis added) engaged in the hauling of solid waste, including sludge, based on the existing collective bargaining agreement between the Teamsters and Recology[4]. Ms. Jones advises that S&S Trucking's drivers/haulers are independent contractors and not employees of S&S Trucking. Under the existing Administrative Code provisions, employees are subject to the prevailing wage requirements but independent contractors are not subject to the prevailing wage requirements. Nevertheless, Ms. Levitt advises that during the term of the existing S&S Trucking contract, the OLSE conducted two audits, both of which resulted in the payment of back wages and penalties for employees hired by the independent contractors to S&S Trucking for prevailing wage violations.

Ms. Levitt further advises that, the Board of Supervisors approved an ordinance (File 11-1190; Ordinance 12-12) amending the prevailing wage provisions to require that any new solid waste or sludge hauling contract be provided by employees paid at the prevailing wage rates. However, the proposed resolution would extend the existing contract by two years, rather than approve a new contract, and as such, the S&S Trucking drivers/haulers will continue to be independent contractors, not subject to the City's prevailing wage requirements.

Ms. Ivy Fine, Manager of the Contract Administration Bureau for the PUC, advises that, rather than entering into a new contract at this time that would be subject to the City's new prevailing wage requirements, the PUC is requesting the first two-year extension of the existing S&S Trucking contract through December 19, 2015, because the PUC is currently investigating more comprehensive, beneficial and flexible approaches to reusing biosolids. Ms. Fine advises that at this time the PUC does not intend to exercise the second two-year contract extension option with S&S Trucking. Rather, Ms. Fine advises that the PUC intends to competitively bid the subject sludge hauling contract during the first two-year extension period.

Ms. Fine estimates that the PUC will require additional time to identify various strategies and approaches to more beneficially reusing biosolids. In addition, Ms. Fine estimates the PUC will then need 4-6 months to develop the procurement documents and another 6-8 months to competitively bid, evaluate and execute a new contract, which would be subject to the City's prevailing wage requirements. Given that the existing S&S Trucking contract expires on

[4] Specifically the provisions of the Collective Bargaining Agreement between Sanitary Truck Drivers and Helpers Union Local 350, International Brotherhood of Teamsters and Recology Sunset & Recology Golden Gate, in effect from January 1, 2012 through December 31, 2016.

December 19, 2013, Ms. Fine advises that the PUC does not have sufficient time to complete these tasks within that timeframe.

RECOMMENDATIONS

1. Amend the proposed resolution to confirm the PUC's intention not to exercise the second two-year option to extend the existing S&S Trucking contract.
2. Approve the proposed resolution as amended.

Item 5 File 13-0801	Department: Sheriff's Department

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Sheriff's Department to amend an existing inmate telephone services agreement with Global Tel*Link to (1) retroactively extend the term from June 1, 2013 through May 31, 2015, (2) increase the commission paid to the Sheriff's Department's Inmate Welfare Fund from 60 percent to 65 percent of gross revenue sales, and (3) make other modifications.

Key Points

- The Sheriff's Department contracts with Global Tel*Link to provide telephone equipment, calling services and charges for inmate telephone calls. Inmates pay Global Tel*Link for their telephone calls based on specified rates and then Global Tel*Link pays an agreed upon commission back to the Sheriff's Department. The Sheriff's Department deposits such revenues into the City's Inmate Welfare Fund, which is used for inmate benefits.

Fiscal Impact

- The proposed increase in the commission rate from 60 percent to 65 percent would result in an estimated $60,965 in additional annual revenues from telephone sales, which would accrue to the Inmate Welfare Fund.

Policy Consideration

- On May 20, 2009 the Sheriff's Department entered into a sole source agreement with Praeses to provide third-party consulting, management and reconciliation services for inmate telephone services, without obtaining a sole source waiver. The agreement between the Sheriff's Department and Praeses included an initial approximately three-year and three-month term from May 20, 2009 through August 14, 2012, with automatically renewing consecutive one-year terms unless specifically terminated.
- The Inmate Welfare Fund year-end fund balance increased from $279,485 in FY 2009-10 to $1,099,560 in FY 2012-13, an increase of $820,075 or 293 percent. The Sheriff's Department could budget more expenditures in FY 2014-15 and in future years for enhanced inmate benefits.

Recommendations

- Amend the proposed resolution to urge the Sheriff's Department to amend the existing agreement with Praeses to establish a date certain term that corresponds to the term of the Global Tel*Link agreement.
- Amend the proposed resolution to urge the Sheriff's Department to budget Inmate Welfare Fund expenditures in FY 2014-15 and in future years that are commensurate with the revenues received to provide enhanced inmate benefits.
- Approve the proposed resolution as amended.

MANDATE STATEMENT/BACKGROUND

Mandate Statement

Charter Section 9.118(a) requires that the modification, amendment or termination of any contract with anticipated revenues to the City of $1,000,000 or more is subject to the approval of the Board of Supervisors by resolution.

California Penal Code Section 4205 requires that any money, refund, rebate, or commission received from a telephone company from the use of telephones by confined inmates be deposited into a separate account that is used exclusively for the benefit of inmates. The Sheriff's Department administers the City's Inmate Welfare Fund, into which all revenues received from inmates' use of telephones are deposited. In accordance with Section 10.100-329 of the City's Administrative Code, the Sheriff's Department uses the revenues from the Inmate Welfare Fund to provide educational, vocational, recreational, medical, dental and legal supplies, facilities and equipment for the use and benefit for inmates confined in San Francisco's jails.

Background

Inmates housed in San Francisco's jails are permitted to make personal telephone calls by use of a debit card payment system, at their own expense, with certain restrictions.[1] To provide personal telephone services for inmates, the Sheriff's Department contracts with an outside firm to provide the necessary telephone equipment, calling services and charges for inmates. Individual inmates pay the outside firm for their telephone calls based on specified rates. The outside firm collects the inmate call revenues and then pays an agreed upon commission back to the Sheriff's Department. The Sheriff's Department deposits such commission revenues into the City's Inmate Welfare Fund, which is used for services that directly benefit the inmates. All revenues deposited into the City's Inmate Welfare Fund are subject to appropriation approval by the Board of Supervisors in the City's annual budget.

Existing Agreement with Global Tel*Link

On May 18, 2010, the Board of Supervisors approved a three-year agreement between the City, acting on behalf of the Sheriff's Department, and Global Tel*Link to provide inmate telephone services from June 1, 2010 through May 31, 2013, with two one-year options to extend the term for up to five years through May 31, 2015 (File No. 10-0442). Global Tel*Link was selected from among six bidders in a competitive bid process.

Under the existing inmate telephone services agreement, Global Tel*Link is required to pay the Sheriff's Department (a) a base annual payment of $100,000 for the term of the agreement and (b) a 60 percent commission on gross telephone sale revenues.

[1] Inmates may not place calls to private parties who have requested a blocked telephone number or have obtained a restraining order against the inmate. In addition, all inmate phone calls are recorded for security of Sheriff's Department staff and for certain legal agencies. Inmates are allowed to make free calls to the public defender, private attorneys and certain community-based organizations and governmental agencies.

The existing inmate telephone services agreement with Global Tel*Link includes specified rates that inmates are charged for making telephone calls, which vary depending on the type and length of the telephone call made. The rates that inmates are charged would remain the same under the proposed amendment to the existing agreement with Global Tel*Link.

Third-party Agreement with Praeses, LLC

On May 20, 2009, the Sheriff's Department entered into a sole source agreement with Praeses, LLC (Praeses) to provide third-party consulting, management and reconciliation services related to the Department's inmate telephone services. Under the agreement between the Sheriff's Department and Praeses, Praeses manages all aspects of the Department's inmate telephone services and is paid a management fee equal to 10.57 percent of all revenues paid to the Sheriff's Department by Global Tel*Link. The agreement between the Sheriff's Department and Praeses included an initial approximately three-year and three-month term from May 20, 2009 through August 14, 2012,[2] with automatically renewing consecutive one-year terms unless specifically terminated. The agreement was not subject to Board of Supervisors approval because it was for less than ten years and for less than $10,000,000. According to information provided to the Budget and Legislative Analyst by the Sheriff's Department in 2010, the primary reason for contracting with Praeses was the need for auditing and collection of outstanding telephone commissions from the Sheriff's Department's previous inmate telephone service contractor, PCS. In 2010, Praeses reported that PCS owed the Sheriff's Department $3,063,800 in outstanding commissions from January 2006 to February 2010. The City Attorney is actively negotiating with PCS in an effort to resolve the dispute concerning commissions due.

According to Ms. Bree Mawhorter, Sheriff's Department Chief Financial Officer, after deducting the 10.57 percent payments to Praeses, the Sheriff's Department received a total of $2,256,572 in net revenues from the inmate telephone services agreement with Global Tel*Link, inclusive of two base annual payments, from June 1, 2010 through May 31, 2013, as shown in Table 1 below. Global Tel*Link will make the base annual payment of $100,000 for June 1, 2012 to May 31, 2013 upon approval of the proposed first amendment to the agreement, resulting in total net revenues of $2,356,572.

[2] Under the agreement with Praeses, the initial three-year term would expire three years from the delivery of the initial monthly report, which occurred on August 15, 2009.

Table 1: Sheriff's Department Revenue from Inmate Telephone Services Contract with Global Tel*Link

	Commission Revenues + Base Annual Payment from Global Tel*Link	Fee Paid to Praeses by the Sheriff's Department[3]	Annual Net Revenues Realized by the Sheriff's Department
June 1, 2010 to May 31, 2011	$770,068	$86,396	$683,672
June 1, 2011 to May 31, 2012	$940,752	$99,437	$841,315
June 1, 2012 to May 31, 2013	$805,517	$73,932	$731,585
Total	**$2,516,337**	**$259,765**	**$2,256,572**

Source: Sheriff's Department

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Sheriff's Department to amend an existing inmate telephone services agreement between the Sheriff's Department and Global Tel*Link as follows:

Extension of Agreement

The proposed amendment to the agreement includes a retroactive extension of the term of the agreement from June 1, 2013 to May 31, 2014, which was previously approved by the Board of Supervisors in May 2010 (File 10-0442) as well as an additional one-year option to extend the term to May 31, 2015.

Increase in Commission Rate

The proposed resolution would also authorize the Sheriff's Department to amend the existing agreement by increasing the commission rate paid by Global Tel*Link to the Inmate Welfare Fund from 60 to 65 percent of gross telephone sale revenues. According to Ms. Mawhorter, the proposed 5 percent increase to the commission rate was negotiated by the Sheriff's Department with the goal of increasing funding for inmate benefits.

Contractor Insurance Requirements

The proposed resolution would also authorize the Sheriff's Department to amend the existing agreement to approve two substantive modifications to Global Tel*Link's insurance coverage requirements:

1. Under the existing agreement, Global Tel*Link is required to obtain Commercial General Liability Insurance requiring the insurer to pay up to $1,000,000 for bodily injury and property damage. Under the proposed amendment, Global Tel*Link would be required to obtain Commercial General Liability Insurance requiring the insurer to pay up to $2,000,000 in aggregate for bodily injury and property damage.

[3] Praeses' fee does not equal exactly 10.57 percent of gross revenues due to accounting adjustments.

2. Under the existing agreement, Global Tel*Link is required to obtain Errors & Omissions Insurance[4] with limits not less than $1,000,000. Under the proposed amendment, Global Tel*Link would not be required to obtain Errors & Omissions Insurance.

According to Ms. Elizabeth Fitzergerald in the Risk Management Division of the City Administrator's Office, the Global Tel*Link's insurance policy and the proposed modifications to Global Tel*Link's insurance coverage requirements under the agreement meet the City's insurance requirements.

<u>Replacement of Payment System</u>

The proposed resolution would also authorize the Sheriff's Department to amend the agreement to discontinue the use of a debit card payment system to be replaced with an electronic debit system. Once implemented, each inmate would be assigned a unique personal identification number (PIN), and would deposit electronic debit funds into an electronic debit account through the commissary provider.[5] Under the proposed modifications, the Sheriff's Department reserves the right to switch from the proposed electronic debit system back to a debit card system at any time during the agreement. According to Ms. Mawhorter, the electronic debit system is currently being implemented.

FISCAL IMPACT

According to Ms. Mawhorter, the Sheriff's Department estimates that the proposed increase of the inmate telephone services commission rate from 60 percent to 65 percent of gross telephone sale revenues would result in an estimated $60,965 in additional annual revenues from telephone sales, which would accrue to the Inmate Welfare Fund. Ms. Mawhorter advises that the Sheriff's Department intends to use the increased revenues to fund additional benefits for inmates.

POLICY CONSIDERATION

Sole Source, Automatically Renewing Third-party Agreement with Praeses

Under the Rules and Regulations pertaining to San Francisco Administrative Code Chapter 21 Acquisition of Goods and Services, City departments wishing to award contracts to procure commodities or services that are unique and known to be provided by only one vendor or contractor must obtain a sole source waiver by submitting documentation to the City's Office of Contract Administration, justifying why the contract must be awarded on a sole source basis.

As noted above, the Sheriff's Department entered into a sole source agreement on May 20, 2009 with Praeses to provide third-party consulting, management and reconciliation services

[4] Errors & Omissions Insurance insures individuals and companies against liabilities arising from negligence claims made by a client.

[5] The commissary is a store within the City's jails from which inmates may purchase products.

related to the Department's inmate telephone services. The agreement between the Sheriff's Department and Praeses included an initial approximately three-year and three-month term from May 20, 2009 through August 14, 2012,[6] with automatically renewing consecutive one-year terms unless specifically terminated.

According to Ms. Mawhorter, the Sheriff's Department, inadvertently, did not obtain a sole source waiver to enter into the sole source agreement with Praeses. In preparing this report in October of 2013, the Budget and Legislative Analyst was advised by Deputy City Attorney Ms. Sallie Gibson that the Sheriff's Department should have obtained a sole source waiver in 2009 for its agreement with Praeses. According to Ms. Mawhorter, based on the advice the Sheriff's Department just received from the City Attorney's Office, the Sheriff's Department will be requesting a sole source waiver for the ongoing agreement with Praeses.

With regard to the provision of the Sheriff's Department's agreement with Praeses allowing for the automatic renewal of consecutive one-year terms, the Budget and Legislative Analyst recommends that the Board of Supervisors urge the Sheriff's Department to amend the existing agreement to establish a date certain term that corresponds to the term of the Global Tel*Link agreement.

Under-spending of the Inmate Welfare Fund

Revenues deposited into the Inmate Welfare Fund from FY 2010-11 through FY 2012-13 exceeded expenditures by an average of $273,358 annually. As a result, as shown in Table 2 below, the Inmate Welfare Fund year-end fund balance increased from $279,485 at the end of FY 2009-10 to $1,099,560 at the end of FY 2012-13, an increase of $820,075 or over 293 percent. According to Ms. Mawhorter, the Sheriff's Department budgets expenditures from the Inmate Welfare Fund conservatively to ensure there are sufficient revenues to cover expenditures. Given the FY 2012-13 year-end fund balance of $1,099,560 and that revenues were consistently higher than expenditures over the past three years, the Sheriff's Department could budget additional Inmate Welfare Fund expenditures in FY 2014-15 and in future years that are commensurate with the revenues received to provide inmate benefits.

Table 2: Inmate Welfare Fund FY 2010-11 to FY 2012-13

	FY 2010-11	FY 2011-12	FY 2012-13
Beginning of Year Fund Balance	$279,485	$492,986	$733,628
Revenues[7]	$1,167,285	$1,255,713	$1,260,293
Expenditures	$953,784	$1,015,071	$894,361
Year End Fund Balance	**$492,986**	**$733,628**	**$1,099,560**

Source: Sheriff's Department

[6] Under the agreement with Praeses, the initial three-year term would expire three years from the delivery of the initial monthly report, which occurred on August 15, 2009.

[7] The Inmate Welfare Fund has other sources of revenue in addition to inmate telephone services revenues, including: (1) commissary, (2) confiscated or contraband money from inmates, (3) earned interest, and (4) bail bond revenue.

RECOMMENDATIONS

1. Amend the proposed resolution to urge the Sheriff's Department to amend the existing agreement with Praeses to establish a date certain term that corresponds to the term of the Global Tel*Link agreement.
2. Amend the proposed resolution to urge the Sheriff's Department to budget Inmate Welfare Fund expenditures in FY 2014-15 and in future years that are commensurate with the revenues received to provide enhanced inmate benefits.
3. Approve the proposed resolution as amended.

Item 8 **File 13-1035**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would (1) authorize the execution of a Purchase and Sale Agreement between the City and the nonprofit Tenderloin Neighborhood Development Corporation (TNDC) for the purchase by the City from TNDC of 201-229 Eddy Street; (2) authorize the execution of a ground lease between the City and Franciscan Towers Associates, L.P., a California limited partnership; (3) adopt findings under the California Environmental Quality Act (CEQA); and (4) adopt findings that the purchase of the property by the City and the associated ground lease is consistent with the City's General Plan and Eight Priority Policies of City Planning Code Section 101.1

Key Points

- TNDC owns the land and building at 201-229 Eddy Street, known as Franciscan Towers, which includes 105 housing units and ground floor commercial space. A fire in April 2011 severely damaged the building, requiring the relocation of the tenants. Under the proposed Purchase and Sale Agreement, the City would purchase the land at 201-229 Eddy Street, but TNDC would retain ownership of the building.
- TNDC will rehabilitate the building, which will provide 104 affordable housing units for low-income and very low-income individuals, and one manager's housing unit. Financing of the rehabilitation, estimated to cost $35.1 million, includes Mayor's Office of Housing and Community Development (MOHCD) loans, insurance proceeds, and tax credit equity.
- TNDC formed a limited partnership, Franciscan Towers Associates, L.P., which would operate the affordable housing units at 201-229 Eddy Street. The proposed resolution would approve a 75-year ground lease between the City and Franciscan Towers Associates for 201-229 Eddy Street, with one 24-year option to extend the ground lease for a total of 99 years, under which Franciscan Towers Associates would be required to maintain and operate the building at 201-229 Eddy Street as affordable housing.

Fiscal Impact

- The purchase price of the land at 201-229 Eddy Street is $4,200,000, which the City will pay TNDC by forgiving the principal on outstanding loans previously made by MOHCD to TNDC between 1989 and 1997. These loans were funded by federal grants ($4,030,187) and local tax increment funds ($169,813).
- The annual rent to be paid by Franciscan Towers Associates to MOHCD under the ground lease includes $15,000 in base rent and $405,000 in residual rent. Under MOHCD's Residual Receipts Policy, in order to ensure the long-term affordability and maintenance of safe and secure housing, affordable housing developers and operators are only required to pay residual rent if the housing development generates sufficient surplus cash to make these payments. Franciscan Towers Associates will pay estimated residual rent of $101,856 in the first year, or 25 percent of the residual rent amount of $405,000.

Recommendation

- Based on prior policy decisions of the Board of Supervisors, approve the proposed resolution.

MANDATE STATEMENT/ BACKGROUND

Administrative Code Section 23.1 requires Board of Supervisors' approval of all resolutions and ordinances approving real property transactions, including the purchase of real property. Administrative Code Section 23.4 requires Board of Supervisors' approval of the purchase of real property before the Director of Real Estate can accept the deed to the property.

Charter Section 9.118 requires Board of Supervisors' approval for any lease of real property for a period of ten years or more.

BACKGROUND

The Tenderloin Neighborhood Development Corporation (TNDC), a nonprofit corporation, owns and operates the Franciscan Towers at 201-229 Eddy Street, which is a six-story mixed-use building containing 105 units of affordable housing[1], and ground floor commercial spaces occupied by TNDC's offices and the TNDC-operated Tenderloin After School Program. The Franciscan Towers affordable housing units are currently vacant due to a fire in April 2011 that extensively damaged the building. The commercial spaces, which were rehabilitated and reoccupied in June 2011, pay combined rent of $7,856 per month, but the housing units cannot be occupied until rehabilitation of the building is completed. The 127 residents of the Franciscan Towers were relocated to other TNDC properties, but have the option to return to the Franciscan Towers once rehabilitation is completed.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) authorize the execution of a Purchase and Sale Agreement between the City and TNDC for the purchase by the City from TNDC of land at 201-229 Eddy Street for the rehabilitation of 104 affordable housing units for low and very low income individuals, and one manager's unit; (2) authorize the execution of a ground lease between the City and Franciscan Towers Associates, L.P., a California limited partnership formed by TNDC; (3) adopt findings under the California Environmental Quality Act (CEQA); and (4) adopt findings that the purchase of the property by the City and the associated ground lease is consistent with the City's General Plan and Eight Priority Policies of City Planning Code Section 101.1.

Terms of the Purchase and Sale Agreement

According to the March 19, 2013 appraisal by Joseph J. Blake and Associates, Inc., commissioned by TNDC and reviewed by the City's Director of Real Estate, 201-229 Eddy Street has an appraised value of $6,600,000, of which $4,200,000 is the value of the land and

[1] Five one-bedroom units, 75 efficiency studios, and 25 large studios.

$2,400,000 is the value of the building. Under the proposed Purchase and Sale Agreement between the City and TNDC, the City would purchase from TNDC the land at 201-229 Eddy Street for $4,200,000. TNDC would retain ownership of the building.

The purchase price of $4,200,000 for the land would be paid by the City by forgiving the principal on outstanding loans previously made by the City to TNDC as shown in Table 1 below.

Table 1: Balance on Loans Made by City to TNDC from 1989 to 1997

Date of Loan		Funding Source	Principal Balance as of January 2014[2]	Principal Forgiveness in Exchange for Land Purchase	Remaining Loan Balance
Feb 1989	Federal	Community Development Block Grant	$883,339	($883,339)	$0
Dec 1989	Federal	Community Development Block Grant	1,060,333	(255,707)	804,626
Dec 1992	Local	Redevelopment Agency Tax Increment	169,813	(169,813)	0
Dec 1992	Federal	Community Development Block Grant	1,174,000	0	1,174,000
Jan 1997	Federal	Federal HOME Grant	2,891,141	(2,891,141)	0
Total			**$6,178,626**	**($4,200,000)**	**$1,978,626**

Under the terms of the Purchase and Sale Agreement, TNDC will pay all closing costs associated with the transaction, including property taxes owed prior to the closing date, applicable transfer taxes, title policies for both parties, and all other applicable title, escrow and recording fees.

Terms of the Ground Lease

TNDC has formed a limited partnership, Franciscan Towers Associates, L.P., who will enter into a ground lease with the City for 201-229 Eddy Street. The terms of the ground lease are shown in Table 2 below.

Table 2: Proposed Ground Lease Terms between the City and Franciscan Towers Associates

Initial Lease Term	75 years
Option to Extend the Lease	24 years
Total Possible Term	99 years
Annual Rent Payable by Franciscan Towers Associates to the City	$420,000
Rent Adjustments During Initial Lease Term	Adjusted every 5 years to 10% of appraised land value
Rent Adjustment During 24-Year Extension	Negotiated
Utilities, Taxes, Maintenance, Insurance, Debt Service and Other Operating Costs	Paid by Franciscan Towers Associates

[2] According to Ms. Ruby Harris, Mayor's Office of Housing and Community Development Project Manager, loan balances are presented as of January 2014 because a date certain was needed in order to complete necessary underwriting and approvals. The transaction is estimated to close in mid-December and no later than January 1, 2014.

Base and Residual Rent

Under the proposed ground lease, Franciscan Towers Associates will pay base rent to the City of $15,000 per year and residual rent of up to $405,000 per year, totaling $420,000 per year for the land. In accordance with the Mayor’s Office of Housing and Community Development (MOHCD) Residual Receipts Policy, Franciscan Towers Associates will only be required to pay residual rent if they generate surplus cash in a given year, in which annual operating revenues exceed operating expenses.

Required Property Uses

Under the proposed ground lease, TNDC must renovate the building at 201-229 Eddy Street to provide 104 affordable rental housing units and one manager’s unit, totaling 105 units. Approximately 80 percent of the affordable rental housing units (84 units) must be allocated to low-income households and approximately 20 percent of the affordable rental housing units (20 units) must be allocated to very low-income households.[3]

Renovation of the Building

Under the proposed ground lease, the building at 201-299 Eddy Street is expected be completed and 95 percent occupied by December 2015, as shown in Table 3 below.

Table 3: Timeline for Renovation and Occupancy of 201-299 Eddy Street

	Estimated or Actual Date
Selection of development team by TNDC	April 2011 through July 2011
CEQA review and General Plan referral	October 2013
Other planning, design, permitting, and preconstruction	March 2012 through March 2014
Site acquisition	December 2013
Construction commencement	May 2014
Substantial completion of construction	July 2015
Certificate of Occupancy	July 2015
95% occupancy of units	December 2015

[3] Low income is equal to 60 percent of the area median income, which in San Francisco in 2013 is $42,500 for an individual and $60,700 for a family of four. Very low income is equal to 50 percent of the area median income, which in San Francisco in 2013 is $35,450 for an individual and $50,600 for a family of four.

FISCAL IMPACT

Loans Previously Issued by the City to TNDC

The City has previously loaned funds to TNDC for 201-229 Eddy Street, with outstanding principal and interest of $11,432,643 as of January 2014, as shown in Table 4 below.

Table 4: Prior City Loans to TNDC for 201-229 Eddy Street

	Loan Balances as of January 2014	**To be Forgiven by the City**	**Remaining**
Loans Issued from 1989 to 1997			
Principal (see Table 1)	$6,178,626	($4,200,000)	$1,978,626
Interest	3,120,081	(1,698,707)	1,421,374
Loans Issued from 1989 to 1997 Subtotal[4]	9,298,707	(5,898,707)	**3,400,000**
Loan Issued in March 2012 Subtotal	2,133,936	0	**2,133,936**
Total	$11,432,643	($5,898,707)	$5,533,936

The Mayor's Office of Housing and Community Development (MOHCD) will forgive $4,200,000 of the outstanding principal in exchange for the purchase of the land at 201-229 Eddy Street and $1,698,707 in interest, resulting in the following remaining loan balances owed by TNDC to the City:

- **$3,400,000** remaining balance for loans issued by the City to TNDC between 1989 and 1997. In the October 18, 2013 meeting of the Citywide Affordable Housing Loan Committee, the Committee approved forgiving $4,200,000 of principal on loans to TNDC as payment for the land at 201-229 Eddy Street, and $1,698,707 in associated interest on these loans, as shown in Table 4 above.

  According to Ms. Ruby Harris, MOHCD Project Manager, forgiving $1,698,707 in interest was negotiated between MOHCD and TNDC in order to make rehabilitation of 201-229 Eddy Street fiscally feasible and to retain the property as affordable housing. According to a memorandum from MOHCD staff to the October 18, 2013 Citywide Affordable Housing Loan Committee, the City's subsidy for the rehabilitation of 201-229 Eddy Street of $5,098,707, which includes the remaining loan balance of $3,400,000 and the

[4] Of the $9,298,707 in loans, $441,813 were local funds (tax increment from the former San Francisco Redevelopment Agency), and $8,856,894 were federal funds (Community Development Block Grant and HOME Grant). Of the $441,813 in local funds, $169,813 is principal that will be applied to the purchase of the land at 201-229 Eddy Street, and $272,000 is interest that MOHCD is forgiving in order to make the project fiscally feasible.

related interest of $1,698,707, is less than the City's subsidy to comparable affordable housing projects.

- **$2,133,936** Community Development Block Grant loan issued by the City to TNDC in March 2012 to pay the predevelopment costs for the rehabilitation of the building at 201-229 Eddy Street due to the fire in April 2011. As shown in Table 5 below, this loan plus any accrued interest will be fully repaid to the City as part of the project costs.

Sources and Uses of Funds to Rehabilitate 201-229 Eddy Street

Estimated project costs to rehabilitate 201-229 Eddy Street are $35,102,636, as shown in Table 5 below, which equals $334,311 per unit for 105 housing units, or approximately 1 percent less than MOHCD's average cost per affordable housing unit of $338,155.[5]

Table 5: Sources and Uses of Funds

Sources	
City Loans	
Loans Issued Between 1989 to 1997	$3,400,000
Loan Issued in March 2012	2,133,936
Subtotal	$5,533,936
Non-City Sources	
Insurance Proceeds	5,900,967
Tax Credit Equity	22,273,272
Other	1,394,461
Subtotal	29,568,700
Total Sources	**$35,102,636**
Uses	
Initial Costs	
Acquisition of Building from TNDC by Franciscan Towers, L.P. [a]	$3,400,000
Repayment of Predevelopment Loan	2,133,936
Subtotal, Initial Costs	5,533,936
Planning, Permitting, Design, and Related Project Costs	
Architecture and Engineering	1,404,591
Financing Costs	2,228,761
Legal Costs	137,500
Other Planning, Permitting, and Related Costs	1,578,202
Contingency (6% of planning, permitting, design and related project costs)	336,054
Subtotal	5,685,108
Construction Costs	
Construction	17,463,809
Contingency (20% of construction costs) [b]	3,492,762
Subtotal	20,956,571
Reserves and Other Costs	
Reserves [c]	781,521
Developer Costs [d]	2,020,500
Syndication Costs [e]	125,000
Subtotal	2,927,021
Total Uses	**$35,102,636**

[5] Based on MOHCD staff memorandum to October 18, 2013 Citywide Affordable Housing Loan Committee.

[a] According to Ms. Harris, acquisition of the building at 201-229 Eddy Street from TNDC by Franciscan Towers Associates at the price of $3,400,000 is $1,000,000 more than the appraised value of $2,400,000 based on a formula used by TNDC and the Franciscan Towers Associates in accordance with Internal Revenue Service rules.

[b] The 20 percent construction contingency includes the construction contingency (15%) and bid contingency (5%), consistent with MOHCD's loan underwriting guidelines.

[d] Reserves include three months of operating expenses and one-year's tenant assistance payments in the unlikely event that federal Shelter Plus Care subsidies cease to exist in the future.

[d] Developer costs include a developer fee to TNDC and financial consultant and construction management fees.

[e] Syndication costs include legal, consultant, and audit costs associated with the tax credit syndication closing.

Annual Operating Costs

Based on MOHCD's projected annual operating income and expenses for 201-229 Eddy Street and as shown in Table 6 below, MOHCD will receive estimated ground lease annual residual rent of $101,856 in the first year of operations, which is 25 percent of the potential residual rent of up to $405,000 provided by the ground lease. According to TNDC's 20-year cash flow projections, the building will generate surplus cash for the first 13-years of operation with total estimated residual rent payments to the City of $756,470 over this time period.[6]

Table 6: Projected Annual Operating Income and Expenses

Income	
Tenant Rents	$646,515
Tenant Assistance Payments	473,764
Commercial Rent and Other Payments	174,847
Total	**$1,295,126**
Operating Expenses	
Management Fee	$100,960
Staff Salaries and Benefits	394,843
Administration	86,448
Utilities, Taxes, Insurance, Other	157,487
Maintenance and Repair	201,109
Supportive Services	93,359
Total	**$1,034,206**
Net Operating Income	**$260,920**
Uses of Net Operating Income	
Ground Lease Base Rent	$15,000
Replacement Reserve	42,000
Partnership management fee and asset management fee	24,100
Sponsor Distribution	52,500
MOHCD Loan Repayment Distribution	25,464
MOHCD Ground Lease Residual Rent	101,856
Total	**$260,920**

[6] The first year residual rent of $101,856 is expected to decrease in subsequent years due to inflation-adjusted increases in operating expenses, resulting in estimated residual rent over the first 13-years of the ground lease of $756,470.

The projected uses of net operating income are consistent with the proposed ground lease between the City and Franciscan Towers Associates, which sets the priorities for uses of net operating income. According to Ms. Harris,

- The replacement of reserves is required by the lenders who financed the project;
- The partnership management fee and asset management fee are consistent with MOHCD policy and compensate the general partner and limited partner in the limited partnership for annual costs associated with maintaining the partnership's legal reporting requirements;
- The sponsor distribution equals one-third of net operating income or $500 per unit, whichever is less in a given year, to be distributed after payment of base rent, replacement reserves, and partner and asset management fees, and is intended to be used in San Francisco on activities associated with new construction and Community Development Block Grant-eligible activities and payments to tax credit investors, consistent with tax law; and
- The MOHCD loan repayment distribution and ground lease residual rent equal to the balance of surplus cash or two-thirds of net operating income, after ground lease base rent, replacement reserves, and partner and asset management fees, are allocated to repayment of MOHCD debt[7] and residual rent.

POLICY CONSIDERATION

Under MOHCD's Residual Receipts Policy, affordable housing developers and operators are only required to pay residual rent and principal and interest on outstanding loans if the affordable housing development generates sufficient surplus cash to make these payments. According to the Residual Receipts Policy, MOHCD requires repayment of loans to the extent that such repayment is feasible and does not jeopardize the long-term affordability or maintenance of safe and secure housing for its residents. MOHCD expects the residual receipts, after payment of expenses, service of other debt, and replacement of reserves, to be directed toward repayment of MOHCD's investment. The Board of Supervisors has previously approved ground leases with similar provisions, including the 255 Broadway (File 13-0234), and 1180 Fourth Street (File 12-0572).

According to Ms. Harris, MOHCD requires that 100 percent of residual receipts allocated to MOHCD go toward residual rent payments unless otherwise necessary for external lenders and investors underwriting purposes. MOHCD negotiated the terms of the ground lease with Franciscan Towers Associates to require that of the residual receipts allocated to MOHCD (a) 20 percent be applied to repayment of the loan of $3,400,000; and (b) 80 percent be applied to residual rent.

RECOMMENDATION

Based on prior policy decisions of the Board of Supervisors, approve the proposed resolution.

[7] According to Ms. Harris, MOHCD debt consists of $3,400,000 that will be assumed by Franciscan Towers Assoc.

Item 9 File 13-1060	Department: Office of Economic and Workforce Development (OEWD), Department of Technology (DT),

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed hearing is to request the release of $217,200 previously placed on Budget and Finance Committee reserve to research, design, and implement the "One Stop" personalized business portal.

Key Points

- The Board of Supervisors appropriated $667,836 in the Department of Technology's FY 2013-14 budget to implement the One Stop business portal to create online tools for business owners to access City forms and permit information. The Board of Supervisors placed $228,000 of the $667,836 on Budget and Finance Committee reserve, pending further information on proposed professional services for the One Stop business portal. The Controller's Office subsequently reduced the amount to $217,224 through a technical adjustment.

Fiscal Impact

- The Department is requesting that the Budget and Finance Committee release $217,200 on reserve to pay for consultant services to research, develop, and analyze the proposed One Stop business portal. The Department would select three consultants through the City's Technology Store to (1) research and design the user interface ($82,000); (2) design the website ($76,125); and (3) develop the dashboard for the business portal ($59,075).

Recommendation

- Approve the requested release of $217,200.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Administrative Code Section 3.3(e) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures subject to Board of Supervisors approval. Such expenditures may be released by the Budget and Finance Committee.

Background

The Board of Supervisors appropriated $667,836 in the Department of Technology's (DT) FY 2013-14 budget for the One Stop business portal project but reserved $228,000 that was intended for professional services contracts. The One Stop business portal is the second phase of a three-phase initiative to create online tools for processes that San Francisco businesses use, such as applying for permits or business licenses. In February 2013, the DT and the Office of Economic and Workforce Development (OEWD) completed the first phase of the initiative and launched the License123 website, which brought more than 200 permit and license forms online.

The second phase of the One Stop portal will create and implement an online tool that will (1) ask business owners questions about the type of business and activities, in order for business owners to determine which permits and licenses are required by the City, and (2) generate personalized lists and forms for the business owners based on their responses. The website will also track specific information that the City can use to track business development by industry and to improve City and website processes.

The planned third phase of the initiative will be to allow business owners to apply and pay for more permits and business licenses online than are currently available online.

The initiative was developed in response to objective 13 of the Mayor's 17-Point Jobs Plan, which seeks to "[o]pen up the City's small business permitting and licensing systems to the army of programmers and web designers in San Francisco who, in turn, can help make them more efficient and easier to navigate for businesses."

The One Stop business portal project budget of $667,836, appropriated in the FY 2013-14 DT budget, included:

- $352,336 in salaries and benefits for three new positions: Manager II, Senior IS Business Analyst, and IS Business Analyst;
- $87,500 in materials and supplies; and
- $228,000 for professional services.

$228,000 for one-time professional services was placed on Budget and Finance Committee reserve, pending a submission of a detailed plan and budget by the Department of Technology to the Budget and Finance Committee. On July 31, 2013, the Controller's Office made a technical adjustment to the reserved funds in the amount $10,776 to balance work orders, which left $217,224 in reserve.

DETAILS OF PROPOSED LEGISLATION

The Department of Technology is requesting the release of reserves of $217,200 to pay for professional services contracts with:

1. A user design / user interface consultant that will research the target users for the website and design an ideal interface for that population,
2. A web design firm that will develop the online environment that business owners will navigate to determine what forms, permits, and licenses are required, and
3. A data analytics firm that will design and develop the business dashboard so that the City may analyze trends in users by industry or other category.

DT will select consultants to provide these services through the City's Technology Store. The Department anticipates selecting firms by approximately mid-November to start work and to complete phase II by approximately the end of June 2014.

FISCAL IMPACT

The budget for the requested release of reserved funds of $217,220 is shown in Table 1 below.

Table 1: One Stop Portal Professional and Specialized Services Budget

	Estimated Hours	Estimated Hourly Rate	Total
User Interface Consultant	410.0	$200	$82,000
Web Design Firm	435.0	$175	76,125
Data Analytics Firm	347.5	$170	59,075
Total	**1,192.5**		**$ 217,200**

RECOMMENDATION

Approve the requested release of $217,200.