CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: May 22, 2013 Budget and Finance Sub-Committee Meeting

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Item 2 File 13-0391	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would authorize the first amendment to the existing Curbside Management Program agreement between the between the City, acting on behalf of the San Francisco International Airport (Airport), and FSP PPM Management, LLC (FSP PPM Management) by exercising the first optional one-year extension from July 1, 2013 through June 30, 2014.

Key Points

- The Airport established the Curbside Management Program in 1999 to manage van, tax, limousine and other shared transportation at the Airport. Under the existing Curbside Management Program agreement, FSP PPM Management manages and monitors (a) the shared van operations and paperless shared ride van passenger and vehicle database system operations, (b) limousine operations, and (c) taxi operations, taxi smartcard-based revenue system operations and taxi cashier operations.
- The Airport entered into the original agreement with FSP PPM Management through a competitive solicitation for a 2 ½ year term from January 1, 2011 through June 30, 2013 and a not-to-exceed amount of $10,450,000. The agreement includes three one-year options to extend.
- The Airport is proposing to exercise the first one-year option to extend the agreement from July 1, 2013 through June 30, 2014 and increase the not-to-exceed amount by $4,617,000 from $10,450,000 to $15,067,000.

Fiscal Impact

- The total estimated amount expended on the existing Curbside Management Program agreement from January 1, 2011 through June 30, 2013 will be $10,078,839, or $371,161 less than the not-to-exceed amount of $10,450,000. Therefore, the proposed not-to-exceed amount of $15,067,000 should be reduced by $371,161.
- The proposed Curbside Management Program budget in FY 2013-14 of $4,617,000 is $59,025 more than needed, and therefore should be reduced by $59,025 to $4,557,975. This reduction includes $59,025 in fringe benefit costs because the budget amounts for State unemployment insurance, Federal Insurance Contribution Act (FICA) contributions, Federal Unemployment Tax Act (FUTA) and medical plan premiums exceed required amounts.

Recommendations

- Amend the proposed resolution to reduce the Curbside Management Program Agreement’s not-to-exceed amount by $430,186 from $15,067,000 to $14,636,814.
- Approve the proposed resolution as amended.

MANDATE STATEMENT/ BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118(b), any contracts or agreements with a term of ten years or more and/or anticipated expenditures over $10,000,000 are subject to Board of Supervisors approval.

Background

In 1999, the San Francisco International Airport (Airport) established the Curbside Management Program to consolidate the management and monitoring of the Airport's ground transportation services and increase the utilization of ground transportation services[1] through improved customer service.

On November 16, 2010, based on a competitive process, the Board of Supervisors approved the existing Curbside Management Program agreement with FSP PPM Management in amount not to exceed $10,450,000 for a two and one half-year term from January 1, 2011 through June 30, 2013 (Resolution No. 548-10), with three one-year options to extend the agreement, subject to Board of Supervisors approval.

Services Provided Under Existing Curbside Management Program Agreement

Under the existing Curbside Management Program agreement, the scope of work includes:

- Shared Ride Van: FSP PPM Management manages and monitors shared van operations by (a) ensuring that shared vans wait in the designated van lots, (b) grouping passengers going to similar destinations at each of the nine van curb zones, (c) dispatching vans from the van lots to the van curb zones to ensure that van companies are rotating, (d) providing van operation information to air passengers, and (e) arranging appropriate ground transportation services for people with special needs (physically disabled, visually impaired or elderly).

- Limousine Operations: FSP PPM Management manages and monitors limousine operations by (a) monitoring and documenting the departure times of non-stretch and stretch limousines that enter the limousine loading zones[2], (b) providing ground transportation information to air passengers, and (c) arranging appropriate ground transportation services for people with special needs (physically disabled, visually impaired or elderly).

- Taxi Operations, Taxi Smartcard Revenue System Operations and Taxi Cashier Operations: FSP PPM Management manages and monitors taxi operations by (a) ensuring that taxis wait in the designated Main Taxicab Holding Lot or the Taxicab Overflow lot, (b) dispatching taxis from the designated Main Taxicab Holding to the four taxi zones to meet passenger demand, (d) providing taxi operation information to air passengers, and (e) arranging

[1] Ground transportation services include shared van, limousine and taxicab operations for passengers at the Airport.
[2] Limousine loading zones include any of the white zones in Domestic Terminal 1 and Domestic Terminal 3 (for non-stretch limousines only), one limousine curb zone in the Domestic Terminal 2 (all limousines) and one limousine curb zone in the International Terminal (all limousines).

appropriate ground transportation services for people with special needs (physically disabled, visually impaired or elderly).

In addition, FSP PPM Management also operates the taxi smartcard revenue system. The Airport requires that taxi drivers pay a trip fee[3] to the Airport to pick up passengers at the Airport. The taxi smartcard revenue system automatically collects these fees from individual taxi drivers using smartcards such that taxi drivers are able to load money on their individual smartcards and then insert the smart cards into card readers located at various points at the Airport, which will deduct the required fees from the card prior to the taxi driver picking up passengers. Operating the taxi smartcard-based revenue system includes (a) inputting taxi driver information into the taxi smartcard-based revenue database, (b) issuing new or replacement smartcards to taxi drivers, (c) collecting unused or returned smartcards from taxi drivers, (d) filing and maintaining the collected taxi driver information, and (e) troubleshooting and maintaining the system.

Expenditures Under the Existing Curbside Management Program Agreement

Under the existing Curbside Management Program agreement, FSP PPM Management submits invoices to the Airport for the actual costs of salaries, fringe benefits, and other direct costs for reimbursement. The Management Fees paid by the Airport to FSP PPM Management are a fixed amount that is equally divided and paid on a monthly basis.

Expenditures under the existing Curbside Management Program agreement are summarized in Table 1 below.

[3] The trip fee consists of $4.00 for a regular trip (a trip that is over 30 minutes). If the trip is less than 30 minutes, then when the taxi comes back to pick up passengers, the 2nd trip is free. If the 2nd trip is less than 30 minutes, then when the taxi comes back to pick up passengers, the 3rd trip is $2.00. The less than 30-minute fees will rotate (i.e. 2nd trip is free, 3rd trip is $2.00, 4th trip is free, 5th trip is $2.00) until the taxi driver gets another regular trip in which they would have to pay another $4.00.

Table 1: Summary of Expenditures Under the Existing Curbside Management Program agreement from January 1, 2011 through April 30, 2013

	FY 2010-2011 (6 Months from January 1, 2011 through June 30, 2011)	FY 2011-2012	FY 2012-2013 (10 Months from July1, 2012 through April 30, 2013)	Total
Salaries				
Assistant General Manager	32,083	64,167	24,375	120,625
Curbside Managers	77,132	233,009	206,376	516,517
Taxi Supervisors	92,292	217,512	205,316	515,120
Limousine/Van Supervisors	83,915	226,100	161,228	471,243
Taxi Dispatchers	469,161	1,074,030	945,266	2,488,457
Limousine Monitors	16,111	34,201	25,850	76,162
Administrative Assistants	53,548	99,850	70,579	223,977
Cashier Supervisors	0	0	0	0
Cashiers	0	0	0	0
Salaries subtotal	824,242	1,948,869	1,638,990	4,412,101
Fringe Benefits	263,816	441,437	382,804	1,088,057
Other Direct Costs	566,467	847,618	737,871	2,151,956
Management Fees				
General Manager Salary	47,500	79,167	81,833	208,500
General Manager Fringe Benefits	14,275	28,861	23,955	67,091
Insurance Premiums	128,700	220,170	182,741	531,611
Profit and Overhead[4]	151,911	396,956	327,716	876,583
Management Fees Subtotal	342,386	725,154	616,245	*1,683,785*
Total Expenditures	**1,996,911**	**3,963,078**	**3,375,910**	**9,335,899**

The two months of May and June, 2013 remain under the existing Curbside Management Program agreement. According to Mr. Abu Azam, Assistant Deputy Director of Operations at the Airport, an estimated additional $742,940 will be paid to FSP PPM Management for those remaining two months of the existing Curbside Management Program agreement. Therefore, the estimated total expenditures under the existing Curbside Management Program Agreement are $10,078,839.

FSP PPM Management has spent $219,205 on overtime from January 31, 2011 through April 30, 2013, of which $115,681 or 52.8 percent is for taxi dispatchers. According to Mr. Azam, the overtime was due to attempts to hire full-time replacement staff being delayed by the Federal background check process. In order to maintain staffing requirements under the existing

[4] The Airport's contribution to profit and overhead cannot exceed seven percent of total expenditures under the existing Curbside Management Program agreement.

Curbside Management Program agreement, overtime was necessary. The Airport and FSP PPM have made efforts to expedite the hiring process to the extent possible.

Evaluation of Proposed Curbside Management Program

The Airport evaluated FSP PPM Management's performance under the existing Curbside Management Program agreement on a quarterly basis beginning in January 2012 to ensure that specified benchmarks and goals were met. The Airport evaluated FSP PPM Management performance using the following 10 performance measures on a scale from one point to five points with five points being excellent and one point being poor:

1. Operate the Curbside Management Program with zero lost time due to injuries
2. Maintain an active Safety Committee by conducting quarterly meetings, report and document safety hazards and document the resolution of all hazards
3. Provide excellent customer service resulting in minimal complaints
4. Provide initial and service training to new employees
5. Provide ongoing training for all employees
6. Conduct and document weekly supervisory and management meetings
7. Provide initial communication training to both Curbside Management Program staff and management
8. Provide on-going annual refresher communication training to both Curbside Management Program staff and management
9. Provide training on preparing and/or reviewing incident reports and submit reports weekly to the Airport
10. Monitor the Curbside Management Program budget to ensure that funds are properly expended

Under the existing Curbside Management Program agreement, FSP PPM Management needed to score a minimum average of three points or be required to submit a written improvement plan to the Airport within 15 days of receiving the evaluation results. According to Mr. Azam, the Airport made the decision to not complete performance reviews during the first year of the contract (January 1, 2011 through December 31, 2011) because of the Airport's understanding that FSP PPM Management had assumed an operation from the previous Airport contractor that was not running well with a workforce in place with extremely low morale. The Airport conducted performance reviews in 2012 and 2013 and FSP PPM Management received an average rating of 4.5 out of a possible 5 points.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the first amendment to the existing Curbside Management Program agreement between the between the City, acting on behalf of the San Francisco International Airport (Airport), and FSP PPM Management, LLC (FSP PPM Management) by exercising the first optional one-year extension from July 1, 2013 through June 30, 2014 for an additional $4,617,000, resulting in a total not to exceed amount of $15,067,000.

The first one-year extension would allow for a profit and overhead fee of 6 percent of actual costs incurred by FSP PPM to be included in the Management Fees.

Under the first amendment, the Airport would also no longer be required to reimburse FSP PPM Management for any overtime used that was not previously approved by the Airport Director within one business day of the need for the overtime to be worked.

FISCAL ANALYSIS

Proposed Curbside Management Program Agreement Amendment Budget

The proposed Curbside Management Program Agreement's first amendment not-to-exceed budget totaling $4,617,000 for FY 2013-14, payable to FSP PPM Management is summarized in Table 2 below. The Airport would fund the proposed amendment through its Airport Operations Budget.

Table 2: Estimated Expenditures Under the Proposed One-Year Extension

	FY 2013-14
Salaries	
Assistant General Manager	$65,125
Curbside Managers	204,393
Taxi Supervisors	192,602
Limousine/Van Supervisors	167,306
Taxi Dispatchers	1,256,959
Limousine Monitors	54,342
Administrative Assistants	101,380
Cashier Supervisors	13,325
Cashiers	47,412
Salaries Subtotal	**$2,102,843**
Fringe Benefits Subtotal	**$924,415**
Other Direct Costs	
Compensated Leave	$480,088
Miscellaneous[5]	174,700
Ground Transportation Management System	100,000
Contingency	99,885
Other Direct Costs Subtotal	**$854,673**
Management Fees	
General Manager Salary	$95,000
General Manager Fringe Benefits	22,581
Insurance Premiums	220,170
Profit and Overhead	397,318
Management Fees Subtotal	**$735,069**
Payable by the Airport to FSP PPM Management Total	**$4,617,000**

As shown in Table 2 above, the Airport has included an estimated $100,000 in expenditures for the ground transportation management system, which will be replacing the existing taxicab smartcard-based revenue system, and is scheduled to be activated during FY 2013-14. According to Mr. Azam, the Airport anticipates that the $100,000 will fund start-up costs related to the activation of the new ground transportation management system, such as the purchase of

[5] Miscellaneous direct costs include expenditures such as (1) Airport identification badges, (2) cost of fingerprinting and background investigations, and (3) office equipment and supplies.

smartcards that the ground transportation operators will be using to interact with the new system. The operators will have to register, receive new smart cards, and be trained to use the new system. The $100,000 would also fund the purchase of on-going supplies, such as color ink for the printer that will print each driver's picture on their new smartcard.

As shown in Table 2 above, an additional $99,885 is also included as a contingency for any unanticipated operational changes necessitating additional expenditures, such as one of the systems going offline for an extended period of time. In addition the collective bargaining agreements which FSP PPM Management staff are subject to will expire on December 31, 2013 and the new collective bargaining agreements have not been negotiated yet. In addition, the medical insurance costs for FY 2013-14 or how many employees will elect to enroll is currently unknown. The contingency would be used if any of the above costs are more than what is currently budgeted.

The Proposed Curbside Management Agreement Amendment Budget and Total Not-to-Exceed Amount Should Be Reduced by $430,186

<u>Fringe Benefits Are Over-Budgeted by $59,025</u>

As shown in Table 2 above, the FY 2013-14 budget includes $924,415 in fringe benefits, or approximately 44 percent of the $2,102,843 in salaries. The FY 2013-14 fringe benefit budget of $924,415 is $465,050 or over 101 percent more than projected FY 2012-13 expenditures for fringe benefits of $459,365.

Mr. Azam advises that the proposed Curbside Management Program agreement amendment assumes that premiums for medical benefits will increase between 10 and 21 percent, depending on the medical plan chosen by employees. However, the FY 2013-14 fringe benefit budget included in the proposed Curbside Management Program agreement exceeds the agreement's necessary expenditures for fringe benefits by an estimated $59,025, as shown in Table 3 below, due to higher than necessary budgeted expenditures for medical benefits, even when including the estimated increase in premiums, Federal Income Contributions Act (FICA) and State Unemployment Insurance deductions.

Table 3: Summary of Recommended Reductions to Fringe Benefits

	Amount Budgeted Under the Proposed Agreement Amendment	Amount Needed	Recommended Reductions
Federal Insurance Contributions Act (FICA)	$206,634	$197,594	9,040
Federal Unemployment Tax Act (FUTA)	25,829	$15,498	10,331
State Unemployment Insurance (SUI)	180,805	$160,142	20,663
Health Insurance	361,903	$342,912	18,991
Disability Insurance			0
Life/Accident Insurance	7,440	$7,440	0
Pension	$141,803	$141,803	0
Total	**$924,415**	**$865,389**	**$59,025**

<u>Projected Expenditures under the Existing Agreement are $371,161 Less than the $10,450,000 Not-to-Exceed Amount</u>

As shown in Table 4 below, according to Mr. Azam, the total estimated amount expended on the existing Curbside Management Program agreement from January 1, 2011 through June 30, 2013 will be $10,078,839, or $371,161 less than the not-to-exceed amount of $10,450,000. Therefore, $371,161 should be reduced from the proposed not-to-exceed amount of $15,067,000.

Table 4: Summary of $371,161 Remaining on $10,450,000 Not-to-Exceed Amount

Year	Actual Expenditures
FY 2012-13 (Annualized)	$4,118,850
FY 2011-12	3,963,078
January 1, 2010 through June 30, 2011 (6 months)	1,996,911
Total Expended	**$10,078,839**
Not-to-Exceed Amount	$10,450,000
Amount Not Needed	**$371,161**

<u>Not-to-Exceed Amount of Curbside Management Program Agreement Amendment to Exercise the First One-Year Option Should be Reduced by $430,186 to $14,636,814</u>

In summary, as shown in Table 5 below, based on the above recommended reductions, the proposed $15,067,000 not-to-exceed amount of the proposed Curbside Management Program agreement amendment should be reduced by $430,186 to $14,636,814.

Table 5: Summary of the Budget and Legislative Analyst's Recommended Reductions to the Airport's Requested $15,067,000 Not-to-Exceed Amount

Reductions from Fringe Benefits	$59,025
Amount Remaining on Not-to-Exceed Amount Under the Existing Agreement	371,161
Total	**$430,186**

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the Curbside Management Program Agreement's not-to-exceed amount by $430,186, from $15,067,000 to $14,636,814.

2. Approve the proposed resolution as amended.

Item 3 File 13-0465	Departments: Public Utilities Commission (PUC) Department of Building Inspection (DBI) City Attorney's Office

EXECUTIVE SUMMARY

Legislative Objective

- The proposed ordinance would (1) authorize the PUC and the City Attorney's Office to approve settlement of claims or litigation resulting from the February 27, 2013 water main break that exceed $25,000 per claim without Board of Supervisors approval; (2) appropriate $4,000,000 from the PUC's Water Enterprise fund balance to pay these costs; and (3) require the PUC and City Attorney to submit a report to the Board of Supervisors Rules Committee at least once every six months on the settlement of claims or litigation resulting from the February 27, 2013 water main break.

Key Points

- On February 27, 2013, a 16-inch water transmission main pipe under the jurisdiction of the San Francisco Public Utilities Commission (PUC) broke on 15th Avenue between Wawona Street and West Portal Avenue, damaging 25 homes and various vehicles on the 2600 and 2700 blocks of 15th Avenue and the 400 block of Wawona Street.

- Under the proposed ordinance, the Board of Supervisors would authorize future litigated or unlitigated claims arising from the February 27, 2013 accident that exceed $25,000 to be settled based on the written recommendation of the PUC, with the written approval of the City Attorney, without obtaining future approval of each claim from the Board of Supervisors.

Fiscal Impacts

- The proposed ordinance would appropriate $4,000,000 to settle future litigated or unlitigated claims with revenues from the PUC's Water Enterprise fund balance. As of the writing of this report, the PUC could not estimate the total costs that would be incurred from the subject claims resulting from the February 27, 2013 accident. Mr. Jacobo advises that the Water Enterprise's undesignated fund balance is projected to total $51.9 million at the end of FY 2012-13.

- The PUC's estimated cost to repair the broken and adjacent water mains on Wawona Street and 15th Avenue as well as replace the aging sewer lines on Wawona Street between 15th and 16th Avenues is approximately $1,000,000, to be funded with FY 2012-13 previously appropriated Water Enterprise Renewal and Replacement funds.

Recommendation

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

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Administrative Code Section 10.22 requires Board of Supervisors approval by resolution to settle any unlitigated claims against the City that exceeds $25,000, subject to certification by the Controller that funds are available to pay the claim.

Background

On February 27, 2013, a 16-inch water transmission main pipe under the jurisdiction of the San Francisco Public Utilities Commission (PUC) broke on 15th Avenue between Wawona Street and West Portal Avenue. As a result, 25 homes located in the 2600 and 2700 blocks of 15th Avenue and the 400 block of Wawona Street and several private vehicles experienced water damage. Because of the water damage resulting in related soil and foundation problems, the Department of Building Inspection (DBI) has (a) "yellow-tagged" three homes, allowing residents to remain in their homes but with restricted access to certain areas of their homes or yards, and (b) "red-tagged" three homes, designating these homes as unsafe for occupancy.

PUC performed a temporary fix to the broken 16-inch water main pipe, permanently replaced a smaller 8-inch water pipe and repaired sewer lateral pipes and cleaned catch basins immediately following the break in the water main.

On March 15, 2013, the President of the PUC declared an emergency on behalf of the PUC related to the subject water main break, explaining that the broken water main inundated the area with water and mud flows, impacting the street and nearby homes, with resultant soil subsidence. The PUC's emergency request enables the PUC to expeditiously repair the broken and adjacent water mains as well as replace the aging water and sewer lines on Wawona Street between 15th and 16th Avenues to ensure that the shifting soil does not cause other water or sewer pipe ruptures. The PUC estimates the cost of such emergency repairs at $1,000,000. In accordance with Section 6.60 of the City's Administrative Code, City emergency work that exceeds $250,000 is subject to approval by the Board of Supervisors. Mr. Carlos Jacobo of the PUC advises that a proposed resolution authorizing this emergency and the related work to be performed is currently being prepared by the PUC for submittal to the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (1) authorize the PUC and the City Attorney's Office to approve settlement of claims or litigation resulting from the February 27, 2013 water main break that exceed $25,000 per claim without obtaining future Board of Supervisors approval; (2) appropriate $4,000,000 from the PUC's Water Enterprise fund balance to pay these costs; and (3) require the PUC and City Attorney to submit a report to the Board of Supervisors Rules Committee at least once every six months on the settlement of claims or litigation resulting from the February 27, 2013 water main break and to provide additional reports as directed by the Chair of the Rules Committee.

As noted above, City Administrative Code Section 10.22 requires Board of Supervisors approval by resolution to settle any unlitigated claim against the City that exceeds $25,000[1]. The proposed ordinance would waive this Administrative Code provision relative to the February 27, 2013 break in the PUC's water main pipes. Instead, under the proposed ordinance, the Board of Supervisors would authorize future litigated or unlitigated claims arising from the February 27, 2013 accident that exceed $25,000 to be settled based on the written recommendation of the PUC, with the written approval of the City Attorney, without obtaining future approval of each claim from the Board of Supervisors.

FISCAL IMPACTS

The proposed ordinance would appropriate $4,000,000 to settle future litigated or unlitigated claims with revenues from the PUC's Water Enterprise fund balance. As of the writing of this report, the PUC could not estimate the total costs that would be incurred from the subject claims resulting from the February 27, 2013 accident. Mr. Jacobo advises that the Water Enterprise's undesignated fund balance is projected to total $51.9 million at the end of FY 2012-13.

Expenditures exceeding $4,000,000 would be subject to future approval of supplemental appropriation ordinances by the Board of Supervisors. However, the proposed ordinance also specifically authorizes the Board of Supervisors to increase the $4,000,000 limit by resolution. Ms. Noreen Ambrose, General Counsel for the PUC advises that this provision is intended to enable the Board of Supervisors to continue to waive the City's Administrative Code provisions regarding approval of individual claims over $25,000, if the total amount exceeds $4,000,000, subject to approval by resolution of the Board of Supervisors.

As noted above, the PUC's estimated cost to repair the broken and adjacent water mains on Wawona Street and 15th Avenue as well as replace the aging sewer lines on Wawona Street between 15th and 16th Avenues is approximately $1,000,000, to be funded with FY 2012-13 previously appropriated Water Enterprise Renewal and Replacement Program funding.

POLICY CONSIDERATIONS

According to a May 13, 2013 memorandum from the PUC General Manager to the Board of Supervisors, the purpose of the proposed ordinance is to expedite the claims process for those San Francisco residents affected by the recent water main break. Ms. Ambrose advises that the Board of Supervisors has never previously been requested to waive this Administrative Code provision requiring Board of Supervisors approval for each unlitigated claim over $25,000. However, Ms. Ambrose also notes that there has not been a similar water main break, that due to geography and circumstances, caused damage to such a large number of San Francisco residents.

[1] In accordance with Administrative Code Section 10.22-2, all claims under $25,000 may be settled with the written approval of the City Attorney, with the approval of the department head which has jurisdiction over the matter, subject to certification by the Controller that funds are available to pay such settlements.

According to the May 13, 2013 memorandum, the City Attorney's Office will prepare a confidential report to the Board of Supervisors prior to the Budget and Finance Committee hearing on the proposed ordinance that will provide further analysis of the City's liability, response to date, and the anticipated claims adjustments for the affected properties.

RECOMMENDATION

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

Item 4 **File 13-0295**	**Departments:** Department of Public Health (DPH) and Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve the amendment of the lease and the exercise of the third of four five-year options to extend the lease between the Department of Public Health (DPH), as tenant, and BRCP 1390 Market, as landlord, for 27,826 square feet of office and storage space at 1390 Market Street from December 1, 2013 through November 30, 2018.

Key Points

- In 1996, the Board of Supervisors approved a seven-year lease for DPH and Calfox, Inc. for 25,939 square feet of office and storage space at 1390 Market Street from December 1, 1996 through November 30, 2003. The lease included four five-year options to extend.
- The Board of Supervisors previously approved two of the four five-year options and the five-year term of the existing lease extension is from December 1, 2008 through November 30, 2013.
- BRCP 1390 Market, LLC acquired 1390 Market Street in 2007 and assumed all existing leases.
- DPH's Environmental Health Section occupies the space and the leased premises now have 22 additional employees than under the original lease, resulting in a total of approximately 136 employees (114 original Environmental Health employees plus 22 additional employees) occupying the subject 1390 Market Street leased space.
- The proposed resolution would amend the lease agreement to include the expansion of the existing 25,939 square feet by 1,887 square feet for a total of 27,826 square feet, as 2,759 square feet of Suite 820-822 office space would be changed to 4,646 square feet in Suite 810.

Fiscal Impacts

- Under the proposed exercise of the five-year option to extend the existing lease for DPH, the base monthly rent is $82,818 (approximately $2.98 per square foot per month), which is $993,816 annually.
- DPH also pays approximately $490 per month in separately metered utilities (approximately $0.034 per square foot per month) on 14,549 square feet of the Premises, for an annual cost of approximately $5,880.
- One-time costs for the move and the build-out of the new office space in Suite 810 include tenant improvements (not covered by the Landlord), such as telephone/data, casework, moving expenses, and equipment. Such one-time costs total will be $132,000. The first year rent, utilities, and one-time costs total $1,131,696 ($993,816 rent plus $5,880 metered utilities plus $132,000 in one-time costs).
- According to Ms. Comerford, the majority of the Environmental Health Section's programs are fee-based regulatory programs and the rent, utilities, and one-time costs are fully recovered by fees and have been included in the FY 2013-14 DPH budget.

Recommendations

- Amend the proposed resolution to make the following technical corrections:
  - Delete November 30, 2013 and insert December 1, 2013 on Line 6 of Page 1, and
  - Delete 27,846 square feet and insert 27,826 square feet on Line 18 of Page 2.
- Approve the proposed resolution, as amended.

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 1996, the Board of Supervisors approved a seven-year lease for the Department of Public Health (DPH), as tenant, and Calfox, Inc. as landlord, for 25,939 square feet of office and storage space at 1390 Market Street, commonly known as Fox Plaza, from December 1, 1996 through November 30, 2003. The lease included four five-year options to extend. The Board of Supervisors previously approved two of the four five-year options, and the five-year term of the existing lease extension is from December 1, 2008 through November 30, 2013. BRCP 1390 Market, LLC acquired 1390 Market Street in 2007 and assumed all existing leases.

The base monthly rent for the existing lease is $70,062, or approximately $2.70 per square foot per month for 25,939 square feet. The City also pays approximately $490 per month in separately metered electricity (approximately $0.034 per square foot per month) on 14,549 square feet (Suite 210).[1] In total, DPH pays approximately $70,552 for rent and electricity per month or approximately $846,624 annually for the 25,939 square feet of office and storage space at 1390 Market Street.

Table 1 below shows the composition of the total premises, consisting of 25,939 square feet.

Table 1. Existing Lease Total Premises

Suite	Area (RSF)	Comments
210	14,549	Net of electrical outlet electricity load
410	3,247	Fully serviced
820-822	2,759	Fully serviced
910	4,971	Fully serviced
Subtotal Office Space	**25,526**	
Storage Premises	413	Garage Level
Total Square Feet	**25,939**	

Under the existing lease, DPH's Environmental Health Section occupies the space. The Environmental Health Section provides Federal, State, and local mandated services including Underground Storage Tank Removal, Hazardous Materials/Waste, Childhood Lead Prevention, Consumer Protection (retail and wholesale food), Solid Waste, Water Recreation, Asbestos, and Emergency Response. Following the dissolution of the City's Department of Consumer Assurances in 2004, the Environmental Health Section, which had approximately 114

[1] According to Mr. Charles Dunn, of the Real Estate Division, the City pays the Suite 210 electrical outlet electricity which is separately metered from the electricity used for Suite 210's common areas, including elevators, central HVAC chillers, etc., and light fixtures and other ceiling equipment. The separately metered electricity is based on the Public Utilities Commission's Hetch Hetchy rate.

employees[2] in the leased premises at 1390 Market Street, absorbed the Agricultural, Weights & Measures Program consisting of nine inspectors and one part-time junior administrative analyst, or a total of 10 employees. The 10 employees were re-located from Port of San Francisco space and were intended to be temporarily located at 1390 Market Street until suitable facilities were determined. Additionally in FY 2007-08, one Agricultural Commissioner/Sealer was hired for the Agricultural, Weights & Measures Program as mandated by State law. The 11 (ten plus one) employees of the Agricultural, Weights & Measures Program have continued to remain in the leased premises at 1390 Market Street.

Additionally, according to Ms. Cyndy Comerford, Planning and Fiscal Policy Manager, DPH Environmental Health Section, during the existing lease term, the Environmental Health Section added 11 new full-time employees including (a) four full-time employees to establish requirements for the Automated Point of Sale ("scanner') Program[3], to ensure compliance with California Business and Professions Code, within the Agricultural, Weights & Measures Program; and (b) seven[4] full-time employees for additional regulatory responsibilities, for a total of 11 employees. Therefore, the leased premises have 22 (11 plus 11) additional employees than under the original lease, resulting in a total of approximately 136 (114 plus 22) employees occupying the subject 1390 Market Street leased space.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the exercise of the third of the four five-year options under the existing lease to extend the lease from December 1, 2013 through November 30, 2018, and would amend the lease agreement to include the expansion of the existing 25,939 square feet by 1,887 square feet for a total of 27,826 square feet as seen in Table 2 below.

Table 2. Amended Lease Total Premises

Suite	Area (RSF)	Comments
210	14,549	Net of electrical outlet electricity load
410	3,247	Fully serviced
810	*4,646*	*Fully serviced*
910	4,971	Fully serviced
Subtotal Office Space	**27,413**	
Storage Premises	413	Garage Level
Total Premises	**27,826**	

[2] According to Ms. Cyndy Comerford, Planning and Fiscal Policy Manager, DPH Environmental Health Section, the approximate count of employees include grant funded positions and other temporary positions that may include fellowship positions and work order positions.
[3] In 2010, the Board of Supervisors established the Automated Point of Sale Inspection Program (Ordinance No. 195-10).
[4] The seven full time employees for additional regulatory responsibilities, include (a) three employees in the Healthy Housing Program to comply with new local legislation, (b) one employee for increases in inspections of massage businesses, (c) one employee to enforce local tobacco legislation, (d) one employee for enforcing Federal standards relating to menu labeling, (d) and one employee for inspections and issues around bed bugs.

Under the proposed five-year option to extend the lease, the 2,759 square feet of Suite 820-822 office space would be changed to 4,646 square feet in Suite 810, an increase of 1,887 square feet of office space. According to Ms. Comerford, 21 employees will be consolidated and co-located in Suite 810.

A summary of the proposed five-year option to extend the lease is shown in Table 3 below:

Table 3: Summary of Proposed Five-Year Option to Extend the Lease at 1390 Market Street

Term	5 years (December 1, 2013 through November 30, 2018)
Square feet (approximate)	27,826
Average rent per square foot per month Total rent per month Total annual rent	Approximately \$2.98 \$82,818 Approximately \$993,816
Annual rent increases over the five year option period	None
Utilities and services	The lease is fully serviced except for the separately metered utilities paid by the City on 14,549 square feet of Suite 210.
Additional options to Extend	Includes the final one existing five-year option to extend the lease.

The lease would continue to provide office and storage space for DPH's Environmental Health Section. The proposed lease extension continues to be a fully serviced lease with the exception that the City will continue to pay for the separately metered electricity on 14,549 square feet (Suite 210) of the leased space. Under the proposed five-year option to extend the lease, the Landlord will pay for tenant improvements for Suite 810 (provided the cost is less than $300,000), as well as all other utilities, janitorial services, building maintenance and repairs.

As noted above, the lease contains a final five-year option to extend from December 1, 2018 through November 30, 2023 that provides for a rent adjustment of 95% of Fair Market Value rent, as determined by the City's Real Estate Division, subject to the Board of Supervisors approval.

FISCAL IMPACTS

Under the proposed exercise of the five-year option to extend the existing lease for DPH, the base monthly rent is $82,818, or approximately $2.98 per square foot per month for 27,826 square feet. The proposed rent would remain constant for all five years of the extension. The monthly base rent of $82,818 ($993,816 annually) includes an increase of $12,756 from the existing base rent of $70,062. The proposed $82,818 monthly rent is based on the 95% of Fair Market Value as determined by the City's Real Estate Division, based on similar space in the Civic Center area according to Mr. Charles Dunn of the Real Estate Division.

DPH also pays approximately $490 per month in separately metered utilities (approximately $0.034 per square foot per month) on 14,549 square feet of the Premises, for an annual cost of approximately $5,880. According to Ms. Comerford, one-time costs for the move and the build-out of the new office space in Suite 810 include tenant improvements (not covered by the Landlord), such as telephone/data, casework, moving expenses, and equipment. Such one-time costs total will be $132,000. The first year rent, utilities, and one-time costs total $1,131,696 ($993,816 rent plus $5,880 metered utilities plus $132,000 in one-time costs).

According to Ms. Comerford, the majority of the Environmental Health Section's programs are fee-based regulatory programs and the rent, utilities, and one-time costs are fully recovered by fees and have been included in the FY 2013-14 DPH budget. Ms. Comerford, reports that of the $132,000 in one-time costs, $41,000 has been previously approved by the Board of Supervisors for a planned move of the Agricultural, Weights & Measures Program staff that did not occur, resulting in a net budget line item for the one-time costs in the FY 20013-14 budget of $91,000.

RECOMMENDATIONS

1. Amend the proposed resolution to make the following technical corrections:
    a. Delete November 30, 2013 and insert December 1, 2013 on Line 6 of Page 1, and
    b. Delete 27,846 square feet and insert 27,826 square feet on Line 18 of Page 2.

2. Approve the proposed resolution, as amended.

Item 5 File 13-0418	Departments: San Francisco Municipal Transportation Agency

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve a new agreement between the San Francisco Municipal Transportation Agency (SFMTA), as landlord, and Sega Food Groups, Inc. and Ramin Vahabi, together as tenant, for 1,127 square feet of retail space in the Ellis-O'Farrell Garage at 133 O'Farrell Street for a 10-year term from July 1, 2013 through June 30, 2023 and includes two five-year options to extend.

Key Points

- The Ellis-O'Farrell Garage is a City-owned parking garage under the jurisdiction of the SFMTA, located at 123 O'Farrell Street, with approximately 950 parking spaces and approximately 11,029 square feet of retail space divided into three separate spaces including: (a) 4,534 square feet currently leased as a jewelry store located at 121 O'Farrell Street; (b) 1,127 square feet currently vacant and available for rent lease located at 133 O'Farrell Street (subject of the proposed resolution); and (c) 5,368 square feet currently leased to a restaurant located at 44 Ellis Street.
- SFMTA previously had a lease for the Ellis-O'Farrell Garage with a non-profit corporation, Ellis-O'Farrell Parking Corporation, who advertised and selected a tenant for the 133 O'Farrell Street retail space through a commercial real estate broker prior to the termination of the lease on January 31, 2013. SFMTA assumed management of the Ellis-O'Farrell Garage on February 1, 2013 and entered into negotiations with Sega and Ramin Vahabi for the proposed lease. The SFMTA Board of Directors approved the proposed lease at the May 7, 2013 meeting.
- Under the proposed agreement Sega would operate a food and beverage retail store with no on-site cooking that includes a) on-site preparation of Blue Bottle Coffee beverages, (b) bottled beverages, (c) beer and wine, (d) off-site prepared local pastries, and (e) organic sandwiches and salads.
- Sega, as the tenant, will be responsible for the payment of all tenant improvements necessary to convert the 1,127 square feet of retail space into a food and beverage outlet.

Fiscal Impacts

- Under the proposed new lease agreement, the initial monthly rent is $15,000 (or approximately $13.31 per square feet per month) and the initial annual revenue from the lease is $180,000. However due to the tenant improvement provision included in the agreement that allows for the base rent payments to commence 90 days from delivery of the premises, subject to completion of the tenant improvements, the first-year annual rental revenue is estimated to be approximately $135,000 ($180,000 less $45,000, or three months of $15,000 in rent).
- The proposed initial rent of $13.31 per square foot per month exceeds the rent per square foot per month for the other two leased retail spaces in the Ellis-O'Farrell Garage.
- Over the ten-year initial lease term, the new lease agreement will is estimated to generate $2,018,498 in rental revenues to the SFMTA, including the three percent annual rent increases.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with City Charter Section 9.118(c), any lease of real property for a period of ten or more years, including options to renew, or having anticipated revenues to the City in excess of $1,000,000, is subject to Board of Supervisors approval.

Background

The Ellis-O'Farrell Garage is a City-owned parking garage under the jurisdiction of the San Francisco Municipal Transportation Agency (SFMTA), located at 123 O'Farrell Street. The Ellis-O'Farrell Garage is fully managed by the SFMTA as of February 1, 2013.[1] The Ellis-O'Farrell Garage has approximately 950 parking spaces and approximately 11,029 square feet of retail space. The approximate 11,029 of retail space is divided into three separate spaces including: (a) 4,534 square feet currently leased as a jewelry store located at 121 O'Farrell Street; (b) 1,127 square feet currently vacant and available for lease located at 133 O'Farrell Street (subject of the proposed resolution); and (c) 5,368 square feet currently leased to a restaurant located at 44 Ellis Street.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new ten-year lease agreement at the Ellis-O'Farrell Garage between the San Francisco Municipal Transportation Agency (SFMTA), as landlord, and Sega Food Groups, Inc. (Sega) and Ramin Vahabi, together as tenant, for 1,127 square feet of retail space at 133 O'Farrell Street from July 1, 2013 through June 30, 2023. The proposed lease agreement includes two five-year options to extend.

The Ellis-O'Farrell Garage was previously operated by a non-profit corporation, the Ellis-O'Farrell Parking Corporation, under a lease agreement with the SFMTA, which terminated on January 31, 2013 (File 13-0057). The Ellis-O'Farrell Parking Corporation advertised through a commercial real estate broker from June 2012 through November 2012 for a tenant for the 133 O'Farrell Street retail space after the space became vacant in May 2012. During that six month period, the commercial real estate broker received two responses to lease the site, with one responder withdrawing following initial negotiations, and the remaining response from Sega and Ramin Vahabi, who is the owner of Sega.

SFMTA assumed management of the Ellis-O'Farrell Garage on February 1, 2013 and entered into negotiations with Sega and Ramin Vahabi for the proposed lease. SFMTA staff submitted the proposed lease agreement to the SFMTA Board of Directors for approval at the May 7, 2013 meeting. According to the SFMTA staff report, staff recommended approval of the proposed lease "due to the successful track record of the prospective tenant and favorable terms being offered."

[1] Resolution 39-13 was retroactively approved by the Board of Supervisors on February 12, 2013.

The proposed resolution would approve the new ten-year lease agreement, as follows:

Table 1: Summary of Proposed Lease Agreement Terms	
Term	10 years (estimated July 1, 2013 through June 30, 2023)
Rent	$15,000 per month Approximately $13.31 per square foot per month Commences 90 days from delivery of premises to allow for tenant improvements
Annual rent increases	3 Percent
Utilities and services	Paid by Tenant
Tenant Improvements	Paid by Tenant, allows 90 days from delivery of premises to complete tenant improvements
Other Provisions	Tenant pays all broker fees and commissions and possessory interest tax
Options to Extend	Includes two five-year options to extend

Under the proposed agreement Sega would operate a food and beverage retail store with no on-site cooking. According to Mr. Michael Robertson, SFMTA's Deputy Director of Off-Street Parking, Sega plans to provide the following: (a) on-site preparation of Blue Bottle Coffee beverages, (b) bottled beverages, (c) beer and wine, (d) off-site prepared local pastries, and (e) organic sandwiches and salads. Mr. Robertson reports that the previous occupant of the retail space at 133 O' Farrell Street was a retail jeweler, and as such, it will be necessary for Sega, as the tenant, to provide improvements to the premises to convert the available 1,127 square feet of retail space into a food and beverage outlet. As noted in Table 1 above, Sega, as the tenant, will be responsible for the payment of all improvements.

FISCAL IMPACTS

Under the proposed resolution, SFMTA would enter into a new ten-year lease agreement, with two five-year options to extend, with Sega for 1,127 square feet of retail space at 133 O'Farrell Street, which is part of the SFMTA Ellis-O'Farrell Garage. Under the proposed new lease agreement, the initial monthly rent is $15,000 (or approximately $13.31 per square feet per month) and the initial annual revenue from the lease is $180,000. However due to the tenant improvement provision included in the agreement that allows for the base rent payments to commence 90 days from delivery of the premises, subject to completion of the tenant improvements, the first-year annual rental revenue is estimated to be approximately $135,000 ($180,000 less $45,000, or three months of $15,000 in rent). Over the ten-year lease term, the new lease agreement is estimated to generate $2,018,498 in rental revenues to the SFMTA, including the three percent annual rent increases.

According to Mr. Robertson the proposed initial rent of approximately $13.31 per square foot per month for the space at 133 O'Farrell Street, was negotiated between SFMTA and Sega. As shown in Table 2 and Table 3 below, the proposed rent of $13.31 per square foot per month exceeds the rent per square foot per month for the other two leased retail spaces in the Ellis-O'Farrell Garage.

Table 2: Comparison of Rent between the Subject Property at 133 O' Farrell Street and the Existing SFMTA Leased Property at 121 O'Farrell Street

Retail Space	**Square Feet of Lease Space**	**Rent per Square Foot per Month**
133 O'Farrell Street (Subject Lease for Food and Beverage Store)	1,127	$13.31
121 O'Farrell Street (Existing Jewelry Store Lease)	4,534	$7.60
Difference	3,407	$5.71
Percentage Increase		**75%**

Table 3: Comparison of Rent between the Subject Property at 133 O' Farrell Street and the Existing SFMTA Leased Property at 44 Ellis Street

Retail Space	**Square Feet of Lease Space**	**Rent per Square Foot per Month**
133 O'Farrell Street (Subject Lease for Food and Beverage Store)	1,127	$13.31
44 Ellis Street (Existing Restaurant Lease)	5,368	$6.31
Difference	4,241	$7.00
Percentage Increase		**111%**

RECOMMENDATION

Approve the proposed resolution.