


**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

November 9, 2012

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** November 14, 2012 Budget and Finance Committee Meeting

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| <b>Item 7</b><br><b>File 12-1044</b> | <b>Departments:</b><br>Port of San Francisco; Office of Economic and Workforce Development (OEWD) |
|--------------------------------------|---|

**EXECUTIVE SUMMARY****Legislative Objective**

Proposed resolution finding that a project proposed by GSW Arena LLC, (GSW) an affiliate of the Golden State Warriors basketball team ownership group, to (1) rehabilitate Port property at Pier 30-32; (2) develop on the piers (a) a multi-purpose venue for public assembly uses and other events, such as conventions, Warriors home games, cultural events, family shows and performing arts, and for various other purposes, and (b) public open space, maritime use, visitor serving retail, and related parking facilities; and (3) develop on Seawall Lot 330 residential, hotel, and/or retail uses and accessory parking, is fiscally feasible and responsible under Chapter 29 of the City's Administrative Code. The proposed resolution further urges the City and Port officials to make evaluating the proposed project among its highest priorities, and to take all appropriate steps to further environmental review of the proposed project.

**Key Points**

- Chapter 29 of the City's Administrative Code specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a proposed project, including the (1) direct and indirect financial benefits to the City, (2) construction cost, (3) available funding, (4) long term operating and maintenance costs, and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review.
- In 2010, the Golden State Warriors basketball franchise, which played its home games in San Francisco from 1962 to 1971, was sold for \$450 million to former Boston Celtics minority partner Mr. Joe Lacob and Mandalay Entertainment CEO Mr. Peter Guber. In the spring of 2012, the Warriors' ownership expressed interest in developing a new arena at San Francisco Pier 30-32 in time for the 2017-18 National Basketball Association (NBA) season, which corresponds with the conclusion of the team's lease of the Oracle Arena, located in Oakland.
- The 12.5 acre Pier 30-32 and 2.8 acre Seawall Lot 330 are located along the Embarcadero, between the Bay Bridge and AT&T Park. Pier 30-32 is currently used for surface parking, including parking for events at AT&T Park, and has an expected remaining useful life of 10 years without rehabilitation. A 0.5 acre portion of Seawall Lot 330 was previously sold for the Watermark condominium project, and the remaining 2.3 acres is currently used for surface parking.
- On June 12, 2012, the Board of Supervisors approved a resolution (File 12-0625) related to the development of Pier 30-32 and Seawall Lot 330, including an athletic arena for the Golden State Warriors. Under that resolution, the Board of Supervisors authorized the City to commence environmental review of the project under the California Environmental Quality Act (CEQA) if and when the Board of Supervisors makes the required findings of

fiscal feasibility and responsibility under Administrative Code Chapter 29, which is the subject of the proposed resolution.

### **Project Description**

GSW Arena LLC (GSW), an affiliate of the Golden State Warriors basketball team ownership group, has proposed developing a multi-use development at Pier 30-32 and Seawall Lot 330. The proposed development project includes (a) the rehabilitation of Port property at Pier 30-32; (b) the development on Pier 30-32 of a multi-purpose arena for Golden State Warriors home basketball games and other types of events, public open space, maritime use, retail, and related parking; and (c) the development on Seawall Lot 330 of residential, hotel, retail uses, and accessory parking. The Conceptual Framework<sup>1</sup> for the proposed development was completed on October 23, 2012, based on negotiations between OEWD, the Port, and GSW.

### **Project Funding**

Under the Conceptual Framework, GSW would lease Pier 30-32 from the Port for 66 years, and GSW would purchase the remaining 2.3 acres of Seawall Lot 330 from the Port outright. GSW would be responsible to pay all financing and constructions costs, including CEQA-related costs. Under the Conceptual Framework, up to \$120,000,000 in construction costs for the rehabilitation of Pier 30-32 would be considered reimbursable by the Port to GSW. The agreement would limit this reimbursement to three sources:

1. Rent credits from the fair market lease of Pier 30-32, totaling an estimated \$1,970,000 per year, plus annual consumer price index (CPI) and/or other market adjustments, to be negotiated;
2. Fair market sale revenues from Seawall Lot 330, totaling an estimated \$30,400,000; and
3. Bond proceeds from a proposed Infrastructure Financing District (IFD) to be established on Pier 30-32 and Seawall Lot 330, subject to future Board of Supervisors approval, totaling an estimated \$60,000,000.

### **Fiscal Feasibility**

The proposed development at Pier 30-32 and Seawall Lot 330, including (a) the rehabilitation of Port property at Pier 30-32; (b) the development on Pier 30-32 of a multi-purpose arena for Golden State Warriors home games and other types of events, public open space, maritime use, retail, and related parking; and (c) the development on Seawall Lot 330 residential, hotel, retail uses, and accessory parking, would provide the following estimated fiscal impacts:

- (1) One-time financial benefits to the City of up to \$53,835,000;
- (2) Direct ongoing annual financial benefits of between \$9,783,000 and \$19,003,000;
- (3) Undetermined indirect financial benefits from gross receipt tax revenue;
- (4) Up to \$120,000,000 in private construction expenditures for the rehabilitation of Pier 30-32;

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<sup>1</sup> The Conceptual Framework is a nonbinding document between the City and GSW, which outlines certain basic business terms of the Proposed Project.

(5) Reimbursement by the Port to GSW of those private construction expenditures through the use of (a) up to 66 years of annual rent credits for Pier 30-32, valued at \$1,970,000 per year, (b) the transfer of Seawall Lot 330 from the Port to GSW, valued at \$30,400,000, and (c) 30 years of foregone General Fund property tax revenue which would be used to repay a \$60 million IFD bond;

(5) No new ongoing maintenance costs for the Port; and

(6) Undetermined new street and sidewalk maintenance costs for DPW, for which funding options are being explored by OEWD, the Port, and GSW.

Based on these criteria, the Budget and Legislative Analyst finds the proposed development to be fiscally feasible under Chapter 29 of the City's Administrative Code.

### **Policy Considerations**

- The Conceptual Framework assumes up to 205 events per year, including basketball games, other sporting events, concerts, family shows, and fixed-fee rentals (e.g., convention events).
- For the proposed development to proceed as described in the Conceptual Framework, the Port Commission would need to approve amendments to the City's Waterfront Plan to allow for an athletic facility at Pier 30-32, and the City's Planning Commission and Board of Supervisors would need to approve amendments to the City's Zoning Map to allow for a development taller than 40 feet.
- The finding by the Board of Supervisors that the proposed project is fiscally feasible is required prior to the City to proceed with environmental review. The proposed resolution does not authorize any transfer of property or development agreement. If the subject resolution is approved, OEWD would proceed with the drafting of a development term sheet, based on the Conceptual Framework, and the term sheet would be subject to Board of Supervisors endorsement. CEQA findings and possible zoning changes would also be subject to future Board of Supervisors review and approval.

### **Recommendation**

Based on the review of the Conceptual Framework for the proposed development at Pier 30-32 and Seawall Lot 330, and the supporting fiscal and economic analysis provided by the Port and OEWD, the Budget and Legislative Analyst finds that the proposed development is fiscally feasible. As noted above, in accordance with Administrative Code Chapter 29, the finding of "fiscal feasibility" means only that the project merits further evaluation and environmental review. If the proposed resolution is approved by the Board of Supervisors, the City will be authorized to commence environmental review of the project under CEQA.

## MANDATE STATEMENT

Chapter 29 of the City's Administrative Code requires that certain projects be submitted to the Board of Supervisors for approval of the project's fiscal feasibility<sup>2</sup> prior to submitting the project to the Planning Department for environmental review if (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA), (b) total project costs are estimated to exceed \$25,000,000, and (c) construction costs are estimated to exceed \$1,000,000.

Chapter 29 specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including the (1) direct and indirect financial benefits to the City, (2) construction costs, (3) available funding, (4) long term operating and maintenance costs, and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review:

"A determination by the Board that the plan for implementing and undertaking the project is fiscally feasible and responsible shall not include a determination as to whether the Project Sponsor or other unit of the government of the City and County should approve the project and it is the intent of the Board of Supervisors in requiring the determination to decide only whether the proposed project merits further evaluation and environmental review."

## BACKGROUND

### Golden State Warriors

The Golden State Warriors is a team in the National Basketball Association (NBA). The team was established as the Philadelphia Warriors in 1945, and became the San Francisco Warriors in 1962 when the team moved to San Francisco. The team primarily played at the Cow Palace and the Bill Graham Civic Auditorium until they moved to Oakland in the 1971-72 season, at which time they were renamed the Golden State Warriors. The team plays its home games at Oakland's Oracle Arena.

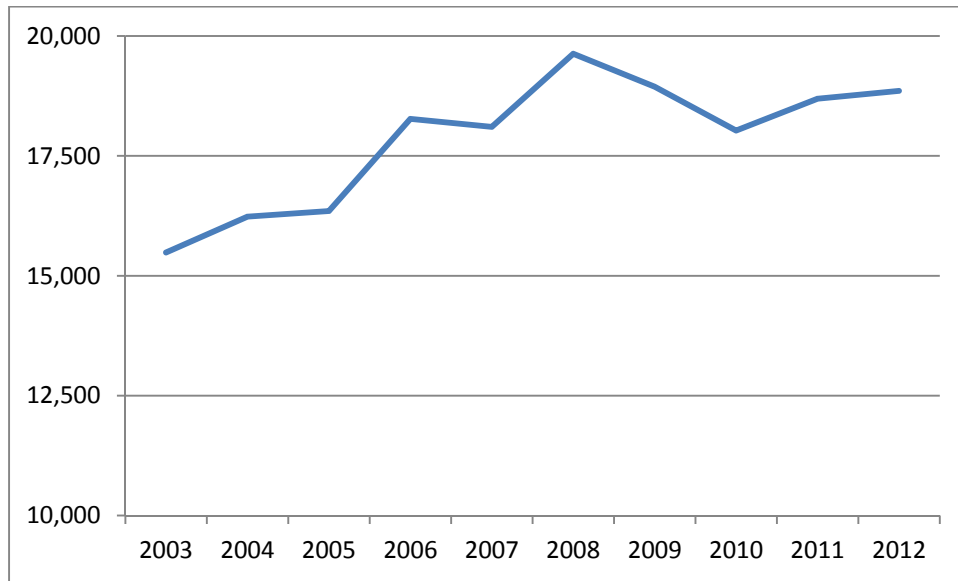
In 2010, the Golden State Warriors basketball franchise was sold for a record \$450 million to Boston Celtics minority partner Mr. Joe Lacob and Mandalay Entertainment CEO Mr. Peter Guber. The amount was the largest ever paid for a basketball franchise. In the spring of 2012, the Warriors' owners expressed interest in developing a new arena at San Francisco Pier 30-32 in time for the beginning 2017-18 NBA season, which corresponds with the conclusion of the team's lease of the Oracle Arena.

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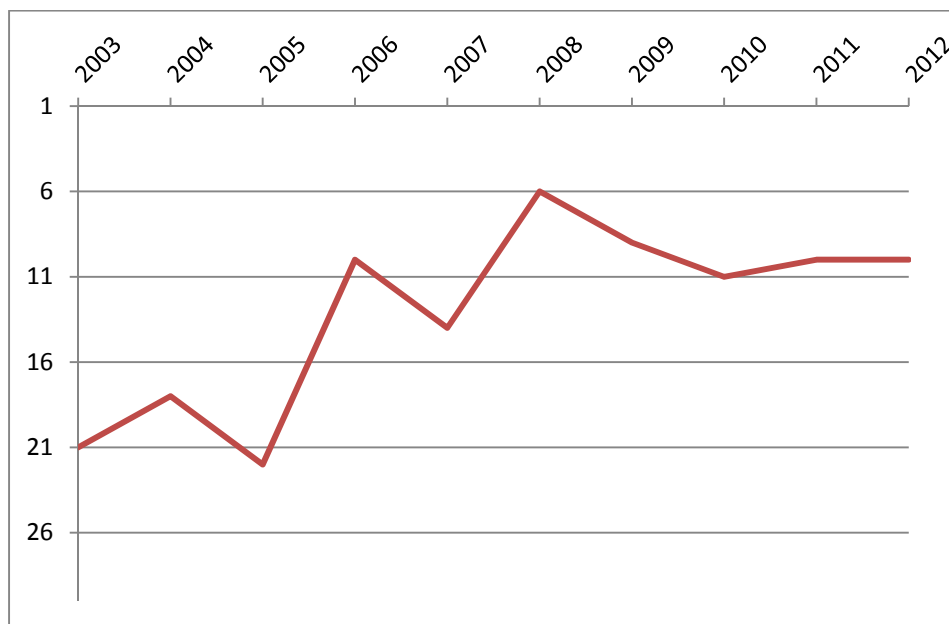
<sup>2</sup> Chapter 29 excludes various types of projects from the fiscal feasibility requirement, including (a) any utilities improvement project by the Public Utilities Commission, (b) projects with more than 75 percent of funding from the San Francisco Transportation Authority, and (c) projects approved by the voters of San Francisco.

The Golden State Warriors’ attendance has averaged more than 18,000 per game each year since the 2005-06 NBA season, peaking at an average attendance of 19,630 for the 2007-08 NBA season, when the team ranked sixth for attendance out of 30 teams. Figures 1 and 2, below, illustrate the team’s per-game attendance and NBA rank in the league for attendance for the past 10 seasons.

**Figure 1. Warriors Average Per-Game Attendance at Oracle Arena**



**Figure 2. Warriors’ Rank in NBA for Home Game Attendance**

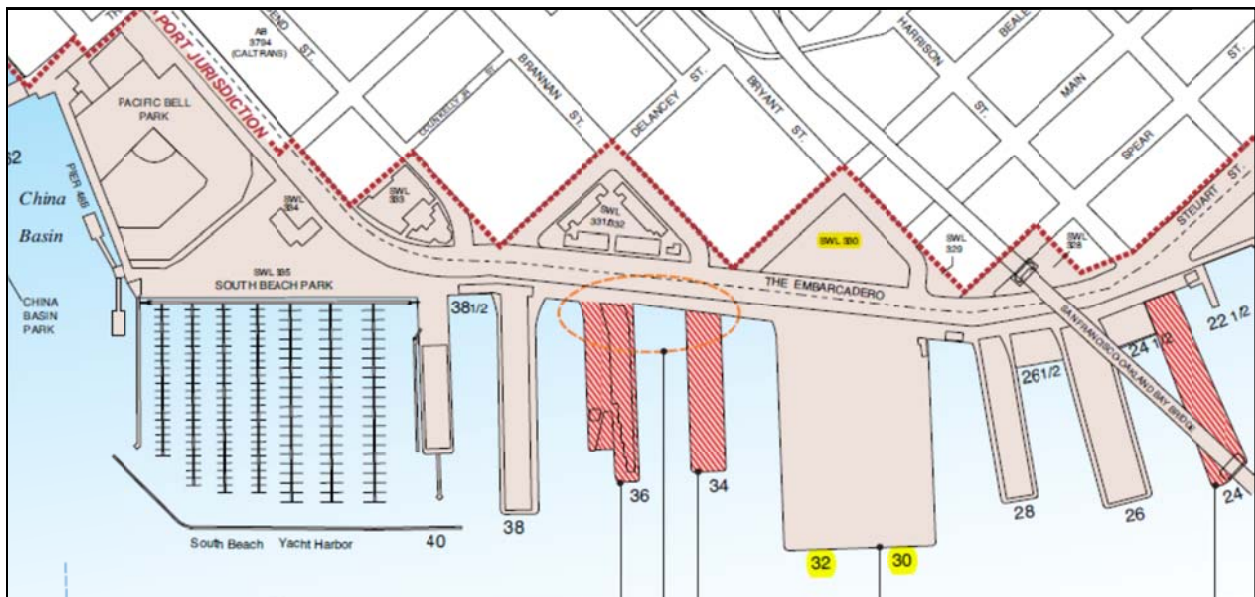


**Pier 30-32 and Seawall Lot 330**

Pier 30-32 is 900 feet long and measures approximately 12.5 acres. The pier is currently used for surface parking, including parking for events at AT&T Park. According to published reports, Pier 30-32 currently has an expected remaining useful life of 10 years. After the 10 year life is expired, the Port would have to either (a) include removal of the piers in a development project at a separate pier which would require increasing the size of such other pier; (b) identify a developer to renovate the pier; or, (c) remove the pier (with the costs of such removal possibly eligible for State or federal grants).

Seawall Lot 330 is a 2.8 acre lot across the Embarcadero from Pier 30-32, of which 0.5 acres were previously sold for the Watermark condominium project, which resulted in the construction of a 137 unit condominium development. The remaining 2.3 acres is currently used for surface parking. Seawall Lot 330 requires little to no infrastructure investment for development, and under certain public trust conditions, the Port may sell Seawall Lot 330 to a private entity. Figure 3, below, shows the location of Pier 30-32 and Seawall Lot 330.

**Figure 3. Waterfront Map Including Pier 30-32 and Seawall Lot 330**



Note: China Basin and AT&T Park (formerly Pacific Bell Park) are shown to the left of the map, with the Bay Bridge is shown to the right. Pier 30-32 and Seawall Lot 330 (SWL 330) are highlighted, right of center.  
 Source: San Francisco Bay Conservation and Development Commission.

Development of Pier 30-32 is subject to state and federal public trust restrictions, including prohibition of the sale of Pier 30-32 by the City. As outlined in the Port’s Final Waterfront Plan, adopted by the Port Commission in 1997, acceptable uses of Pier 30-32 include assembly and entertainment, recreational enterprises, museums, restaurants and other retail establishments, as well as certain types of warehousing and limited office uses. A professional sports facility is not considered an acceptable use of Pier 30-32 under the Final Waterfront Plan. However the Plan does consider AT&T Park, which had not been developed as of the finalizing of the 1997 report,

to be acceptable for the waterfront. Acceptable uses under the Waterfront Plan and necessary modifications are discussed further in the Policy Considerations section below.

Pier 30-32 and Seawall Lot 330 have been subject to several development proposals in the past 20 years, most recently with the America's Cup Event Authority. According to a study produced for the Port by the consulting firm Bay Area Economics (BAE), a 66-year lease of an improved Pier 30-32, with an event Facility, had a value of \$44,715,817, and the fair market value for selling Seawall Lot 330 outright was \$33,050,413.

### **Prior Board of Supervisors Approval**

On June 12, 2012, the Board of Supervisors approved a resolution (File 12-0625) related to the development of Pier 30-32 and Seawall Lot 330, including an athletic arena for the Golden State Warriors. Specifically, the resolution:

- 1) Exempted the potential real estate transaction involving Port property at Pier 30-32 and Seawall Lot 330 with GSW Arena LLC (GSW), an affiliate of the Golden State Warriors, for development of an arena and other facilities from the City's competitive bidding policy;
- 2) Endorsed sole source negotiations with GSW for the purpose of the Development;
- 3) Endorsed the Port Commission's designation of the Office of Economic and Workforce Development (OEWD) as the lead negotiator of the proposed transaction, in coordination with Port staff and subject to the Port Commission's direction;
- 4) Required OEWD and the Port to engage in outreach to affected and interested neighbors, community members, and other stakeholders to ensure that the proposed project is designed with maximum public input;
- 5) Urged OEWD and the Port to work closely with State agencies having jurisdiction over any of the site, including the State Lands Commission and the Bay Conservation and Development Commission, to develop the project description;
- 6) Urged the OEWD Director, the Port Director, and other City officials to make evaluation of the proposed project among their highest priorities and take all appropriate steps to negotiate an exclusive negotiation agreement with GSW; and
- 7) Acknowledged that the City may commence environmental review of the proposed project under the California Environmental Quality Act (CEQA) if and when the Board of Supervisors makes the required findings of fiscal feasibility and responsibility under Administrative Code Chapter 29.

The proposed resolution (File 12-1044), described below, addresses point 7, above, asking the Board of Supervisors to find that the proposed project is fiscally feasible as required under Administrative Code Chapter 29.

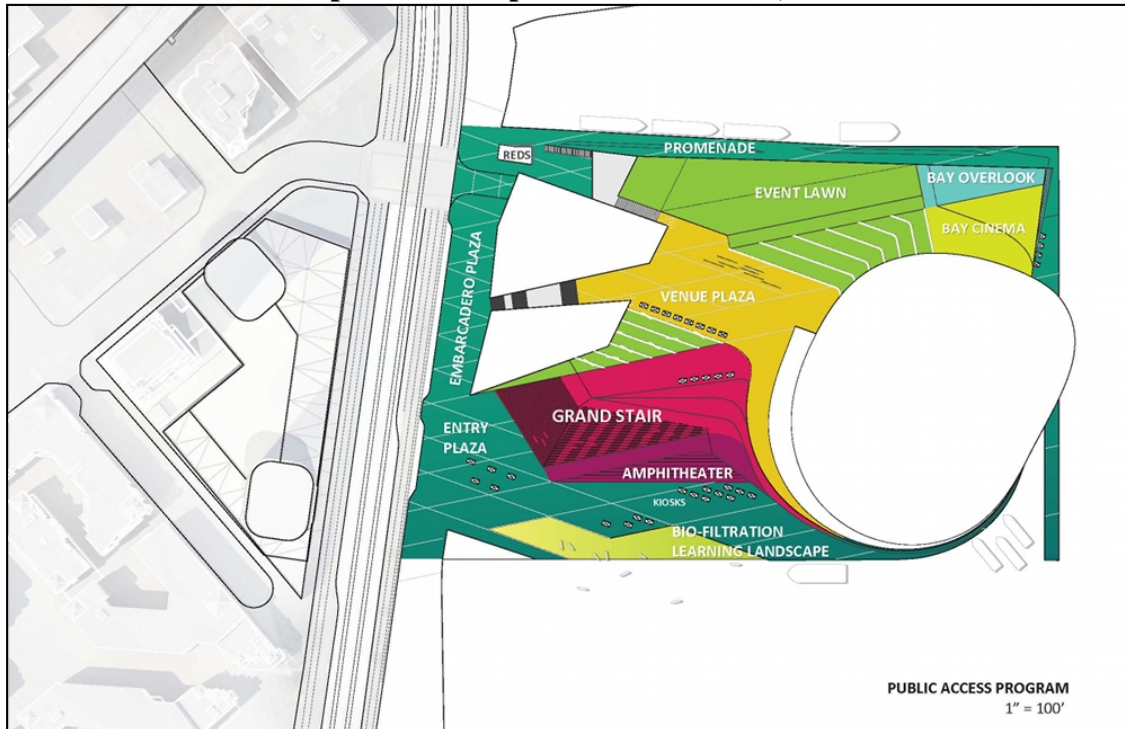


## DETAILS OF PROPOSED DEVELOPMENT

GSW Arena LLC (GSW), an affiliate of the Golden State Warriors basketball team ownership group, has proposed a multi-use development for Pier 30-32 and Seawall Lot 330. The proposed development includes (a) the rehabilitation of Port property at Pier 30-32; (b) the development on Pier 30-32 of a multi-purpose arena for Golden State Warriors home games and other types of events, public open space, maritime use, retail, and related parking; and (c) the development on Seawall Lot 330 residential, hotel, or retail uses and accessory parking. Figure 4, below, is an illustration of the proposed development on Pier 30-32. GSW has not yet released a rendering of the development on Seawall Lot 330.

The Conceptual Framework<sup>3</sup> for the development was completed on October 23, 2012, based on negotiations between the City (OEWD and the Port and GSW. While the Conceptual Framework is not itself subject to Board of Supervisors approval, it will serve as the basis for the Term Sheet, which would be subject to future Board of Supervisors endorsement. Under the Conceptual Framework, the entire development, which is estimated to cost \$1 billion, would be financed and completed by GSW. Costs related to the rehabilitation of Pier 30-32 would be reimbursed to GSW by the Port, up to \$120,000,000, described in greater detail below. No new General Fund expenditures are being proposed.

**Figure 4. Illustration of Proposed Development of Pier 30-32, with Seawall Lot 330 Outline**



Source: Snøhetta & AECOM

<sup>3</sup> The Conceptual Framework is a nonbinding document between the City and GSW, which outlines certain basic business terms of the Proposed Project

Under the Conceptual Framework, the multi-purpose arena would serve as a venue for Golden State Warriors basketball games, concerts, other sporting events (e.g., college sports tournaments), family- and child-oriented events, and fixed-fee rentals (e.g., convention events). The arena would be designed to accommodate between 17,000 and 19,000 patrons, with up to 17,500 patrons for Warriors games, and would be contracted for events with smaller attendance. GSW also plans to build a team practice facility, community room, and event management and team operations space.

The Conceptual Framework assumes up to 205 events per year, including basketball games, other sporting events, concerts, family shows, and fixed-fee rentals (e.g., convention events). Event count, parking, and attendance assumptions are discussed in greater length below.

In addition to the arena, the proposed development would include other improvements and attractions to Pier 30-32, including:

- Waterfront access improvements, including open space;
- Parking facilities (630 parking spaces);
- Retail and restaurants, up to three stories, (105,000 square feet); and
- Maritime access, including:
  - Water taxi, ferry, and tour boat access;
  - Kayaks and other person-powered watercraft access;
  - A new San Francisco Fire Department fire boat storage and fire station; and
  - A back-up deep water berth for large ships.

In total, public access and open space would amount to at least 50% of the improved Pier 30-32 development. Figure 5, below, is an artist's rendering of the arena and Pier 30-32 development.

Development of Seawall Lot 330 under the Conceptual Framework would include retail (33,000 to 34,000 square feet), parking (200 to 300 spaces), residential units (100 to 130 units), and a hotel (200 to 250 rooms) on Seawall Lot 330. While the exact size is to be determined in the term sheet, the current analysis estimates the project at 34,000 square feet of retail, 200 parking spaces, 125 residential units, and a 200-room hotel. The range of uses will be further evaluated in future analysis, as required under the California Environmental Quality Act.

As noted above, GSW envisions completing the development in time for the 2017-18 NBA season.

**Figure 5. Artist's Rendering of Proposed Development of Pier 30-32**



Source: Snøhetta & AECOM

**FISCAL IMPACT**

Under the Conceptual Framework, GSW would lease Pier 30-32 from the Port for 66 years, and GSW would purchase Seawall 30-32 from the Port outright. The Port and the Real Estate Division commissioned an appraisal of the properties by Carneghi-Blum & Partners, Inc. Once improved, the appraised annual fair market rent for a ground lease of Pier 30-32 is estimated to be \$1,970,000, and the fair market sale value of Seawall Lot 330 is estimated to be \$30,400,000.<sup>4</sup>

GSW would be responsible to pay all financing and constructions costs, including costs related to environmental planning processes (CEQA), as well as the costs of any environmental mitigations required under CEQA except those involved in the actual rehabilitation of Pier 30-32. Under the Conceptual Framework, up to \$120,000,000 in construction costs for the rehabilitation of Pier 30-32 would be considered reimbursable by the Port to GSW. The agreement would limit this reimbursement to three sources:

1. Rent credits from the fair market lease of Pier 30-32, totaling an estimated \$1,970,000 per year, plus annual consumer price index (CPI) and/or other market adjustments, to be negotiated;<sup>5</sup>
2. Fair market sale revenues from Seawall Lot 330, totaling an estimated \$30,400,000; and
3. Bond proceeds from an Infrastructure Financing District (IFD) on Pier 30-32 and Seawall Lot 330, totaling an estimated \$60,000,000.

Under the Conceptual Framework, GSW will be entitled to a 13% annual return on the reimbursable constructions costs, or 13%, per year, on up to \$120,000,000. According to Ms. Jennifer Matz, Director of Waterfront Development at OEWD, the Port would attempt to pay as much of the principal construction costs up front as possible, so as to minimize the reimbursable construction costs subject to the 13% annual return (or interest rate). By applying the estimated sales cost of Seawall Lot 330 and IFD bond proceeds, the total outstanding reimbursable construction costs could be reduced by \$90,400,000, to \$29,600,000, to be reimbursed by rent credits from the 66-year Pier 30-32 ground lease. However, because the 13% annual return on \$29,600,000 of \$3,848,000 exceeds the estimated annual fair market rent of \$1,970,000 for the Pier 30-32 ground lease, the value of rent credits over the 66-year lease term are projected to be less than the amount to be reimbursed by the Port to GSW. Under the Conceptual Framework, the Port would not be responsible for reimbursing GSW for construction costs that exceed rent credits for Pier 30-32.

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<sup>4</sup> Carneghi-Blum & Partners, Inc. completed the appraisal for Seawall Lot 330 for this proposed development, as well as the proposed development agreement with the America's Cup Authority. The assessed value of \$30,400,000 is actually a reduction in assessed value from the \$33,050,413 assessment conducted for the America's Cup Authority negotiations.

<sup>5</sup> Under the Conceptual Framework, after 20 years the rent will be re-set to market, based on appraisal, to an amount not less than the initial rent.

According to Ms. Matz, OEWD is considering alternative paydown approaches within the parameters of the Conceptual Framework that would potentially reduce the impact of the proposed 13% annual return.

#### Possible Additional Reimbursements

The Conceptual Framework allows for limited additional construction costs that would be reimbursable by the Port. If the actual estimated cost of the Pier 30-32 rehabilitation is less than the \$120,000,000 Maximum Reimbursable Amount, the City and Port could authorize, under the Term Sheet, additional public benefits at Pier 30-32 that would then be reimbursable by the Port to GSW under the repayment arrangement described above. Furthermore, if following negotiations between the City and Port and GSW, GSW were to construct City or Port facilities on the Pier 30-32 property, those costs would be reimbursable to GSW and the construction costs would not be applied to the \$120,000,000 Maximum Reimbursable Amount. Additionally, if the Port requests revisions to GSW's conceptual design that result in increases to the cost of the Pier 30-32 rehabilitation, the Conceptual Framework would allow for the Maximum Reimbursable Amount to be increased in connection with the increased costs.

#### **City Revenues**

At OEWD's request, the consulting firm Economic & Planning Systems, Inc. (EPS) conducted an analysis on the development's fiscal responsibility and feasibility. In their report issued on October 22, 2012, EPS finds that upon completion of the Pier 30-32 and Seawall Lot 330 development, the City would receive an estimated \$19,003,000 in ongoing annual revenues, including \$13,768,000 in General Fund revenues and \$5,235,000 in dedicated and restricted revenues, shown in Table 1, below. Additionally, EPS estimates that the City would receive \$53,835,000 in one-time revenues, including \$7,704,000 for the General Fund and \$46,131,000 in Development Impact Fees, shown in Table 2, below. Having reviewed the EPS report, the Budget and Legislative Analyst finds these estimates to be reasonable.

**Table 1. Estimated Annual Revenues to the City, Post Build-Out**

| <b>Annual General Fund Revenue</b>                                | <b>Estimated Amount</b> |
|---|-------------------------|
| Property Tax / Possessory Interest                                | \$5,061,000             |
| Property Tax in Lieu of VLF (State Transfer)                      | 1,016,000               |
| Property Transfer Tax   | 60,000                  |
| Sales Tax   | 725,000                 |
| Parking Tax   | 272,000                 |
| Hotel/Motel Tax   | 1,479,000               |
| Stadium Admission Tax (General Fund 67.9%)                        | 2,824,000               |
| On-site Payroll Tax*  | 1,382,000               |
| Off-site Payroll Tax*   | 26,000                  |
| Indirect and Induced Impacts                                      | 923,000                 |
| <b>Subtotal – General Fund Revenue</b>                            | <b>\$13,768,000</b>     |
| <b>Dedicated and Restricted Revenue</b>                           |                         |
| Hotel/Motel Tax (Cultural Programs)                               | \$1,285,000             |
| Parking Tax (MTA 80%)   | 1,087,000               |
| Stadium Admission Tax (Recreation and Parks 32.1%)                | 1,335,000               |
| Special Fund Property Taxes (Children's, Library, and Open Space) | 716,000                 |
| Public Safety Sales Tax   | 362,000                 |
| SF County Transportation Authority Sales Tax                      | 362,000                 |
| Transfer Fees to the Port   | 88,000                  |
| <b>Subtotal – Dedicated and Restricted Revenue</b>                | <b>\$5,235,000</b>      |
| <b>Total Revenue</b>  | <b>\$19,003,000</b>     |

Source:

EPS

\* On November 6, 2012, the voters of San Francisco approved a gross receipts tax that will be phased-in over time as the payroll tax is phased out. Therefore, payroll and gross receipts tax estimates will be revised in the Term Sheet.

### Infrastructure Financing District Proceeds

As is noted above, under the Conceptual Framework, following the completion of development, the property owners would form an IFD for the purpose of directing the new property taxes back to the project. The IFD would then issue a \$60 million IFD Bond, to be repaid with the IFD property tax revenues. Therefore, during the 30 year expected life of the IFD Bond, the \$5,061,000 in estimated new ongoing Property Tax/Possessory Interest General Fund revenues would not be available for the City, reducing the ongoing revenues from \$19,003,000 to \$13,942,000. According to Ms. Matz, this approach assumes that 100% of the new property tax revenues that would otherwise be distributed to the General Fund are earmarked to the IFD;



however, the actual allocation of General Fund revenues under the proposed IFD is subject to future Board of Supervisors approval.

### Stadium Operator Admission Tax Revenues

The analysis prepared by EPS assumes Stadium Operator Admission Tax revenues of \$4,159,000, including \$2,824,000 for the General Fund and an additional \$1,335,000 for the General Fund that represents a part of the tax that historically the Board has annually appropriated to the Recreation and Park Department. However, the EPS report flagged a potential question about the extent to which the City's Stadium Operator Admission Tax applies to ticketed events at the proposed arena, based on the definition of "stadium" in Article 11 of the San Francisco Business and Tax Regulations Code. Deputy City Attorney Ms. Julie Van Nostern notes that there has been no comparable facility in San Francisco since the City adopted the Stadium Operator Admissions Tax. According to Ms. Van Nostern and Treasurer and Tax Collector Policy and Legislative Manager Mr. Greg Kato, the City considers the Stadium Operator Admission Tax applicable to the proposed arena and collectible for basketball games, concerts, and other ticketed events at the arena. However, the Budget Analyst notes that if the Stadium Operator Admission Tax were not to apply to tickets for events at the new arena, then the Stadium Operator Admission Tax annual revenue estimated by EPS from the proposed development would be reduced by \$4,159,000, from \$19,003,000 to \$14,844,000.

Combined, the IFD and Stadium Admission Tax reductions would reduce the estimated annual revenue to \$9,783,000 for 30 year period of IFD Bond repayment.

**Table 2. Estimated One-time Revenues to the City**

| <b>Development Impact Fees</b>                                   | <b>Amount</b>       |
|--|---------------------|
| Jobs Housing Linkage - §413                                      | \$21,926,000        |
| Affordable Housing-- §415  | 8,362,000           |
| Child Care   | 244,000             |
| Transit Impact Development - §411.3                              | 12,808,000          |
| Eastern Neighborhoods – Infrastructure Fee – Tier 1<br>(\$423.3) | 2,791,000           |
| <b>Subtotal: Development Impact Fees</b>                         | <b>\$46,131,000</b> |
| <b>One-time General Fund Revenue</b>                             |                     |
| Sales Taxes During Construction                                  | \$4,062,000         |
| Payroll Tax During Construction                                  | 3,047,000           |
| Property Transfer Tax from initial residential sales             | 595,000             |
| <b>Subtotal: One-time General Fund Revenue</b>                   | <b>\$7,704,000</b>  |
| <b>Total One-Time Revenues</b>                                   | <b>\$53,835,000</b> |

Source: EPS

## **Other City Department Costs**

According to Ms. Matz, while the EPS report cites preliminary cost estimates, the costs to City departments would be determined in the Term Sheet between the City and GSW. The Term Sheet would be subject to Board of Supervisors endorsement, and Ms. Matz estimates that it will be submitted to the Board of Supervisors in the first quarter of 2013. Below are the preliminary departmental cost estimates cited by EPS.

### Municipal Transportation Agency (MTA) Costs

According to the EPS report, the MTA is preparing a comprehensive assessment of services and facilities that will be affected by a number of large planned development projects. Anticipated impacts of the proposed development would include increased transit service during events, possibly through temporary reallocation of existing resources, and traffic control. According to Ms. Matz, the MTA's assessment includes possible use of the E-line, which runs the MTA's historic streetcars along the Embarcadero, from Fisherman's Wharf to the Caltrain depot. The MTA has been experimenting with E-line runs during the 2012 America's Cup preliminary races.

Although specific MTA cost or revenue estimates will not be available until the Term Sheet is drafted in early 2013, for comparison purposes, the MTA estimated gross costs at \$8,292,891 and net costs of \$6,430,228, after accounting for estimated fare revenues of \$1,862,663, for 58 days of America's Cup activities. However, America's Cup attendance is estimated to far exceed the attendance at any events at the proposed development.

### Police Department (SFPD)

Using San Francisco Giants games as a reference, the EPS report notes that providing an SFPD presence at basketball games and concerts, primarily, would not necessarily increase costs. At Giants games, SFPD officers are usually deployed temporarily from existing posts elsewhere in the City, returning to those posts as appropriate following the start of the game. The EPS report assumes that a private security firm will be utilized for maintaining the peace within the arena. According to the EPS report, SFPD representatives have indicated that they would like to work with GSW to ensure that the SFPD has an adequately-sized command post within the arena, and that the development meets specific design and use requirements. Specific SFPD cost estimates will not be available until the Term Sheet is drafted in the first quarter of 2013.

### Department of Public Works (DPW)

The EPS report notes that additional DPW services would be required for the areas surrounding the development, including street and sidewalk sweeping after events. Under the Conceptual Framework, GSW and the Port will work to identify ongoing funding mechanisms to provide for DPW services. However, such funding mechanisms, and DPW cost estimates, will not be available until the Term Sheet is drafted in early 2013.



### Other Costs

Although the proposed development for Pier 30-32 includes at least 50% public access and open space, GSW would be responsible for maintenance of the public space, excluding any possible City facilities, such as Port offices or a SFFD fire boat berth. Furthermore, Ms. Matz notes that the City is currently being reimbursed by GSW for City staff time incurred in the planning of the proposed development.

## **DETAILS OF PROPOSED LEGISLATION AND FISCAL FEASIBILITY ANALYSIS**

The proposed resolution would (a) find that the development project proposed by GSW Arena LLC (GSW), an affiliate of the Golden State Warriors basketball team ownership group is fiscally feasible and responsible under Chapter 29 of the City's Administrative Code; and (b) urge City and Port officials to make evaluating the proposed project among its highest priorities, and to take all appropriate steps to further environmental review of the proposed project.

As discussed in the Mandate Statement Section above, Chapter 29 of the City's Administrative Code requires that certain projects be submitted to the Board of Supervisors for approval of the project's fiscal feasibility prior to submitting the project to the Planning Department for environmental review if: (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA); (b) total project costs are estimated to exceed \$25,000,000; and, (c) construction costs are estimated to exceed \$1,000,000.

Chapter 29 of the City's Administrative Code specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including: (1) direct and indirect financial benefits to the City; (2) construction costs; (3) available funding; (4) long term operating and maintenance costs; and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review.

### **1) Direct and Indirect Financial Benefits to the City**

The proposed development at Pier 30-32 and Seawall Lot 330, including (a) the rehabilitation of Port property at Pier 30-32; (b) the development on Pier 30-32 of a multi-purpose arena for Golden State Warriors home games and other types of events, public open space, maritime use, retail, and related parking; and (c) the development on Seawall Lot 330 residential, hotel, or retail uses and accessory parking, would provide: (1) direct financial benefits to the City through increased tax and fee revenues; and (b) indirect financial benefits, including one-time and ongoing employment benefits for San Francisco residents and revenues for firms serving the construction industry.

Significant changes in any of these variables, such as a significant reduction in the number of events at the proposed multi-purpose arena, would affect the estimated benefits of the proposed development. Furthermore, as is discussed above, the estimated benefits of the proposed

development would be affected if the City is found to be legally unable to levy the City's Stadium Admission Tax on tickets for events at the multi-purpose arena.

### Direct Benefits

As is noted in Tables 1 and 2 above, EPS estimated that the proposed development would generate \$19,003,000 in annual taxes and fees to the City and an additional \$53,835,000 in one-time taxes and fees. If the Stadium Operator Admission Tax were not to apply to tickets for events at the new arena, then the estimated annual revenue from the proposed development would be reduced by \$4,159,000 from \$19,003,000 to \$14,844,000. Additionally, IFD Bond payments would reduce the estimated annual revenue to \$9,783,000 for the estimated 30 year period of IFD Bond repayment (or to \$13,942,000 under the assumption that the City collects the full amount of the Stadium Operator Admission Tax).

### Indirect Benefits

The EPS report estimates that the proposed development would generate indirect financial benefits from additional payroll tax revenue. However, due to the approval by San Francisco voters on November 6, 2012 of a new gross receipts tax to replace the existing payroll tax will necessitate new estimates of gross receipts tax revenues for the Term Sheet.

## **2) Construction Costs to the City**

As discussed above, the total cost of rehabilitating Pier 30-32 is estimated to be \$120,000,000. The financing and construction of this rehabilitation would be undertaken by GSW, to be reimbursed by the Port up to a maximum of \$120,000,000, plus a 13% annual return on the reimbursable construction costs. All pre-construction costs, including CEQA requirements, would be the responsibility of GSW and would not be subject to reimbursement from the Port. The City would not incur any construction costs on the improved Pier 30-32 and Seawall Lot 330, unless it was determined that the City negotiated the inclusion of City facilities, such as an SFFD fire boat berth, on that development.

## **3) Available Funding**

As discussed above, reimbursement of the maximum \$120,000,000 in Pier 30-32 rehabilitation construction costs, plus 13% annual return, is limited to three sources:

1. Rent credits from the fair market lease of Piers 30-32, totaling an estimated \$1,970,000 per year;
2. Fair market sale revenues from Seawall Lot 330, totaling an estimated \$30,400,000; and
3. Bond proceeds from an Infrastructure Financing District (IFD) on Piers 30-32 and Seawall Lot 330, totaling an estimated \$60,000,000.

## **4) Ongoing Maintenance and Operating Costs**

Ongoing maintenance and operating costs for the proposed development would be incurred by GSW rather than the Port or any other City agency. As noted above, new DPW costs are

expected to maintain streets and sidewalks surrounding the development, and ongoing funding options for these costs are being explored by OEWD, the Port, and GSW. In addition, the MTA and SFPD may also incur additional operations costs; however those costs have not yet been determined.

### **5) Debt Load**

As noted above, under the Conceptual Framework, the Port would be liable to reimburse GSW for a maximum of \$120,000,000 for Pier 30-32 rehabilitation costs, plus 13% annual return. In the event that any debt remained at the end of the 66 year lease, the Port would not be required to pay any remaining debt to GSW.

### **Conclusion**

The proposed development at Pier 30-32 and Seawall Lot 330, including (a) the rehabilitation of Port property at Pier 30-32; (b) the development on Pier 30-32 of a multi-purpose arena for Golden State Warriors home games and other types of events, public open space, maritime use, retail, and related parking; and (c) the development on Seawall Lot 330 residential, hotel, retail uses, and accessory parking, would provide the following estimated fiscal impacts: (1) One-time financial benefits to the City of up to \$53,835,000; (2) Direct ongoing annual financial benefits of between \$9,783,000 and \$19,003,000; (3) Undetermined indirect financial benefits from gross receipt tax revenue; (4) Up to \$120,000,000 in private construction expenditures for the rehabilitation of Pier 30-32; (5) Reimbursement by the Port to GSW of those private construction expenditures through the use of (a) up to 66 years of annual rent credits for Pier 30-32, valued at \$1,970,000 per year, (b) the transfer of Seawall Lot 330 from the Port to GSW, valued at \$30,400,000, and (c) 30 years of foregone General Fund property tax revenue which would be used to repay a \$60 million IFD bond; (5) No new ongoing maintenance costs for the Port; and (6) Undetermined new street and sidewalk maintenance costs for DPW, for which funding options are being explored by OEWD, the Port, and GSW.

Based on these criteria, the Budget and Legislative Analyst finds the proposed development fiscally feasible under Chapter 29 of the City's Administrative Code. As noted above, in accordance with Administrative Code Chapter 29, the finding of "fiscal feasibility" means only that the project merits further evaluation and environmental review. If the proposed resolution is approved by the Board of Supervisors, the City will be authorized to commence environmental review of the project under CEQA.

## **POLICY CONSIDERATIONS**

### **GSW Assumes 205 New Events Per Year at the Proposed Multi-Use Arena, Including up to 50 Golden State Warriors Games and 155 Other Scheduled Events**

For the purpose of EPS analysis of the fiscal impacts of the proposed development, GSW assumed 205 events per year at the proposed multi-use arena, with a total attendance of nearly 2,000,000 individuals annually, as shown in Table 3 below. According to Ms. Matz, the economic viability of the proposed multi-purpose arena depends on the arena hosting a variety of events in addition to Golden State Warriors games.

**Table 3. 205 Annual Events, including Attendance and Parking**

| <b>Event Type</b>         | <b>Annual Events</b> | <b>Estimated Average Turnstile Attendance</b> | <b>Parking Spaces Demanded per Event</b> |
|---------------------------|----------------------|---|--|
| Warriors Basketball Games | 50                   | 14,875  | 2,975                                    |
| Concerts                  | 45                   | 11,700  | 2,089                                    |
| Other Sporting Events     | 30                   | 6,300   | 1,125                                    |
| Family Shows              | 50                   | 5,400   | 675                                      |
| Fixed Fee Rentals         | 30                   | 8,100   | 2,700                                    |
| <b>Total</b>              | <b>205</b>           | <b>1,972,250</b>                              |  |

Source: EPS

The impacts of this number of events on parking, traffic, and other considerations would be further explored in the completion of the project's environmental impact report.

### **The Proposed Development Would Require Amendments to the City's Waterfront Plan and Zoning Laws**

As noted above, the Port's Final Waterfront Plan, adopted by the Port Commission in 1997, does not identify a professional athletic facility as an acceptable use of Pier 30-32, although assembly and entertainment, recreational enterprises, museums, restaurants and other retail establishments, as well as certain types of warehousing and limited office uses are acceptable uses. In addition, the City's Zoning Map limits developments on Pier 30-32 to a 40-foot height limit. According to Assistant Director of Waterfront Planning for the Port, Ms. Diane Oshima, for the proposed development to proceed as described under the Conceptual Framework, the Port Commission would need to approve amendments to the City's Waterfront Plan, and the City's Planning Commission and Board of Supervisors would need to approve amendments to the City's Zoning Map.

### **Environmental Impact Assessments, Transfer of Port Property, and Development Agreements Are Subject to Future Board of Supervisors Review and Approval**

Approval of the proposed resolution by the Board of Supervisors, finding that the proposed project is fiscal feasible, is required for OEWD, the Port, and GSW to proceed with environmental review. The proposed resolution does not authorize any transfer of property or and does not approve a development agreement. If the subject resolution is approved, OEWD would proceed with the drafting of a development term sheet, based on the Conceptual Framework, and the term sheet would be subject to Board of Supervisors endorsement. CEQA findings and possible zoning changes would also be subject to future Board of Supervisors review and approval.

**RECOMMENDATION**

Based on the review of the Conceptual Framework for the proposed development at Pier 30-32 and Seawall Lot 330, and the supporting fiscal and economic analysis provided by the Port and OEWD, the Budget and Legislative Analyst finds that the proposed development is fiscally feasible. As noted above, in accordance with Administrative Code Chapter 29, the finding of “fiscal feasibility” means only that the project merits further evaluation and environmental review. If the proposed resolution is approved by the Board of Supervisors, the City will be authorized to commence environmental review of the project under CEQA.

**Item 8**  
**File 12-1006**

**Departments:**  
Department of Public Health (DPH) and  
Real Estate Division (RED)

## EXECUTIVE SUMMARY

### Legislative Objective

- The proposed resolution would approve the exercise of the first of two ten-year options to extend the master lease between the Department of Public Health (DPH), as tenant, and Sonali Holdings, LLC, as landlord, for the Star Hotel at 2176-78 Mission Street from December 5, 2012 through December 4, 2022.

### Key Points

- The Star Hotel provides 54 single-room occupancy (SRO) residential units for low income adults participating in DPH's Direct Access to Housing Program, a permanent supportive housing program for formerly homeless adults and adults with mental and medical conditions. The Board of Supervisors previously approved the original master lease for the Star Hotel, located at 2176-78 Mission Street, for ten years, from December 5, 2002 through December 4, 2012, with two ten-year options to extend the lease. The Star Hotel master lease consists of 10,770 square feet, including, storage, office space and 54 SRO residential units.

### Fiscal Impacts

- The proposed monthly rent from December 5, 2012 through December 4, 2013 would be \$32,363 (\$388,356 for 12 months) (approximately \$3.00, for the first year, per square foot per month for 10,770 square feet), which is \$943 or 3.0% more than the prior monthly rent of \$31,420 (approximately \$2.92 per square foot per month) from December 5, 2011 through December 4, 2012. Under the master lease, rent would be increased each year based on the Consumer Price Index (CPI), ranging from a minimum of 3.0% to a maximum of 6.0%. Annual rent in FY 2012-13 is \$388,357.
- In addition to the first year annual rent of \$388,356, DPH incurs annual (1) property management costs of \$511,797 for utilities, maintenance, janitorial services, and 24-hour front desk coverage, and (2) DPH staff costs of \$192,822 for supportive services. First year costs for rent, property management, and supportive services, totals \$1,092,975. Such costs are partially offset by an estimated \$176,744 in tenant rent, resulting in first year net General Fund costs to DPH of an estimated \$916,231.

### Recommendation

- Approve the proposed resolution.

## MANDATE STATEMENT / BACKGROUND

### Mandate Statement

Under Administrative Code Section 23.27, leases with a term of more than one year or rent of more than \$5,000 per month, in which the City is the tenant, are subject to the Board of Supervisors approval, by resolution.

### Background

In 2002, the Board of Supervisors approved a new master lease between the Department of Public Health (DPH), as tenant, and Sonali Holdings, LLC, as landlord, for the Star Hotel, located at 2176-78 Mission Street. Under the master lease, the Star Hotel provides 54 single-room occupancy (SRO) residential units to low income adults participating in DPH's Direct Access to Housing Program, a permanent supportive housing program for formerly homeless adults and adults with mental and medical conditions, including HIV/AIDS and substance abuse.

The original lease was for 10 years, from December 5, 2002 through December 4, 2012, with two 10-year options to extend.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first of the two 10-year options to extend the master lease, as follows:

**Table 1: Summary of Proposed Extended Lease Terms**

|   |   |
|---|---|
| Term                                      | 10 years (December 5, 2012 through December 4, 2022)  |
| Square feet (approximate)                 | 2,470 (first floor for office space, storage, and kitchen)<br><u>8,300</u> (floors two through three for 54 SRO units and laundry facilities)<br>10,770 |
| Rent per square foot per month (year one) | Approximately \$3.00  |
| Total rent per month (year one)           | \$32,363  |
| Total annual rent (year one)              | \$388,356   |
| Annual rent increases                     | Annual CPI adjustments to the base rent on December 5 of each subsequent year, which would increase at no less than 3% and no more than 6%              |
| Utilities and services                    | Utilities and janitorial services paid by the City  |

The master lease would continue to provide 54 SRO residential units to formerly homeless adults and adults with mental and medical conditions in DPH's Direct Access to Housing Program. DPH will continue to contract property management, under a separate agreement, with

Delivering Innovations in Supportive Housing (DISH), a project of the non-profit Tides Center.<sup>1</sup> Support services are provided by DPH's Housing and Urban Health Program.

## FISCAL IMPACTS

Under the proposed master lease extension, and as shown in Table 2 below, the monthly base rent of \$32,363 (\$388,356 for 12 months) payable by DPH to Sonali Holdings, LLC, would increase by approximately \$943 or 3.0% from the current monthly rent of \$31,420 under the existing master lease. According to Ms. Claudine Venegas, Real Estate Division Senior Real Property Officer, the proposed monthly rent is based on the Consumer Price Index (CPI) adjustment for the period from December 2012 through December 2013, in accordance with Section 4.2 of the Master Lease.

**Table 2: Comparison of Rent under the Prior Master Lease and the Proposed Master Lease Extension**

| <b>Rent</b>                               | <b>Rent per square foot per month</b> | <b>Total rent per month</b> |
|---|---------------------------------------|-----------------------------|
| December 5, 2012 through December 4, 2013 | \$3.00                                | \$32,363                    |
| December 5, 2011 through December 4, 2012 | \$2.92                                | \$31,420                    |
| Increase                                  | \$0.09                                | \$943                       |
| Percent                                   | Approximately 3.0%                    | 3.0%                        |

The first year annual rent of \$388,356 is funded by General Fund monies previously appropriated by the Board of Supervisors in the FY 2012-13 DPH budget.

### *Property Management and Supportive Service Costs*

In addition to rent, DPH incurs costs for (1) property management and (2) supportive services.

DPH has a three year contract with the nonprofit Tides Center's Delivering Innovations in Supportive Housing (DISH) program, from July 1, 2010 to June 30, 2013, selected through a competitive request for proposals, to provide property management services at the Star Hotel. These services include 24 hour per day front desk coverage, maintenance, janitorial, utilities, and other property management costs, for a first year General Fund costs of \$511,797.

In addition, DPH staff, including one Licensed Clinical Social Work and two Case Managers, provides supportive services to Star Hotel tenants, at a first year cost of \$311,004. Approximately 38% of DPH's eligible supportive services costs are reimbursable by MediCal, resulting in first year General Fund costs of \$192,822 for supportive services (\$311,004 less \$118,182).

<sup>1</sup> According to DPH staff, DPH and DISH are in the third year of a three-year agreement, and would need Board of Supervisors approval to extend the term of the agreement.



As shown on Table 3 below, DPH's total first year General Fund costs for the Star Hotel master lease, property management, and supportive services are \$1,092,975, with total costs, net of tenant rent payments, at \$916,231.

*Tenant Rent*

DPH charges Direct Access to Housing tenants, including Star Hotel tenants, 50% of their income for housing and supportive services<sup>2</sup>. DPH estimates that Star Hotel tenants pay rent of approximately \$176,744 per year, which DPH uses to offset property management costs.

**Table 3: Total Estimated Star Hotel First Year General Fund Costs from December 4, 2012 through December 5, 2013**

| Cost Category                                    | Monthly Amount  | Annual Amount    |
|--|-----------------|------------------|
| Master Lease Rent                                | \$32,363        | \$388,356        |
| Property Management                              | 42,650          | 511,797          |
| Supportive Services                              | 25,917          | 311,004          |
| Less Supportive Services – MediCal Reimbursement | <u>(9,848)</u>  | <u>(118,182)</u> |
| Subtotal   | \$91,082        | \$1,092,975      |
| Tenant Rent Payments                             | <u>(14,729)</u> | <u>(176,744)</u> |
| <b>Net Total Costs</b>                           | <b>\$76,353</b> | <b>\$916,231</b> |
| Average Cost per Tenant (for 54 Tenants)         | \$1,414         | \$16,967         |

As shown in Table 3 above, the average cost per tenant per month is \$1,414. Total net General Fund costs of \$916,231 are included in DPH's FY 2012-13 budget.

## RECOMMENDATION

Approve the proposed resolution.

<sup>2</sup> Star Hotel tenants generally have incomes of less than 20% of the 2012 area median income of \$72,000, or approximately \$14,400 per year.

|  |  |
|--|--|
| <b>Item 9</b><br><b>File 12-1115</b>   | Department:<br>Real Estate Division<br>Department of Administrative Services |
| <b>EXECUTIVE SUMMARY</b>   |  |
| <p style="text-align: center;"><b>Legislative Objectives</b></p> <p>Request to release \$213,819 of funds previously placed on Budget and Finance Committee reserve for relocation costs of the Department of Administrative Services ReproMail and Mail Services (ReproMail) from its current location at 875 Stevenson Street to its new location at 110 12<sup>th</sup> Street. However, since the remaining balance of reserved funds is \$213,819, the Real Estate Division is requesting a revised amount of \$213,819 to be released instead of \$213,307.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In FY 2006-07 the Board of Supervisors placed \$800,000 on Budget and Finance Committee reserve for building structure and improvements pending the move of various City agencies from the leased space at 875 Stevenson Street. The Budget and Finance Committee previously approved the release of \$586,181 of the reserved funds, leaving a balance of \$213,819 on reserve.</li> <li>• On November 6, 2012, the Board of Supervisors approved (1) Amendment #4 of the City's lease agreement for 875 Stevenson Street (File No. 12-1047), terminating the lease with SRI Nine Market Square on February 4, 2013, which includes the first floor lease, occupied by the Department of Administrative Services ReproMail and a termination payment of \$3,250,000 from SRI Nine Market Square to the City because of the landlord's request to take back the leased space; and (2) a new ten-year lease (File No. 12-1046) between the City and St. James Family Partnership L.P., for 10,469 square feet at 110 12<sup>th</sup> Street (at 12<sup>th</sup> Street and Van Ness) for use by ReproMail from February 1, 2013 through January 31, 2023, with two five-year options to extend.</li> <li>• According to Mr. John Updike, Director of Property, relocation of ReproMail from 875 Stevenson Street to 110 12<sup>th</sup> Street is estimated to cost \$214,210, which includes the cost to physically move the ReproMail equipment, and connect 110 12<sup>th</sup> Street to the nearest City fiber optic hub. The physical move of the ReproMail will require the relocation of heavy equipment that requires special treatment due to size, weight and calibration issues.</li> </ul> <p style="text-align: center;"><b>Fiscal Impacts</b></p> <ul style="list-style-type: none"> <li>• The current estimated budget of \$214,210 is \$391 more than the revised requested release of reserved funds of \$213,819. According to Mr. Updike, any differential between the requested amount of \$213,819 and the estimated total relocation costs of \$214,210 would be paid from the \$3,250,000 termination payment noted above.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the revised requested release of \$213,819 on reserve.</li> </ul> |  |

## MANDATE STATEMENT

Section 3.3 of the City's Administrative Code provides that the committee of the Board of Supervisors that has jurisdiction over the budget (i.e., Budget and Finance Committee) may place requested expenditures on reserve which are then subject to release by the Budget and Finance Committee.

## BACKGROUND

In the FY 2006-07 Annual Appropriation Ordinance, the Board of Supervisors placed \$800,000 on reserve for building structure and improvements pending the move of various City agencies from the leased space at 875 Stevenson Street. The \$800,000 reserved funds were budgeted for relocation if the option to extend the lease at 875 Stevenson Street beyond November 2007 was not exercised; subsequently, the City exercised partial termination of the lease in 2008. To date, the Board of Supervisors has approved release of \$586,181 of the \$800,000 reserved, leaving \$213,819 on reserve.

On November 6, 2012, the Board of Supervisors approved Amendment #4 of the City's lease agreement for 875 Stevenson Street (File No. 12-1047) terminating the lease with SRI Nine Market Square on February 4, 2013, which includes a termination payment of \$3,250,000 to the City because of the landlord's request to take back the leased space. The City's lease agreement with SRI Nine Market Square includes a portion of the first floor and the entire third and fourth floors of 875 Stevenson Street to provide office space for five City departments: Department of Administrative Services ReproMail<sup>1</sup>, Department of Public Works (DPW), General Services Agency (GSA) Human Resources, Treasurer/Tax Collector's Office, and Assessor/Recorder's Office. The termination of the lease on February 4, 2012, includes the first floor lease, which is occupied by the Department of Administrative Services ReproMail on a month-to-month holdover option; however, SRI Nine Market Square agreed to a termination date of February 4, 2012 as is consistent with the terms of the rest of the building.

On November 6, 2012 the Board of Supervisors approved a new ten-year term lease (File No. 12-1046) with St. James Family Partnership L.P., for 10,469 square feet at 110 12<sup>th</sup> Street (at 12<sup>th</sup> Street and Van Ness) for use by ReproMail from February 1, 2013 through January 31, 2023, with two five-year options to extend. According to Mr. John Updike, Director of Property, ReproMail will be the sole tenant at 110 12th Street, which is a two-story building with a small enclosed parking area that allows for (a) the print operations to be primarily on the lower level of the building to accommodate large printing machines that require a powerful heating system and ventilation system; (b) easy vehicular access; (c) reasonable proximity to the Civic Center; and (d) offices on the 2nd level.

Under the previously approved resolution, the estimated rent for the five remaining months in FY 2012-13 is \$156,816.

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<sup>1</sup> ReproMail is the Reprographics and Mail Services of the Department of Administrative Service's Office of Contract Administration and is an industrial print shop does all printing services for the city and county.

## DETAILS OF PROPOSED LEGISLATION

The Real Estate Division of the General Services Agency is requesting the release of \$213,307 on reserve to pay the costs of the relocation of the ReproMail from 875 Stevenson Street to 110 12<sup>th</sup> Street. However, since the remaining balance of reserved funds is \$213,819, the Real Estate Division is now requesting a revised amount of \$213,819 to be released instead of \$213,307.

According to Mr. Updike, the City's cost to relocate ReproMail includes the cost to physically move the operation from 875 Stevenson to 110 12<sup>th</sup> Street, as well as the cost to create connectivity with the nearest fiber hub<sup>2</sup>. The physical move of the ReproMail operations to the new facility at 110 12<sup>th</sup> Street will require the relocation of heavy equipment that requires special treatment due to size, weight and calibration issues. The heavy equipment will have to be dismantled before relocation and reconstructed and recalibrated following relocation.

## FISCAL IMPACTS

The Budget and Finance Committee previously approved the release of previously reserved funds of \$586,181 of the \$800,000 on reserve for the costs associated with the termination of the 875 Stevenson Street lease, leaving a balance of \$213,819 on reserve.

According to Mr. Updike, the exact budget for the ReproMail relocation from 875 Stevenson Street to 110 12<sup>th</sup> Street has not yet been determined, but total current estimated needed expenditures are \$214,210 as shown in Table 2.

|  |   |
|--|---|
| Fiber Optic Connection to the City Network | \$19,960  |
| Physical relocation – 1st Floor *          | \$173,250<br>(\$33 per Square Foot for 5,250 Square Feet) |
| Physical relocation – 2nd Floor **         | \$21,000<br>(\$4 per Square Foot for 5250 Square Feet)    |
| <b>Total</b>                               | <b>\$214,210</b>  |

\* The majority of the heavy equipment requiring specialty treatment due to size, weight and calibration issues are to be located on the first floor. According to Mr. Updike, based on prior estimates, \$33 per square foot is a reasonable estimate for the dismantling, relocation, reconstruction, calibration, and data/power connections required to be operational at the new location.

\*\* The second floor is primarily standard office, and Mr. Updike reports a cost of \$4 per square foot is reasonable to address a relocation of an office environment based on past City relocations.

<sup>2</sup> According to Mr. Updike, the fiber hub is the connection, via fiber optics, of the new facility at 110 12<sup>th</sup> Street, to the nearest available point in the street with the City's fiber optic network for internet connectivity, which will also facilitate the conversion of the City's phone system to Voice Over Internet Protocol (VOIP).

The current estimated budget for the ReproMail relocation to 110 12th Street of \$214,210 is \$391 more than the revised requested amount for the release of reserved funds of \$213,819. Mr. Updike states that any differential between the revised requested amount of \$213,819 and the estimated total need of \$214,210 would be paid from the termination payment of \$3,250,000 from SRI Nine Market Square (owners of 875 Stevenson).

## **RECOMMENDATION**

Approve the revised requested release of \$213,819 on reserve.

**Items 10 and 11  
Files 12-0989 and  
12-0963**

**Department:**  
Office of Economic and Workforce Development,  
Department of Public Works  
Treasurer/Tax Collector  
Department of Elections  
Controller's Office of Public Finance

## EXECUTIVE SUMMARY

### Legislative Objective

- File 12-0989: The proposed resolution would (a) declare the Board of Supervisors intention to establish the Moscone Expansion District, a business improvement district and to levy a multi-year assessment on defined hotel businesses in the District; (b) approve the Management District Plan; (c) order and set a time and place for a public meeting and a public hearing; (d) approve the form of the Notice of Public Meeting and Public Hearing and Assessment Ballots; and (e) direct the Clerk of the Board of Supervisors to give notice of the public meeting and public hearing.
- File 12-0963: The proposed ordinance would amend the Business and Tax Regulation Code Article 15 "Business Improvement Districts Procedure Code" to (a) provide for a district term of up to 40 years when assessments are pledged or applied to pay for obligations of the City; (b) authorize the Board of Supervisors to require a weighted 2/3 vote (based on ballots cast) of business owners to be assessed, as an alternative or an additional procedure for establishing a business improvement district and levying assessments; and (c) clarify existing provisions and update references to State law.

### Fiscal Impacts

- The Department of Public Works estimates the Moscone Convention Center Expansion Project will cost up to \$500 million and extend for approximately five years.
- To fund the \$500 million Moscone Convention Center Expansion Project, the City would use available and proposed Moscone Expansion District (MED) hotel assessment funds and City funds, through the issuance of Certificates of Participation (COPs) in 2017 for 30 years, at a conservative 6% interest rate. The total estimated \$994,538,000 cost for the Certificates of Participation (COPs) includes \$482,735,000 of principal and \$511,803,000 of interest over 30 years. The Board of Supervisors would be required to approve a subsequent resolution to issue the estimated \$482,735,000 Moscone Convention Center Expansion COPs.
- The total \$994,538,000 Moscone Convention Center Expansion cost would be repaid with (a) an estimated total of \$929,710,000 from annual MED assessments from 2013 through 2045 assuming a 1.25% hotel assessment rate in Zone 1 and a .3125 hotel assessment rate in Zone 2, and (b) a total of \$297,304,000 of annual City General Fund contributions from 2019 through 2047, ranging from \$8,200,000 to \$10,700,000 per year. The City would also be obligated to fund any annual shortfall to finance debt service, which would be repaid from future annual MED hotel assessment surpluses.

### Policy Consideration

- The existing TID that levies an assessment on the same tourist hotels and directs funds to the Moscone Center renovation expansion will overlap with the proposed MED for a period of up to six months (earliest commencement date of July 1, 2013 through December 31, 2013).

### Recommendations

- Approve the proposed ordinance (File 12-0963).
- Amend the proposed resolution (File 12-0989) on page 6, line 13 to reflect the revised estimated \$19,332,000 of hotel assessments to be collected in FY 2013-14, the first year of the proposed new Moscone Expansion District, instead of \$21,045,500.
- Amend the proposed resolution (File 12-0989) on page 6, line 17 to state that the total maximum assessment that could be collected for the entire 32-year term of the proposed new Moscone Expansion District (MED) would be \$5,766,814,000, instead of \$6,458,235,000.
- Approve the proposed Amendment of the Whole (File 12-0989), which will be introduced at the November 14, 2012 Budget and Finance Committee Meeting to include the specific City commitments that are specified in the revised MED Management District Plan that are not included in the proposed resolution.
- Approval of the proposed resolution (File 12-0989), as amended, is a policy decision for the Board of Supervisors.

## MANDATE STATEMENT / BACKGROUND

### Mandate Statement

In accordance with Section 2.105 of the City's Charter, any amendments to the City's Business and Tax Regulations Code are subject to approval by ordinance of the Board of Supervisors.

In accordance with California Government Code Section 53753, and the California Property and Business Improvement District Law of 1994 (Part 7 of Division 18 of the California Streets and Highway Code, commencing with Section 36600), augmented by Article 15 of the City's Business and Tax Regulations Code, the Board of Supervisors may initiate proceedings to establish a property and/or business improvement district and levy assessments on such properties and/or businesses for specified periods of time, when certain requirements are met.

### Background

#### Community Benefit Districts

Property or business improvement districts, referred to as Community Benefit Districts, are defined geographical areas within which property owners or business owners vote to approve self-assessments to fund additional services. The additional property or business improvement

district funded services supplement various services provided by the City and can include additional capital improvements, cleaning and safety measures, beautification, marketing and a variety of other services to develop and promote the area. The funds from these property or business improvement districts are administered by non-profit organizations that are established by (a) the steering committee members who lead the formation of the district, or (b) the property and/or business owners who are assessed within the district, subject to the Board of Supervisors approval of agreements between the City and the non-profit organization.

The City's Office of Economic and Workforce Development's (OEWD) Community Benefit Districts Program oversees the City's property and business improvement districts. According to Ms. Lisa Pagan, Project Manager for OEWD, the existing 12 San Francisco Community Benefit Districts (CBD), previously approved by the Board of Supervisors, include: (1) Castro/Upper Market, (2) Central Market, (3) Civic Center, (4) Landside - Fisherman's Wharf, (5) Portside - Fisherman's Wharf, (6) Mission Miracle Mile, (7) Noe Valley, (8) Ocean Avenue, (9) North of Market/Tenderloin, (10) Union Square, (11) Yerba Buena, and (12) Tourism Improvement.

### **Existing Tourism Improvement District**

In 2008, the Board of Supervisors approved a Community Benefit District, entitled the San Francisco Tourism Improvement District (TID), to cover all tourist hotels, including hotels, motels, bed and breakfasts, etc. that generate revenue from tourist rooms in the City and County of San Francisco for the 15-year term from January 1, 2009 through December 31, 2024. The TID is divided into the following two zones based primarily on geographic proximity to the Moscone Convention Center and access to regional and City transportation infrastructure:

Zone 1: includes all tourist hotels on or east of Van Ness Avenue or South Van Ness Avenue and north of 16<sup>th</sup> Street from South Van Ness to the Bay;

Zone 2: includes all tourist hotels west of Van Ness Avenue and South Van Ness Avenue and tourist hotels south of 16<sup>th</sup> Street (see Attachment I).

As shown in Table 1 below, for the first five years of the TID term (January 1, 2009 through December 31, 2013) Zone 1 tourist hotels are assessed 1.5 percent of the hotel's gross revenues and Zone 2 tourist hotels are assessed 1 percent of the hotel's gross revenues. In years 6-15 of the TID term (January 1, 2014 through December 31, 2024) the tourist hotels in Zone 1 will be assessed 1 percent of the hotel's gross revenues and tourist hotels in Zone 2 will be assessed 0.75 percent of the hotel's gross revenues.

**Table 1: Existing Tourism Improvement District (TID) Assessment Rates**

|   | Zone 1                  | Zone 2                  |
|---|-------------------------|-------------------------|
| Years 1-5<br>(January 1, 2009 – December 31, 2013)  | 1.5 % of gross revenues | 1% of gross revenues    |
| Years 6-15<br>(January 1, 2014 – December 31, 2024) | 1% of gross revenues    | 0.75% of gross revenues |



For the first five years of the TID term, (a) two-thirds of the assessments are allocated to hotel-specific marketing and sales programs, and the associated operational costs of the San Francisco Travel Association (SF Travel)<sup>1</sup> and the non-profit San Francisco Tourism Improvement District Management Corporation (SFTIDMC), which manages the TID; and (b) one-third of the assessments are allocated to the renovation and upgrade of the Moscone Convention Center and for planning, engineering, design and entitlements for the possible expansion of the Moscone Convention Center. In years 6-15 of the TID, the assessments will only be allocated to hotel-specific marketing and sales programs, and the associated operational costs of SF Travel and SFTIDMC, and no funds would be allocated to the Moscone Convention Center renovations.

As shown in Attachment II, provided by Ms. Lynn Farzaroli, TID Program Director, SF Travel, in FY 2012-2013, the TID is projected to assess and collect from the hotels in the TID between \$25,720,000 and \$28,120,000 in annual revenues and these revenues are anticipated to be used for (a) \$16,885,000 to \$18,490,000 for SF Travel marketing, operations, promotions, and administrative support, and contingencies, (b) \$8,335,000 to \$9,130,000 for Moscone Convention Center Services and Improvements, which includes recent renovations and upgrades to Moscone Center North, South and West and design and planning for the proposed expansion of the Moscone Convention Center, and (c) \$500,000 for TID Administration, contingencies and reserves, managed by SFTIDMC.

### **Moscone Convention Center Renovations and Expansion Plan**

The City owns the existing Moscone Convention Center, which includes Moscone South, Moscone North, and Moscone West, with 700,000 square feet of exhibition, meeting and multi-purpose space. Moscone Convention Center renovations were recently completed in May of 2012, which included restroom, lobby and kitchen renovations, digital and telecom upgrades, elevator and escalator improvements, and new carpet, paint and lighting, at an estimated cost of \$56,000,000. The total estimated cost of \$56,000,000 was financed with an estimated \$21 million of TID hotel assessment funds and \$35 million of City Certificates of Participation (COPs).

On September 25, 2012, OEWD submitted a new Business Improvement District (BID), for a proposed new Moscone Expansion District (MED) Management District Plan, to the Board of Supervisors as part of the proposed resolution (File 12-0989). According to Ms. Pagan, OEWD will be submitting a revised Moscone Expansion District (MED) Management District Plan, dated November 14, 2012, to the Board of Supervisors for the proposed resolution (File 12-0989). According to the initial and revised MED Management District Plans, the City's convention attendees and exhibitors comprise nearly 30 percent of overnight hotel guests. However, according to the MED Management Plan, the existing three-building configuration of Moscone Center is effectively filled to capacity and cannot accommodate many of the existing convention market needs. As a result, OEWD and the MED Management Plan report that it is

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<sup>1</sup> The San Francisco Travel Association (SF Travel) is a private, not-for-profit membership organization, formerly the San Francisco Convention and Visitors Bureau, which promotes San Francisco as a destination for individual travelers, groups, domestic and international association and corporate meetings and conventions.

difficult to retain or significantly grow the San Francisco convention market, without providing additional contiguous meeting and exhibit space.

The MED Management Plan states that a new BID, entitled the Moscone Expansion District (MED), if approved by the Board of Supervisors and the City's tourist hotels, would be established to partially fund through the imposition of additional assessments on the tourist hotels located in the MED, the design, engineering, planning, entitlements, and construction of the proposed expansion of the Moscone Convention Center. According to Mr. Edgar Lopez of the Department of Public Works (DPW), DPW is currently planning for the expansion of the Moscone Convention Center. Mr. Lopez advises the proposed Moscone Center expansion is anticipated to be constructed over five years and is estimated to cost up to \$500 million.

### **State Proposition 26**

State Proposition 26, approved by California voters on November 2, 2010, (a) broadens the definition of a 'tax' to include any levy, charge, or exaction paid by taxpayers, (b) requires local governments to prove that the charge does not cover anything more than the reasonable costs of the government activity, and (c) government activity funded by charges should benefit only the individuals and entities that pay the charges. However, Proposition 26 specifically exempted "benefit assessments and property-related charges" that meet certain provisions of Article XIID of the California Constitution.

## **DETAILS OF PROPOSED LEGISLATION**

**File 12-0963:** The proposed ordinance would amend the City's Business and Tax Regulations Code Article 15 Business Improvement Districts Procedure Code to (a) provide for future business improvement districts terms of up to 40 years, for assessments on business owners to be pledged or applied to pay for obligations of the City; (b) authorize the Board of Supervisors to require a weighted two-thirds (2/3) vote based on ballots cast from business owners to be assessed, as an alternative or an additional procedure for establishing a Business Improvement District and levying assessments; and (c) clarify existing provisions and update references to State law.

Currently, the City's Business Improvement Districts Procedure Code (Article 15) provides for terms of up to 15 years for proposed business improvement districts. Under the proposed ordinance, this up to 15-year term could be extended to allow up to 40-year terms, or an additional 25 years, if all or a portion of the assessments will be pledged to pay any bond, financing lease, including certificates of participation, or other similar obligations of the City. According to Ms. Pagan, allowing this longer up to 40-year term for new business improvement districts is intended to enable new business improvement districts to approve assessments that could pay for longer term debt issued by the City or by the assessment districts, such as bonds or certificates of participation that often extend for 30 or more years.

Under the proposed ordinance, the Board of Supervisors could also require an alternative or additional procedure as a pre-requisite for establishing a business improvement district and levying assessments. According to Ms. Marie Blits of the City Attorney's Office, under this alternative/additional procedure, businesses in the improvement districts that collectively would

pay at least 50 percent of the total estimated weighted assessments would be required to cast ballots in the ballot election; and at least two-thirds (2/3) of the weighted assessment votes could be required by the Board of Supervisors to approve the establishment of the district and levy the assessments. Ms. Blits explains that this additional provision provides the Board of Supervisors with another tool to establish a business-based assessment district.

As the proposed ordinance is permissive regarding (a) extending the length of the term from 15 years to 40 years and (b) providing alternative procedures for establishing a business improvement district, depending on the specified terms and procedures approved for each future business improvement district, and the related amount of debt and obligations incurred, will determine each future business improvement district's financial impacts.

**File 12-0989:** The proposed resolution would (a) declare the Board of Supervisors intention to establish the Moscone Expansion District as a new Business Improvement District; (b) levy assessments on defined hotel businesses in the District for 32 years from the commencement date, estimated to be no earlier than July 1, 2013; (c) approve the Management District Plan; (d) order and set a time and place for a public meeting and a public hearing; (e) approve the form of the Notice of Public Meeting and Public Hearing and Assessment Ballots; and (f) direct the Clerk of the Board of Supervisors to give notice of the public meeting and public hearing as required by law.

The proposed resolution declares the intent to establish a new Moscone Expansion District (MED) that includes all hotels located in the district that generate revenue from tourist rooms that operate in the City and County of San Francisco from approximately July 1, 2013 to approximately June 31, 2045. As with the existing Tourism Improvement District discussed above, the proposed Moscone Expansion District would be divided into two zones: Zone 1 would include all tourist hotels on or east of Van Ness Avenue or South Van Ness Avenue and north of 16<sup>th</sup> Street; and Zone 2 would include all tourist hotels west of Van Ness Avenue and South Van Ness Avenue and south of 16<sup>th</sup> Street.

According to the revised proposed November 14, 2012 Management District Plan, as shown in Table 2 below, in Zone 1, following the commencement of the assessment, or approximately July 1, 2013 until December 31, 2013, all tourist hotels would be assessed 0.5% of the hotel's gross revenues and from January 1, 2014 through the term of the MED, or 32 years following the commencement date, such hotels would be assessed 1.25% of the hotel's gross revenues from tourist rooms. The assessment of tourist hotels in Zone 2 would remain unchanged for the entire 32 years, at 0.3125% of the hotel's gross revenues from tourist rooms<sup>2</sup>. The two zones are based primarily on geographic proximity to the Moscone Convention Center and access to regional and City transportation infrastructure, such that the hotels closer to the Moscone Convention Center pay a higher assessment rate based on greater benefit due to the proximity of the Center.

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<sup>2</sup> The initial Management District Plan dated September 25, 2012 reported that Zone 1 assessments would range from 1.0% to 1.4% and Zone 2 assessments would range from 0.25% to 0.35%, to be determined by mutual consent between the City and the assessed hotels.

**Table 2**  
**Proposed Moscone Expansion District (MED) Hotel Assessment Rates**

|  | Zone 1                  | Zone 2                    |
|--|-------------------------|---------------------------|
| Commencement of the Assessment (no earlier than July 1, 2013) <sup>3</sup> – December 31, 2013 | 0.5 % of gross revenues | 0.3125% of gross revenues |
| January 1, 2014 –32 Years from Commencement of the Assessment ( approximately June 31, 2045)   | 1.25% of gross revenues |                           |

Under the proposed resolution, the Moscone Expansion District assessments would be used to provide funds for the expenditures to be incurred by the City and County of San Francisco for the following:

- Planning, design, engineering, entitlement, construction, project management and related services for expansion of the Moscone Convention Center, including related payments for any bond, financing lease (including certificates of participation) or similar obligations of the City;
- Funding of a Moscone Convention Center Incentive Fund, to attract significant meetings, tradeshows and conventions to San Francisco via offset of rental costs;
- Funding of a Moscone Convention Center Sales & Marketing Fund to provide increased funding for sales and marketing of convention business, with a focus on generating increased revenues for hotels that pay the assessment;
- Funding of capital improvements and renovations, including a capital reserve fund to cover future upgrades and improvements to the Moscone Convention Center;
- Allocation of funds to pay for District formation, operation and administration and to establish and maintain a contingency reserve; and
- Funding of expenses for development and implementation of future phases of the expansion Master Plan, if there are funds available in excess of those needed for Phase One.

Under the proposed resolution, the Department of Elections (DOE) would mail out ballots to all hotels located in the City subject to assessment in the proposed district. Under the proposed resolution, the Treasurer/Tax Collector would assign the weighted assessment to each hotel based on proprietary room rent data, based on information reported by hotels in 2011 and then

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<sup>3</sup> In accordance with the proposed resolution, the Commencement Date will be the later of (a) July 1, 2013 or (b) the first day of the calendar quarter after a final judgment is entered by a court validating the issuance of City indebtedness for the Moscone Expansion Project, and related establishment of the District and levy of the assessments.

analyze the final election results. Following a 45-day ballot election period, a final public hearing, tentatively set for January 29, 2013, would be held by the Board of Supervisors. If ballots are received from the larger hotels that represent collectively at least 50 percent of the total estimated assessments, and at least two-thirds (2/3) of the returned weighted ballots<sup>4</sup> vote in favor of the establishment of the MED and levy of assessments (that is the alternative procedure)<sup>5</sup>, the Board of Supervisors may proceed with establishing the MED through a separate resolution that would be subject to future Board of Supervisors approval. The proposed resolution only provides for the intent to establish the MED and subsequent legislation would be required to establish the MED, subject to Board of Supervisors approval.

Although not specified in the proposed resolution, the City and the MED would enter into a Memorandum of Understanding that will outline specific roles and responsibilities for the management of the proposed new Moscone Expansion District. According to the revised Management District Plan, the new Moscone Expansion District would be managed by the non-profit San Francisco Tourism Improvement District Management Corporation (SFTIDMC), which is the same organization that manages the existing San Francisco Tourism Improvement District (TID).

## **FISCAL IMPACTS**

### **Initial City Costs of Election**

Under the proposed resolution, the Department of Elections (DOE), with the help of the City's Treasurer/Tax Collector's Office, would conduct a special ballot election of the tourist hotels in the City. Mr. John Arntz, Director, Department of Elections advises that the special ballot election is estimated to cost \$5,000. According to Ms. Pagan, OEWD will reimburse DOE for such costs to conduct the special election from OEWD's existing annual General Fund budget for the CBD/BID technical assistance program. Additionally, according to Mr. Greg Kato, Policy and Legislative Manager, Treasurer/Tax Collector's Office, the relatively minor one-time cost for the Treasurer/Tax Collector's Office to calculate the weighted assessment votes would be reimbursed by the Office of Economic and Workforce Development.

### **Estimated Assessments from the Proposed Moscone Expansion District**

In accordance with the proposed resolution, the annual assessment to be levied and collected for the first year of the proposed new Moscone Expansion District is estimated at \$21,045,500. However, the proposed revised Management District Plan reflects an estimated \$19,332,000 of hotel assessments to be collected in FY 2013-14, the first year of the proposed new Moscone Expansion District, as shown in Attachment III. Therefore, the Budget and Legislative Analyst recommends that the proposed resolution be amended on page 6, line 13 to reflect the revised estimated amount of \$19,332,000 to be levied and collected in the first full year.

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<sup>4</sup> The 'weight' of each ballot in the ballot election will be determined by the assessment each hotel will pay into the MED compared to the total assessment estimated to be collected as calculated by the assessment formula in the MED Management Plan.

<sup>5</sup> This threshold also meets the California Streets and Highways Code §36623(b) requirement that there is no majority protest to establish an improvement district and levy assessments.

According to both the initial and revised Management District Plans, the amount of the annual assessments to be levied and collected from Year 2 through Year 32 may increase or decrease annually based on actual gross revenues from tourist rooms, however, the maximum assessment amount reflects annual 10% increases, such that the actual annual collections may be significantly less than this maximum amount. The proposed resolution on page 6, line 17 states that the total maximum assessment that could be collected for the entire 32-year term of the proposed new Moscone Expansion District would be \$6,458,235,000. However, the proposed revised Management District Plan identifies a total maximum of \$5,766,814,000 of hotel assessment funds over the 32-year term that could be collected. Therefore, the Budget and Legislative Analyst recommends that the proposed resolution be amended on page 6, line 17 to reflect the revised estimated maximum amount of \$5,766,814,000.

As shown in Attachment III, and discussed in the revised Management District Plan, of the total \$19,332,000 estimated assessments to be collected in the first year, 87.5% or \$16,915,500 of these assessments would be used for Moscone Center Expansion development activities, which would include funding for planning, design, engineering, project management, construction and financing costs, such as payments on bonded indebtedness, financing lease (including principal and interest on any certificates of participation), or other similar obligations.

In addition, an additional 1% or \$193,320 of the assessments in the first year would fund a capital reserve fund to pay for future renovations and improvements for Moscone Convention Center. The MED would also provide funding of an estimated (a) 9% or \$1,739,880 in the first year for a Moscone Convention Incentive Fund, to be used to help attract important meetings to San Francisco, and (b) 2.5% or \$483,300 in the first year for administration of the MED and operating contingency reserve. The Treasurer/Tax Collector's Office will administer the assessment for the MED and be reimbursed from these administrative funds. According to the Management District Plan, these percentage allocations would change over the 32-year term of the proposed MED, such that the Moscone Convention Center development funding would decrease from 87.5% to 82.5%, while the Capital Reserve Fund for Moscone would increase from 1% to 6%.

According to the revised MED Management Plan, subject to approval of the Board of Supervisors, the City and County of San Francisco would commit to payments of the following amounts, including debt service:

- City contribution of \$8,200,000<sup>6</sup> in FY 2019-20, with an increase of 3% per year through FY 2028-29 up to a maximum of \$10,700,000 annually, with a continuing contribution of no less than \$10,700,000 annually for the remainder of the term; and
- City contributions would fund any annual shortfall to finance debt service, which would be repaid from future annual MED hotel assessment surpluses. Annual shortfall is defined as the FY debt service not covered by (a) the MED allocation to debt plus (b) the City's above-noted \$8,200,000 - \$10,700,000 annual contribution.

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<sup>6</sup> Currently, the City pays the TID \$8,200,000 annually for the recent Moscone renovations.

The Budget and Legislative Analyst notes that these specific City commitments are not included in the proposed resolution. Therefore, the proposed resolution should be amended to include these specific requirements, as stated in the revised MED Management Plan. Ms. Pagan advises that an Amendment of the Whole is currently being drafted by the City Attorney and will be introduced at the Budget and Finance Committee on November 14, 2012 to address these and the above-noted recommendations. These City contributions would be used for payment on any bonded indebtedness, financing lease (including principal and interest on any certificates of participation) or other similar obligations of the City issued to finance related professional consulting, architectural and other professional fees, and construction and issuance costs.

As shown in Attachment IV, provided by Ms. Nadia Sesay, Director of the Controller's Office of Public Finance, DPW's estimated construction cost of up to \$500 million for the five-year Moscone Convention Center Expansion is projected to be funded with (a) \$5,238,860 of available General Funds<sup>7</sup>, (b) \$82,635,000 of available MED funds<sup>8</sup>, and (c) an initial estimated \$67,490,000 of commercial paper to be repaid with an issuance of an estimated \$482,735,000 certificates of participation. Ms. Sesay advises that the estimated \$482,735,000 certificates of participation would be issued in 2017 for 30 years, at a conservative 6% interest rate, for a total cost of \$994,538,000, excluding the initial contributed funds. The total estimated \$994,538,000 includes \$482,735,000 of principal and \$511,803,000 of interest over the 30-years. Ms. Sesay notes that the Board of Supervisors would be required to approve a subsequent resolution to issue the estimated \$482,735,000 Moscone Convention Center Expansion certificates of participation.

As shown in Attachment IV, the total \$994,538,000 Moscone Convention Center Expansion certificate of participation principal and interest cost would be repaid with (a) an estimated total of \$929,710,000 from annual MED assessments from 2013 through 2045 assuming a 1.25% hotel assessment rate in Zone 1<sup>9</sup> and a .3125 hotel assessment rate in Zone 2, and (b) a total of \$297,304,000 of annual City General Fund contributions from 2019 through 2047, ranging from \$8,200,000 to \$10,700,000 per year. As noted above, over the past five years, the City's General Fund has funded \$8,200,000 annually for the Moscone Convention Center renovations.

As also shown in Attachment IV, during the first eight years of these future repayments from 2019 through 2026, there could potentially be insufficient revenues generated by the hotel assessments, such that the City would be required to make additional net impact contributions of a maximum of \$6,242,000 in 2019 decreasing to \$654,000 in 2026, which would be paid back through MED assessment surpluses in later years, as future hotel revenues and assessments increase. Under the proposed revised Management District Plan, the City would have the discretion to apply any annual MED assessment surpluses as are in the best interests of the City. As shown in Attachment IV, Ms. Sesay estimates MED surplus assessment revenues totaling \$171,215,000 would be applied as follows: (a) to fund a \$15,000,000 Stabilization Fund, which would be used in any year when lower than expected MED collections are received, to be

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<sup>7</sup> The FY 2012-13 budget appropriated \$1,700,000 of General Fund revenues and the FY 2013-14 budget is anticipated to include \$3,538,860 of General Fund revenues for the Moscone Convention Center Expansion Project.

<sup>8</sup> Of the total estimated \$82,625,000, \$3,000,000 is available from the existing TID and the remaining \$79,625,000 would come from new hotel assessments under the proposed new TID over the first five years.

<sup>9</sup> Zone 1 hotel assessments through December 31, 2013 would remain at the currently proposed rate of 0.5% of gross revenues.

replenished through the term of the COPs, (b) to fund an estimated \$25,416,000 sinking fund to make debt service payments in the two years beyond the term of the District in 2046 and 2047, (c) to fund an estimated \$28,184,000 prior year deficits paid by the City and then reimbursed by MED, and (d) to fund an estimated \$102,615,000 for potential additional expansions of the Moscone Convention Center in the future.

## POLICY CONSIDERATIONS

### Overlap of the Existing Tourism Improvement District (TID) and the Proposed Moscone Expansion District (MED)

The existing TID, as previously approved by the Board of Supervisors that levies an assessment on the same tourist hotels and directs funds to the Moscone Center renovation expansion will overlap with the proposed MED for a period of up to six months (earliest commencement date of July 1, 2013 through December 31, 2013). As discussed above, for the first five years of the existing TID term, one-third of the assessments are being allocated to the recently completed renovation and upgrade of the Moscone Convention Center and for planning, engineering, and design for the possible expansion of the Moscone Convention Center. The first five years of the existing TID term expires on December 31, 2013.

If the proposed MED begins to assess tourist hotels as early as July 1, 2013, the same hotels will be subject to both assessments to fund the Moscone Convention Center renovations and expansion for an overlapping period of six months. As shown in Table 3 below, Zone 1 tourist hotels would be assessed a total of 2.0% of gross revenues and, Zone 2 tourist hotels would be assessed a total of 1.3125% of gross revenues for the period of up to six months following the commencement of the MED and December 31, 2013.

**Table 3**

#### Overlap of the Existing Tourism Improvement District (TID) and the Proposed Moscone Improvement District (MED) Assessment Rates for the Six-Month Period from July 1, 2013 Through December 31, 2013

|   | Zone 1                  | Zone 2                    |
|---|-------------------------|---------------------------|
| Existing Tourism Improvement District (TID) | 1.5 % of gross revenues | 1% of gross revenues      |
| Proposed Moscone Expansion District (MED)   | 0.5 % of gross revenues | 0.3125% of gross revenues |
| Total Assessment                            | 2.0 % of gross revenues | 1.3125% of gross revenues |

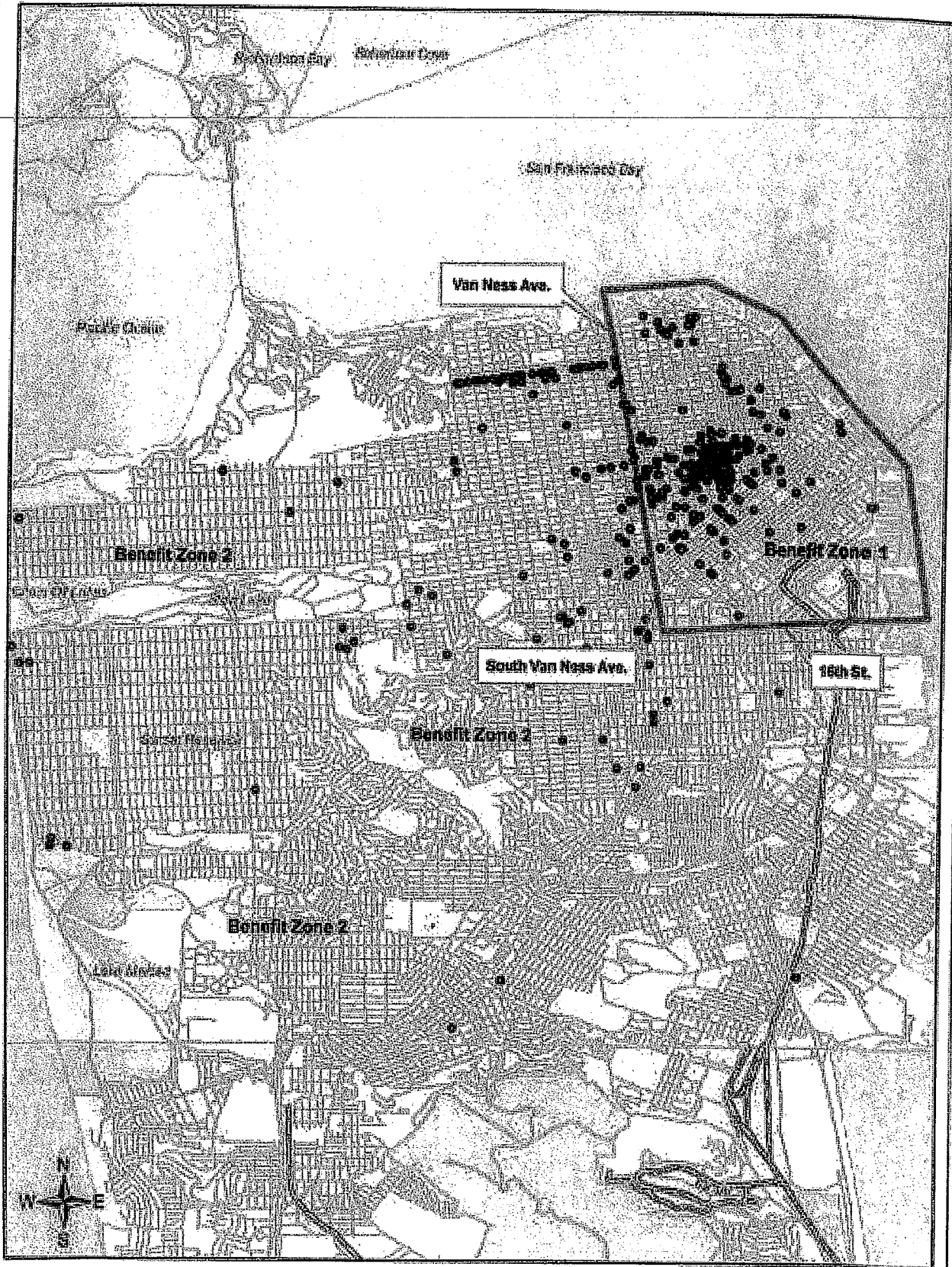


According to Ms. Pagan, the hotels will be notified of this overlapping assessment. In addition, Ms. Pagan advises that because the billing and collection process takes approximately two quarters to complete, the new hotel assessment revenues collected between July and December of 2013 will be needed to pay for the initial development costs incurred in January of 2014, such that the project would be potentially delayed, if assessments were not implemented as currently proposed.

## RECOMMENDATIONS

1. Approve the proposed ordinance (File 12-0963).
2. Amend the proposed resolution (File 12-0989) on page 6, line 13 to reflect the revised estimated \$19,332,000 of hotel assessments to be collected in FY 2013-14, the first year of the proposed new Moscone Expansion District, instead of \$21,045,500.
3. Amend the proposed resolution (File 12-0989) on page 6, line 17 to state that the total maximum assessment that could be collected for the entire 32-year term of the proposed new Moscone Expansion District (MED) would be \$5,766,814,000, instead of \$6,458,235,000.
4. Approve the proposed Amendment of the Whole (File 12-0989), which will be introduced at the November 14, 2012 Budget and Finance Committee Meeting to include the specific City commitments that are specified in the revised MED Management District Plan that are not included in the proposed resolution.
5. Approval of the proposed resolution (File 12-0989), as amended, is a policy decision for the Board of Supervisors.

# San Francisco Tourism Improvement District



New City Services Inc 12/27/2002

# TID Budget | 2012-13

## FY 2012-2013 Collections

| Calendar Year    | SF Travel    |            | Moscone     |            | Total        |
|------------------|--------------|------------|-------------|------------|--------------|
|                  | TID          | Operations | TID         | Operations |              |
| 2011 Collections |              |            |             |            |              |
| Budget 0         | \$16,885,000 | \$500,000  | \$8,335,000 | \$500,000  | \$24,450,000 |
| Budget 1         | \$17,690,000 | \$500,000  | \$8,730,000 | \$500,000  | \$25,720,000 |
| Budget 2         | \$18,490,000 | \$500,000  | \$9,130,000 | \$500,000  | \$26,920,000 |
|                  |              |            |             |            | \$28,120,000 |

**Proposed Annual Operating Budget, including Improvements and Activities,  
and categories of expenditures**

(The FY 2013/14 projected budget is set forth below.<sup>12</sup> Annual budgets for subsequent years will be outlined in annual reports prepared by SFTIDMC and submitted to the Board of Supervisors as required by applicable law. )

| <i><b>Improvements and Activities</b></i>  | <i><b>Percent of Budget Allocated to Types of Activities</b></i> | <i><b>Budget</b></i> |
|--|--|----------------------|
| <p><b><u>Development Activities</u></b></p> <ul style="list-style-type: none"> <li>• Planning, design, engineering, entitlement, project management and related development services for the Project, which it is projected will include reconfiguration of existing non-contiguous space to create up to 550,000 gsf of contiguous exhibit space, and new meeting rooms, ballroom, and loading and service spaces.</li> <li>• Construction costs for of the expansion of the Moscone Convention Center as noted above.</li> <li>• Financing costs related to the Project, including those associated with the payments of any bond, financing lease (including certificates of participation), or other similar obligations of the City.</li> </ul> | 87.5%  | \$16,915,500         |
| <p><b><u>Renovation Activities</u></b></p> <ul style="list-style-type: none"> <li>• Funding of a capital reserve to pay for <b>future renovations and improvements</b> to the Moscone Convention Center complex, to include capital improvements, but not including general maintenance or general repairs.</li> <li>• Surplus funds in this category at the conclusion of any year may be transferred to other MED categories of expenditures upon a majority vote of the board of directors of the MED owners association.</li> </ul>  | 1%   | \$193,320            |

<sup>12</sup> The FY 2013/2014 projected annual budget assumes that the District Commencement Date is no later than July 1, 2013, and thus reflects a full twelve months of assessment revenue. The proportionate allocation of District funds among budget categories for the life of the District is set forth in Table 2.

|  |      |             |
|--|------|-------------|
| <p><b>Convention Business Attraction Activities</b></p> <ul style="list-style-type: none"> <li>Funding of a <b>Moscone Convention Center Incentive Fund (MCCI Fund)</b>, which will be used to attract significant meetings, tradeshows and conventions to San Francisco.</li> </ul>   | 9%   | \$1,739,880 |
| <ul style="list-style-type: none"> <li>Surplus funds in this category at the conclusion of any year may be transferred to other MED categories of expenditures upon a majority vote of the board of directors of the MED owners association.</li> <li>Funding of a <b>Moscone Convention Center Sales and Marketing Fund</b>, to be used by San Francisco Travel Association in the sales, marketing and promotion of the Convention Center to meeting, convention and event planners and customers. These funds will augment current general convention promotional funding, and will be used to generate increased revenue for hotels that pay the assessment via targeted sales and marketing of the Convention Center to clients who can book some or all of the space.</li> <li>Funds for this category will be allotted beginning in year 5.</li> <li>Surplus funds in this category at the conclusion of any year may be transferred to other MED categories of expenditures upon a majority vote of the board of directors of the MED owners association.</li> </ul> | 0%   | \$0         |
| <p><b>Administration of the MED and Operating Contingency Reserve</b><br/>These funds will be used to cover administrative costs and expenses related to the operation and administration of the District, including, for example:</p> <ul style="list-style-type: none"> <li>Payment of the operational and administrative expenses of SFTIDMC in its capacity as owners association of MED</li> <li>Reimbursement of the cost of services and other expenses to the City Treasurer and Tax Collector, the Office of the City Attorney, the Controller's Office, and other City departments for audit, collection, enforcement, and disbursement of the assessment, and related administrative functions.</li> <li>Administration, assessment and enforcement functions related to the MED assessment, which are contingent on the management contract between the City and the MED.</li> <li>Surplus funds in this category at the conclusion of any year may be transferred to other MED categories of expenditures upon a</li> </ul>                                     | 2.5% | \$483,300   |

|  |             |                     |
|--|-------------|---------------------|
| majority vote of the board of directors of the MED owners association. |             |                     |
| <b>Total</b>   | <b>100%</b> | <b>\$19,332,000</b> |

**MED - OPTION 28A: W FFE - PARTIAL FY 2014; MED 1.25% 2014 THRU 2047; CITY CONTR \$8.2M, 3% GROWTH THRU 2028, \$10.7M 2029-2047; Sinking Fund 2046-2047; FM 2047**

| Sources      |                        |                              |                    |                     |                     |                      |                        |                         |                              | Uses               |                      |                    |              |                   |                   |                     |                       |  |  | Excess Revenue: |  |  |  |  |
|--------------|------------------------|------------------------------|--------------------|---------------------|---------------------|----------------------|------------------------|-------------------------|------------------------------|--------------------|----------------------|--------------------|--------------|-------------------|-------------------|---------------------|-----------------------|--|--|-----------------|--|--|--|--|
| Fiscal Year  | Construction Draw Down | Comm Paper End Period Agg CP | City Contr         | MED Cash            | MED for FFE         | 2017 COPs            | Agg                    | City Contr 2018 & later | MED Assessment for Expansion | City Contr         | Total Sources        | Net Impact         | Fund Balance | Stabil'n Fund     | Sinking Fund      | Prior Year Deficits | Future Moscone Expans |  |  |                 |  |  |  |  |
| 0 2013       | 5,820,000              | 1,137,000                    | (1,700,000)        | (3,000,000)         | -                   | -                    | (4,700,000)            | 1,700,000               | 3,000,000 <sup>1</sup>       | -                  | 4,700,000            | (6,242,000)        | -            | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 1 2014       | 16,800,000             | 1,586,140                    | (3,538,860)        | (12,835,000)        | -                   | -                    | (16,373,860)           | 3,538,860               | 12,835,000 <sup>2</sup>      | -                  | 16,373,860           | (5,354,000)        | -            | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 2 2015       | 30,200,000             | 12,886,140                   | -                  | (19,090,000)        | -                   | -                    | (19,090,000)           | -                       | 19,090,000                   | -                  | 19,090,000           | (4,438,000)        | -            | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 3 2016       | 74,499,000             | 68,739,140                   | -                  | (19,662,000)        | -                   | -                    | (19,662,000)           | -                       | 19,662,000                   | -                  | 19,662,000           | (3,500,000)        | -            | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 4 2017       | 212,228,000            | -                            | -                  | (20,252,000)        | -                   | -                    | (20,252,000)           | -                       | 20,252,000                   | -                  | 20,252,000           | (2,677,000)        | -            | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 5 2018       | 153,975,000            | -                            | -                  | (7,786,000)         | (12,831,000)        | -                    | (20,622,000)           | -                       | 20,622,000                   | -                  | 20,622,000           | (1,681,000)        | -            | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 6 2019       | 6,478,000              | -                            | -                  | -                   | -                   | (35,519,000)         | (35,819,000)           | -                       | 21,377,000                   | 8,200,000          | 29,577,000           | (6,242,000)        | (6,242,000)  | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 7 2020       | -                      | -                            | -                  | -                   | -                   | (35,521,000)         | (35,821,000)           | -                       | 22,021,000                   | 8,446,000          | 30,467,000           | (5,354,000)        | (11,596,000) | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 8 2021       | -                      | -                            | -                  | -                   | -                   | (35,519,000)         | (35,819,000)           | -                       | 22,682,000                   | 8,699,000          | 31,381,000           | (4,438,000)        | (16,034,000) | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 9 2022       | -                      | -                            | -                  | -                   | -                   | (35,522,000)         | (35,822,000)           | -                       | 23,362,000                   | 8,960,000          | 32,322,000           | (3,500,000)        | (19,534,000) | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 10 2023      | -                      | -                            | -                  | -                   | -                   | (35,518,000)         | (35,818,000)           | -                       | 22,951,000                   | 9,229,000          | 32,180,000           | (3,638,000)        | (23,172,000) | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 11 2024      | -                      | -                            | -                  | -                   | -                   | (35,522,000)         | (35,822,000)           | -                       | 23,639,000                   | 9,506,000          | 33,145,000           | (2,677,000)        | (25,849,000) | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 12 2025      | -                      | -                            | -                  | -                   | -                   | (35,520,000)         | (35,820,000)           | -                       | 24,348,000                   | 9,791,000          | 34,139,000           | (1,684,000)        | (27,530,000) | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 13 2026      | -                      | -                            | -                  | -                   | -                   | (35,517,000)         | (35,817,000)           | -                       | 25,078,000                   | 10,085,000         | 35,163,000           | (654,000)          | (28,184,000) | -                 | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 14 2027      | -                      | -                            | -                  | -                   | -                   | (35,521,000)         | (35,821,000)           | -                       | 25,831,000                   | 10,388,000         | 36,219,000           | 398,000            | (27,786,000) | 398,000           | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 15 2028      | -                      | -                            | -                  | -                   | -                   | (35,519,000)         | (35,819,000)           | -                       | 26,605,000                   | 10,700,000         | 37,305,000           | 1,486,000          | (26,300,000) | 1,486,000         | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 16 2029      | -                      | -                            | -                  | -                   | -                   | (35,520,000)         | (35,820,000)           | -                       | 27,404,000                   | 10,700,000         | 38,104,000           | 2,284,000          | (24,016,000) | 2,284,000         | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 17 2030      | -                      | -                            | -                  | -                   | -                   | (35,520,000)         | (35,820,000)           | -                       | 28,226,000                   | 10,700,000         | 38,926,000           | 3,106,000          | (20,910,000) | 3,106,000         | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 18 2031      | -                      | -                            | -                  | -                   | -                   | (35,518,000)         | (35,818,000)           | -                       | 29,073,000                   | 10,700,000         | 39,773,000           | 3,955,000          | (16,955,000) | 3,955,000         | -                 | -                   | -                     |  |  |                 |  |  |  |  |
| 19 2032      | -                      | -                            | -                  | -                   | -                   | (35,517,000)         | (35,817,000)           | -                       | 29,945,000                   | 10,700,000         | 40,645,000           | 4,828,000          | (12,127,000) | 3,771,000         | 1,057,000         | -                   | -                     |  |  |                 |  |  |  |  |
| 20 2033      | -                      | -                            | -                  | -                   | -                   | (35,518,000)         | (35,818,000)           | -                       | 30,843,000                   | 10,700,000         | 41,543,000           | 5,725,000          | (6,402,000)  | -                 | 5,725,000         | -                   | -                     |  |  |                 |  |  |  |  |
| 21 2034      | -                      | -                            | -                  | -                   | -                   | (35,519,000)         | (35,819,000)           | -                       | 31,769,000                   | 10,700,000         | 42,469,000           | 6,650,000          | 248,000      | -                 | 6,650,000         | -                   | -                     |  |  |                 |  |  |  |  |
| 22 2035      | -                      | -                            | -                  | -                   | -                   | (35,521,000)         | (35,821,000)           | -                       | 32,722,000                   | 10,700,000         | 43,422,000           | 7,601,000          | 7,849,000    | -                 | 7,601,000         | -                   | -                     |  |  |                 |  |  |  |  |
| 23 2036      | -                      | -                            | -                  | -                   | -                   | (35,517,000)         | (35,817,000)           | -                       | 33,704,000                   | 10,700,000         | 44,404,000           | 8,587,000          | 16,436,000   | -                 | 4,383,000         | 4,204,000           | -                     |  |  |                 |  |  |  |  |
| 24 2037      | -                      | -                            | -                  | -                   | -                   | (35,518,000)         | (35,818,000)           | -                       | 34,714,000                   | 10,700,000         | 45,414,000           | 9,596,000          | 26,032,000   | -                 | -                 | 9,596,000           | -                     |  |  |                 |  |  |  |  |
| 25 2038      | -                      | -                            | -                  | -                   | -                   | (35,521,000)         | (35,821,000)           | -                       | 35,756,000                   | 10,700,000         | 46,456,000           | 10,635,000         | 36,667,000   | -                 | -                 | 10,635,000          | -                     |  |  |                 |  |  |  |  |
| 26 2039      | -                      | -                            | -                  | -                   | -                   | (35,520,000)         | (35,820,000)           | -                       | 36,829,000                   | 10,700,000         | 47,529,000           | 11,709,000         | 48,376,000   | -                 | -                 | 3,749,000           | 7,960,000             |  |  |                 |  |  |  |  |
| 27 2040      | -                      | -                            | -                  | -                   | -                   | (35,519,000)         | (35,819,000)           | -                       | 37,934,000                   | 10,700,000         | 48,634,000           | 12,815,000         | 61,191,000   | -                 | -                 | 12,815,000          | -                     |  |  |                 |  |  |  |  |
| 28 2041      | -                      | -                            | -                  | -                   | -                   | (35,517,000)         | (35,817,000)           | -                       | 39,071,000                   | 10,700,000         | 49,771,000           | 13,954,000         | 75,145,000   | -                 | -                 | 13,954,000          | -                     |  |  |                 |  |  |  |  |
| 29 2042      | -                      | -                            | -                  | -                   | -                   | (35,520,000)         | (35,820,000)           | -                       | 40,244,000                   | 10,700,000         | 50,944,000           | 15,124,000         | 90,269,000   | -                 | -                 | 15,124,000          | -                     |  |  |                 |  |  |  |  |
| 30 2043      | -                      | -                            | -                  | -                   | -                   | (35,517,000)         | (35,817,000)           | -                       | 41,451,000                   | 10,700,000         | 52,151,000           | 16,334,000         | 106,603,000  | -                 | -                 | 16,334,000          | -                     |  |  |                 |  |  |  |  |
| 31 2044      | -                      | -                            | -                  | -                   | -                   | (35,520,000)         | (35,820,000)           | -                       | 42,685,000                   | 10,700,000         | 53,395,000           | 17,575,000         | 124,178,000  | -                 | -                 | 17,575,000          | -                     |  |  |                 |  |  |  |  |
| 32 2045      | -                      | -                            | -                  | -                   | -                   | (35,522,000)         | (35,822,000)           | -                       | 43,975,000                   | 10,700,000         | 54,675,000           | 18,853,000         | 143,031,000  | -                 | -                 | 18,853,000          | -                     |  |  |                 |  |  |  |  |
| 33 2046      | -                      | -                            | -                  | -                   | -                   | (35,517,000)         | (35,817,000)           | -                       | -                            | 10,700,000         | 10,700,000           | (25,117,000)       | 117,914,000  | -                 | -                 | -                   | 17,575,000            |  |  |                 |  |  |  |  |
| 34 2047      | -                      | -                            | -                  | -                   | -                   | (300,000)            | (299,000)              | -                       | -                            | 10,700,000         | 10,700,000           | 10,401,000         | 128,315,000  | -                 | -                 | -                   | 18,853,000            |  |  |                 |  |  |  |  |
| <b>Total</b> | <b>500,000,000</b>     | <b>--</b>                    | <b>(5,238,860)</b> | <b>(82,625,000)</b> | <b>(12,831,000)</b> | <b>(994,538,000)</b> | <b>(1,103,937,860)</b> | <b>5,238,860</b>        | <b>929,710,000</b>           | <b>297,304,000</b> | <b>1,232,252,860</b> | <b>128,315,000</b> | <b>--</b>    | <b>15,000,000</b> | <b>25,416,000</b> | <b>28,184,000</b>   | <b>102,615,000</b>    |  |  |                 |  |  |  |  |

|   |   |
|---|---|
| <b>Item 12</b><br><b>File 12-0997</b>   | <b>Department:</b><br>San Francisco Unified School District (SFUSD) |
| <b>EXECUTIVE SUMMARY</b>  |   |
| <p style="text-align: center;"><b>Legislative Objectives</b></p> <p>The proposed ordinance would appropriate \$3,000,000 in State Revenue Loss Reserve funds to the San Francisco Unified School District (SFUSD) to fund services to assist students who will graduate in June 2014 to meet high school graduation requirements. The goal is to maximize the total number of students who are on-track to graduate high school.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Board of Supervisors appropriated \$15,000,000 to the State Revenue Loss Reserve in FY 2012-13 to provide for shortfalls resulting from future State funding cuts and realignment of program responsibilities. Because the impact of the State's FY 2012-13 budget on State funding to the City is not yet known, the City has not drawn on FY 2012-13 State Revenue Loss Reserve funds to backfill reductions in State funding to City programs.</li> <li>• The requested \$3,000,000 appropriation would be allocated to the SFUSD to fund services to assist students in the Class of 2014 to meet requirements to graduate high school. These funds would pay for programs from January 2013 through June 2013, including (a) after school programs provided by SFUSD and community-based organizations to allow students to earn missed course credits required for graduation; (b) centralized evening schools provided by SFUSD at three community locations to allow students to earn missed course credits required for graduation; (c) three community-based satellite centers provided by community-based organizations with computers and related equipment to allow students to work on required courses; (d) extended hours for SFUSD counselors and community-based organizations to assist students in meeting graduation requirements; (d) targeted support provided by community-based organizations to tutor students in course work and life skills; and (e) program administration provided by SFUSD.</li> </ul> <p style="text-align: center;"><b>Fiscal Impacts</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed ordinance would appropriate \$3,000,000 of the City's \$15,000,000 State Revenue Loss Reserve, resulting in a remaining balance of \$12,000,000. Because the impact of potential FY 2012-13 State budget reductions on City programs receiving State funds is not yet known, the impact of appropriating \$3,000,000 to the SFUSD in State Revenue Loss Reserve funds on other City programs that may lose State funding is not known.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed ordinance to require SFUSD to submit monthly written reports to the Board of Supervisors on program performance and expenditures, including (a) course descriptions and materials for each program; (b) detailed program budgets and actual expenditures; (c) number of students participating in each program; and (d) pre-and post-evaluation of participating students who are on-track or off-track to graduate.</li> <li>• Approval of the proposed ordinance, as amended, is a policy matter for the Board of Supervisors.</li> </ul> |   |



## MANDATE STATEMENT

Charter Section 9.105 requires that amendments to the Annual Appropriation Ordinance be subject to approval by ordinance of the Board of Supervisors, and may not be adopted unless the Controller certifies the availability of funds.

## BACKGROUND

The Board of Supervisors appropriated \$15,000,000 to the State Revenue Loss Reserve in FY 2012-13 to provide for shortfalls resulting from State funding cuts and realignment of program responsibilities. Because the impact of the State's FY 2012-13 budget on State funding to the City is not yet known, the City has not drawn on State Revenue Loss Reserve funds to backfill reductions in State funding to City programs.

## DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate \$3,000,000 in State Revenue Loss Reserve funds to the San Francisco Unified School District (SFUSD). The requested \$3,000,000 would be allocated to the SFUSD to fund services to assist students in the Class of 2014 (i.e., students who entered high school as freshmen in 2010) to meet requirements to graduate high school. The goal is to maximize the total number of students who are on-track to graduate high school.

For students to be on-track to graduate high school, they must complete 230 course credits in at least seven subject areas ("A-G credits"). To graduate, students must pass the California High School Exit Exam and the SFUSD Swimming Proficiency Test. According to Mr. Chris Armentrout, SFUSD Director of Development and Local Government Relations, nearly one-half of students in the Class of 2014 are not on track to graduate.

SFUSD has identified the students who are in need of support to complete the required course credits and has developed an action plan to support these students in completing the course credits. Table 1 shows the SFUSD action plan and proposed budget for the requested \$3,000,000 supplemental appropriation.

**Table 1**  
**SFUSD Proposed Action Plan**

| <b>Activity</b>                             | <b>Description</b>   | <b>Proposed Budget</b> |
|---|--|------------------------|
| School Site Support                         | <p>Currently, SFUSD allows students to earn missed credits through afterschool programs. However, most schools do not offer the full range of services necessary for students to earn missed credits. SFUSD has lost federal Department of Education 21st Century Community Learning Centers funds, which funded non-school hours learning centers. SFUSD received approximately \$1.5 million over a one-year period in 21st Century Community Learning Centers funds, which terminated in June 2012. Carry forward funds were used to fund some programs through December 2012.</p> <p>The proposed funds would replace programs to assist students to make up missed credits, previously funded the 21st Century Community Learning Center funds.</p> | \$1,575,000            |
| Central Evening School                      | The proposed funds would create centralized evening schools at 3 locations to provide options for students to earn missed credits that do not lend themselves to individual site options, such as physical education, foreign languages, and laboratory sciences. Funding would pay for extended hours for teachers, program planning, administrative coverage, and curriculum materials.  | 500,000                |
| Community-based Satellite Centers           | The proposed funds would pay for community-based organizations to set up 3 satellite centers to allow students to work on required courses. The funds would pay for approximately 10 computers and 3 printers at each site, curriculum materials, and staff to oversee the satellite center.   | 400,000                |
| Coordination and Monitoring                 | The proposed funds would pay for (1) one program administrator to oversee development, management and implementation of the program; and (2) one teacher to assist with implementation of on-line options. These two positions would be included in the FY 2013-14 SFUSD budget.   | 150,000                |
| Student Counseling and Individual A-G Plans | The proposed funds would pay for (1) counseling and development of plans to assist students to earn missed credits; (2) development and promotional materials for graduation requirements; and (3) extended hours for counselors to work at 5 community-based sessions during the evenings and on Saturday.  | 75,000                 |
| Targeted Support                            | The proposed funds would pay for community-based organizations to work with targeted groups of students to provide services, including extra support to pass classes, earning missed credits, and life skills.   | 300,000                |
| <b>Total</b>                                |  | <b>\$3,000,000</b>     |

According to Mr. Armentrout, the requested \$3,000,000 would fund programs from January 2013 through June 2013 for an estimated 6,700 SFUSD high school students, as shown in Table 2 below. Services would be provided by either SFUSD staff or community-based organizations (CBOs).

**Table 2**  
**SFUSD Proposed Program Providers and Students Served**  
**January 2013 to June 2013**

| <b>Program</b>                            | <b>Possible Providers</b>        | <b>Budget for Requested State Revenue Loss Reserve Funds</b> | <b>Other SFUSD Funds in FY 2012-13</b>   | <b>Anticipated Number of Students Served</b> |
|---|----------------------------------|--|--|--|
| School Site Support                       | SFUSD staff, CBOs for some sites | \$1,575,000  | Approximately \$1,100,000 for existing afterschool programs (5 high schools)       | 1,700  |
| Central Evening School                    | SFUSD staff                      | 500,000  | -  | 600-700                                      |
| Community-based Satellite Centers         | CBOs                             | 400,000  | -  | 150  |
| Coordination and Monitoring               | SFUSD administration             | 150,000  | -  | 2000   |
| Student Counseling & Individual A-G Plans | SFUSD staff, CBOs                | 75,000   | Approximately \$150,000 for existing counseling focused on graduation requirements | 2000   |
| Targeted Support                          | CBOs                             | 300,000  | -  | 150  |
| <b>Total</b>                              |                                  | <b>\$3,000,000</b>   | <b>Approximately \$1,250,000</b>   | <b>6,700</b>                                 |

### **Selection and Monitoring of Community-based Organizations**

SFUSD will select CBOs to provide services through a Request for Qualifications (RFQ) process. The CBOs responding to the RFQ will be reviewed by a panel composed of staff from SFUSD, Department of Children, Youth and Their Families (DCYF), Department of Public Health (DPH), or other City staff. Applicants that meet the minimum qualifications of the program will be eligible to provide services to SFUSD students. Based on the RFQ results, SFUSD principals will select the specific CBOs to provide services at their school site.

SFUSD will enter into a contract with each CBO. As part of the contract, SFUSD will evaluate the CBOs performance from January 2013 to June 2013 based on attendance records, site observations, stakeholder surveys and students' successful completion of courses and earned credits.

CBOs will be required to have administrative systems in place to ensure that program staff comply with SFUSD's compliance and fiscal policies. All CBO finances are subject to review and audit by SFUSD staff.

## Reporting on Program Performance

Program performance will be reported as a routine item to the Curriculum Committee and full SFUSD Board of Education. Program success will be measured by the number of students who graduate or move to “on-track” status to graduate as a result of program participation.

If the Board of Supervisors approves the proposed ordinance, the Board of Supervisors should require SFUSD to submit monthly written reports to the Board of Supervisors on program performance and expenditures, including:

- (a) course descriptions and materials for each program;
- (b) detailed program budgets and actual expenditures;
- (c) number of students participating in each program; and
- (d) pre- and post-evaluation of participating students who are on-track or off-track to graduate.

## FISCAL IMPACTS

Approval of the proposed ordinance would appropriate \$3,000,000 of the City’s \$15,000,000 State Revenue Loss Reserve, resulting in a remaining balance of \$12,000,000. Because the impact of potential FY 2012-13 State budget reductions on City programs receiving State funds is not yet known, the impact of appropriating \$3,000,000 to the SFUSD in State Revenue Loss Reserve funds on other City programs that may lose State funding is not known.

## RECOMMENDATIONS

1. Amend the proposed ordinance to require SFUSD to submit monthly written reports to the Board of Supervisors on program performance and expenditures, including (a) course descriptions, and materials for each program; (b) detailed program budgets and actual expenditures; (c) number of students participating in each program; and (d) pre-and post-evaluation of participating students who are on-track or off-track to graduate.
2. Approval of the proposed ordinance, as amended, is a policy matter for the Board of Supervisors.

**Item 13**  
**File 12-1043**

**Department:**  
Department of Human Resources and San Francisco  
Metropolitan Transportation Agency

## EXECUTIVE SUMMARY

### Legislative Objectives

The proposed resolution would authorize a contract between the City, on behalf of the San Francisco Municipal Transportation Agency (SFMTA) and the Department of Human Resources (DHR), and Intercare Holdings Insurance Services, Inc. (Intercare) for Workers' Compensation Third Party Administrator services for an amount not-to-exceed a five-year total of \$26,500,000 including an initial term of three-years effective November 1, 2012 through October 31, 2015, and two one-year options to extend the contract through October 31, 2017.

### Key Points

- DHR manages workers' compensation claims for City departments except for the San Francisco Municipal Transportation Agency (SFMTA), which manages workers' compensation claims for SFMTA employees. DHR currently processes two-thirds of their claims in-house and has a contract with Intercare to process the remaining one-third, which expired October 31, 2012. SFMTA currently has a third party administrator process all of SFMTA's workers' compensation claims whose contract expires November 30, 2012.
- On February 21, 2012, the SFMTA Board of Directors authorized the Director of Transportation to jointly issue a Request for Proposals (RFP) with DHR for a new agreement for Workers' Compensation Claims Administration Services. Intercare was selected as the highest ranked proposer based on their oral interview, cost of services and written proposal.

### Fiscal Impacts

- The proposed year one contract budget from November 1, 2012 through October 31, 2013 is \$4,954,603, which includes \$2,413,022 for DHR claims and \$2,541,581 for SFMTA claims. The contract budget will increase by 3% per year, for total contract amount of \$15,314,182 over the initial three-year term of the contract and a not-to-exceed \$26,500,000 contract amount over the total five-year term of the contract if the two one-year options to extend the contract are exercised.
- Intercare will begin service for SFMTA on December 1, 2012 rather than November 1, 2012 and end the first year October 31, 2013, which is eleven months. Because SFMTA will only pay Intercare for eleven months in the first year, or \$2,329,782, which is \$211,799 less than the contract budget for SFMTA in year one of \$2,541,581, the Budget and Legislative Analyst recommends reducing the contract not-to-exceed amount by \$211,799, from \$26,500,000 to \$26,288,201 for the five-year contract term.

### Policy Considerations

- DHR has not evaluated the costs and benefits of managing workers' compensation claims in-house as compared to contracting with a third party administrator since first contracting with a third party administrator in 1994. In order to evaluate the costs and benefits of using in-house staff to administer workers' compensation claims compared to contracting with third party administrators to administer these claims, the Budget and Legislative Analyst recommends that DHR (1) establish performance metrics for processing claims and collect data on these metrics over the

proposed initial three-year contract term with Intercare; (2) evaluate the costs and benefits of contracting for workers' compensation claims administration as compared to processing these claims in-house prior to exercising the first one-year option to extend the contract from November 1, 2015 through October 31, 2016; and (3) based on this evaluation, determine whether to exercise the one-year option to extend or to perform such services in-house.

#### **Recommendations**

- Amend the proposed resolution to reduce the not-to-exceed amount by \$211,799, from \$26,500,000 to \$26,288,201 for the five-year contract term.
- Amend the proposed resolution to provide for retroactive approval of the proposed contract as of November 1, 2012.
- Amend the proposed resolution to require that DHR (1) establish performance metrics for processing claims and collect data on these metrics over the proposed initial three-year contract term with Intercare; (2) evaluate the costs and benefits of contracting for workers' compensation claims administration as compared to processing these claims on an in-house basis prior to exercising the first one-year option to extend the contract from November 1, 2015 through October 31, 2016; and (3) based on this evaluation, determine whether to exercise the one-year option to extend the contract or to perform such services on an in-house basis.
- Approve the proposed resolution as amended.

## MANDATE STATEMENT

In accordance with Charter Section 9.118(b), City contracts with anticipated expenditures of \$10,000,000 or more, or amendments to such agreements with anticipated expenditures of more than \$500,000 are subject to approval by the Board of Supervisors.

## BACKGROUND

The Department of Human Resources (DHR) manages workers' compensation claims for City departments except for the San Francisco Municipal Transportation Agency (SFMTA), which manages workers' compensation claims for SFMTA employees. DHR currently processes two-thirds of their claims in-house and had a contract with Intercare Holdings Insurance Services, Inc. (Intercare) for Workers' Compensation Third Party Administrator services to process the remaining one-third of their claims, which expired October 31, 2012. SFMTA uses a third party administrator, Sedgwick, to process all of their workers' compensation claims, and Sedgwick's contract expires November 30, 2012.

On February 21, 2012, the SFMTA Board of Directors authorized the Director of Transportation to jointly issue a Request for Proposals (RFP) with DHR for Workers' Compensation Claims Administration Services and to jointly evaluate proposals, conduct negotiations, and draft a contract. On April 11, 2012, the City received three proposals which were evaluated by a selection panel composed of representatives from the SFMTA, DHR, and staff members of Risk Management Offices from the City of San Jose, the City of San Francisco and the University of San Francisco. Intercare was selected as the highest ranked proposer based on their oral interview, cost of services and written proposal.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the City, on behalf of DHR and SFMTA, to execute a contract with Intercare for Workers' Compensation Third Party Administrator Services for three years, beginning retroactively on November 1, 2012 and ending October 31, 2015 with the option to extend for two, one-year terms. The City would pay Intercare an amount not-to-exceed \$26,500,000. This amount is the total cost over a five-year term assuming that the City will extend the contract.

The Annual Fixed Fee for Intercare's services is based on the amount and type of claims received each year, which determines the number of staff that Intercare will require to process the DHR's and SFMTA's claims. Table 1 shows the amount and type of SFMTA's claims and DHR's claims that were processed by a third-party administrator for FY 2011-12.

**Table 1**  
**DHR and SFMTA's Indemnity and Medical Only Claims in FY 2011-12**

| <b>Claim Type</b>        | <b>City-wide (DHR)</b> | <b>SFMTA</b> | <b>Total Claims</b> |
|--------------------------|------------------------|--------------|---------------------|
| Indemnity – New          | 666                    | 589          | 1,255               |
| Indemnity – Pending      | 1,273                  | 1,264        | 2,537               |
| Medical Only – New       | 905                    | 108          | 1,010               |
| Medical Only – Pending   | 175                    | 76           | 251                 |
| Future Medical – Pending | 521                    | 382          | 903                 |
| <b>TOTAL Claims</b>      | <b>3,540</b>           | <b>2,419</b> | <b>5,959</b>        |

According to the contract, if the total number of indemnity claims increases or decreases by 5% or more, the Annual Fixed Fee for services will increase or decrease by the same percentage for the subsequent year. According to Mr. Dan Roach, SFMTA's Workers' Compensation Manager, this term was included in the contract because it is more likely that indemnity claims will decrease. SFMTA's indemnity claims have decreased by 4% from FY 2010-11 to FY 2011-12 and DHR's total indemnity claims have decreased by 6% from FY 2010-11 to FY 2011-12.

Intercare Holdings will provide both Workers' Compensation Claims Management services and Workers' Compensation Medical and Disability Claims Management services for DHR and SFMTA as listed below.

#### **Workers' Compensation Claims Management**

- Provide Contractor's current claims manual to City outlining performance and documentation guidelines, standards, procedures and practices.
- Record and process claims data within twenty-four hours of receiving new claim.
- Investigate causation of injury/illness and determine if the injury/illness arose out of employment/course of employment.
- Determine the compensability of injuries and illnesses claimed by City employees.
- Establish and maintain a diary system utilizing the City's current process.
- Evaluate, maintain and adjust the estimated costs of all anticipated benefits and expenses on each individual case.
- Promptly issue all payments and any notices of delay in decision and compensability determinations within the time frames required by law.
- Establish a Plan of Action ("POA") for the investigation, adjustment and prompt resolution of all indemnity cases as soon as possible.
- Close claims no later than 30 days from the date that the Contractor identified the claim for closure.

#### **Workers' Compensation Medical and Disability Claims Management**

- Manage medical treatment using the City's managed care utilization review criteria to reduce medical costs.



- Notify the City within 10 days if an injured worker's permanent restrictions preclude him or her from returning to their usual and customary occupation.
- Pay uncontested medical bills within the time frames established by the State of California Workers' Compensation laws.

## FISCAL IMPACTS

Based on a competitive RFP process, the proposed contract's total not-to-exceed amount over the five-year term from November 1, 2012 through October 31, 2017, including two, one-year options to extend, is \$26,500,000. DHR's and SFMTA's FY 2012-13 and FY 2013-14 budgets, previously approved by the Board of Supervisors, include appropriations for Workers' Compensation Third Party Administrator services.

Table 2 below shows Intercare's Annual Fixed Fees in a not-to-exceed amount of \$26,000,000, over the five-year contract term, including the two, one-year options to provide Intercare's Workers' Compensation Claims Management services and Workers' Compensation Medical and Disability Claims Management services. The Annual Fixed Fee for Year 1 is based on the number and type of claims received by DHR and SFMTA in FY 2011-12 (see Table 1).

**Table 2**  
**Intercare's Annual Fixed Fees per Service Year**

| Year                                 | DHR         | SFMTA       | Total               |
|--------------------------------------|-------------|-------------|---------------------|
| 1                                    | \$2,413,022 | \$2,541,581 | \$4,954,603         |
| 2                                    | \$2,485,413 | \$2,617,828 | \$5,103,241         |
| 3                                    | \$2,559,975 | \$2,696,363 | \$5,256,338         |
| Subtotal for Three-Year Contract     |             |             | <b>\$15,314,182</b> |
| 4<br>(Option 1)                      | \$2,636,774 | \$2,777,254 | \$5,414,028         |
| 5<br>(Option 2)                      | \$2,715,878 | \$2,860,572 | \$5,576,450         |
| Subtotal for Five-Year Contract      |             |             | <b>26,304,660</b>   |
| Ad Hoc &<br>As-Needed<br>Services    | \$97,670    | \$97,670    | \$195,340           |
| Total Five-Year Not-to-Exceed Amount |             |             | <b>\$26,500,000</b> |

Since the SFMTA's existing third party administrator contract expires on November 30, 2012, according to Mr. Roach, Intercare will actually begin service for SFMTA on December 1, 2012 rather than November 1, 2012 and end the first year October 31, 2013, which is eleven months.

Therefore SFMTA will only pay Intercare for eleven months, or \$2,329,782, of the Annual Fixed Fee for the first year, which is \$211,799 less than the contract budget for SFMTA in year one of \$2,541,581. Therefore, the Budget and Legislative Analyst recommends reducing the contract not-to-exceed amount by \$211,799, from \$26,500,000 to \$26,288,201 for the five-year contract term.

Table 3 provides the details of Intercare's annual expenditures for DHR and SFMTA for Year 1 of the contract effective November 1, 2012 through October 31, 2013.

**Table 3**  
**Intercare's 12-Month Operating Budgeted Expenditures for Year 1**

| Items  | DHR                | SFMTA               |
|--|--------------------|---------------------|
| Base Salaries  | \$1,361,043        | \$1,435,241         |
| Benefits, 401k, payroll tax                                      | 254,988            | 268,344             |
| Rent   | 105,084            | 108,360             |
| Postage and Shipping   | 47,636             | 50,233              |
| Equipment Expense (Phones, postage meters, copiers/fax machines) | 34,026             | 35,881              |
| Office Expense and Supplies                                      | 40,159             | 47,946              |
| Depreciation   | 20,413             | 21,529              |
| Telephone  | 20,557             | 21,529              |
| Accounting/HR/IT and Executive oversight                         | 287,814            | 298,360             |
| Subtotal   | \$2,171,720        | \$2,287,423         |
| Profit Margin (11.1% of Costs)                                   | 241,302            | 254,158             |
| <b>Total Budgeted Expenditures</b>                               | <b>\$2,413,022</b> | <b>\$2,541,581*</b> |

\*Intercare's annual operating budget expenditures for SFMTA in Year 1 of \$2,541,581, as shown in Table 3 above, is for 12 months. However, as previously discussed, Intercare will provide only 11 months of services at an estimated cost of \$2,329,782, which is \$211,799 less than Intercare's annual operating budgeted expenditures of \$2,541,581 for SFMTA for Year 1.

There are two types of workers' compensation claims: indemnity claims and medical only claims. Indemnity claims include medical payments and payment for lost time by the injured worker, including lost weekly wages and permanency. Medical only claims tend to be minor injuries that may or may not include lost time from the workplace. According to Mr. Roach, indemnity claims are more expensive to process than medical only claims because they are more complex, take longer to process and require a more experienced adjuster. As shown in Table 4 below, the average cost per claim is higher for SFMTA than DHR because SFMTA receives a higher percentage of indemnity claims relative to SFMTA's total number of claims. The average number of SFMTA claims per adjuster is 125 compared to 145 DHR claims per adjuster.

**Table 4**  
**DHR and SFMTA's Percentage of Indemnity Claims & Average Cost per Claim in FY 2011-12**

| Department   | FY 11-12<br>Total<br>Number of<br>Claims | FY 11-12<br>Indemnity<br>Claims | Percentage of<br>Indemnity Claims | Average Cost<br>per Claim | Total              |
|--------------|--|---------------------------------|-----------------------------------|---------------------------|--------------------|
| DHR          | 3,540                                    | 1,939                           | 54.8%                             | \$682                     | \$2,413,005        |
| SFMTA        | 2,419                                    | 1,853                           | 76.6%                             | \$1,051                   | \$2,541,571        |
| <b>Total</b> |  |                                 |                                   |                           | <b>\$4,954,576</b> |

## POLICY CONSIDERATIONS

**DHR has not evaluated the costs and benefits of managing workers' compensation claims in-house rather than contracting with a third party administrator.**

DHR has used an outside third-party administrator to process one-third of their workers' compensation claims since 1994. According to Mr. Brent Lewis, the DHR Chief Financial Officer, this policy was instituted because at the time, the City had more claims than their in-house claims adjusters could process and therefore needed additional adjusters.

According to Mr. Lewis, the use of third party administrators to process workers' compensation claims, rather than the use of in-house staff, has not been reviewed since 1994. According to Ms. Peggy Sugarman, DHR Workers' Compensation Director, an evaluation of the costs and benefits of using outside third party administrator's to process claims as compared to using DHR in-house staff to process claims would include a comparison of:

- The average cost to process a claim;
- Length of time a claim is open;
- Length of temporary disability of claimant;
- Number of cases denied and the legal parameters;
- Litigation rates; and
- Total cost per claim

The Budget and Legislative Analyst recommends that DHR (1) establish performance metrics for processing claims and collect data on these metrics over the proposed initial three-year contract term with Intercare; (2) evaluate the costs and benefits of contracting for workers' compensation claims administration as compared to processing these claims on an in-house basis prior to exercising the first one-year option to extend the contract from November 1, 2015 through October 31, 2016; and (3) based on this evaluation, determine whether to exercise the one-year option to extend the contract or to perform such services on an in-house basis.

## **RECOMMENDATIONS**

1. Amend the proposed resolution to reduce the not-to-exceed amount by \$211,799, from \$26,500,000 to \$26,288,201 for the five-year contract term.
2. Amend the proposed resolution to provide for retroactive approval of the proposed contract as of November 1, 2012.
3. Amend the proposed resolution to require that DHR (1) establish performance metrics for processing claims and collect data on these metrics over the initial three-year contract term with Intercare; (2) evaluate the costs and benefits of contracting for workers' compensation claims administration compared to processing these claims on an in-house basis prior to exercising the first one-year option to extend the contract from November 1, 2015 through October 31, 2016; and (3) based on this evaluation, determine whether to exercise the one-year option to extend or to perform such services on an in-house basis.
4. Approve the proposed resolution as amended.