


**CITY AND COUNTY OF SAN FRANCISCO**  
**BOARD OF SUPERVISORS**  
**BUDGET AND LEGISLATIVE ANALYST**

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**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** September 17, 2014 Budget and Finance Committee Meeting

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<b>Item 3</b> <b>File 14-0903</b>	<b>Department:</b> Office of Contract Administration
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<ul style="list-style-type: none"> <li>• The proposed resolution will authorize the Office of Contract Administration (OCA) to enter into nine contracts for Technology Marketplace purchases between the City and nine technology companies: En Pointe Technologies, Inc. (En Pointe); World Wide Technology Inc. (World Wide Technology); Computerland of Silicon Valley; Xtech JV (Xtech); Technology Integration Group; Central Computers; Stellar Services; Robert Half Technology; and Intervision Systems Technologies, Inc. (Intervision Systems Technologies). Each of the nine contracts would be for a not to exceed amount of \$12,000,000, for a term of approximately three years, beginning following Board approval and ending September 30, 2017. The City may exercise two options to extend the contracts for up to one year each for total contract terms of five years.</li> </ul>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>• The Office of Contract Administration selects information technology firms through a competitive Request for Proposals (RFP) process to provide goods and services through the Technology Marketplace (formerly the Technology Store). The Technology Marketplace will replace the City's Technology Store, reflecting a wider array of technologies, services, and expertise that will now be available for the City.</li> <li>• City departments may purchase technology goods and services from these Technology Marketplace contractors on an as-needed basis by soliciting competitive proposals from the contractors for purchases with a value between \$10,000 and \$2,500,000. All City projects that are estimated to be greater than \$2.5 million will be issued as an RFP outside the Technology Marketplace.</li> <li>• On September 27, 2013, the Office of Contract Administration issued an RFP to select contractors for the Technology Marketplace. The contracts are divided into three tiers: Tier 1 are large contracts with total contract amounts of \$10 million or more; Tier 2 are medium-size contracts of less than \$10 million; and Tier 3 are Local Business Enterprise Contracts ranging from \$100,000 for computer equipment to \$400,000 for maintenance and repair.</li> <li>• The proposed resolution would approve nine Tier 1 contracts, of which six are for general information technology goods and services and three are for specialized information technology goods and services.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>• Each of the nine contracts has a maximum contract amount of \$12,000,000, which is the cumulative amount that City departments may purchase from each contractor.</li> <li>• Should the maximum contract amount of \$12,000,000 be reached before the end of the contract on September 30, 2017 for any individual contractor, OCA may amend the maximum contract amount subject to Board approval.</li> </ul>	
<b>Recommendation</b>	
<ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

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

## BACKGROUND

The Office of Contract Administration (OCA) selects information technology firms through a competitive Request for Proposals (RFP) process to provide goods and services through the Technology Marketplace (formerly the Technology Store). City Departments may purchase technology products and specialized services through the Technology Marketplace on an as-needed basis.

The Technology Marketplace replaces the City's Technology Store, reflecting a wider array of technologies, services, and expertise that will now be available for the City. The Technology Store was first created in 2009 and contracted with four separate technology companies through September 2014. Table 1 below displays the original contract and final contract amounts for each contractor in the Technology Store.

**Table 1: Previous Technology Store Contracts for Products & Services**

<b>Technology Company</b>	<b>Contract Type</b>	<b>Final Contract Amount</b>
Computerland of Silicon Valley	Products & Services	\$12,000,000
	Products	43,850,000
En Pointe Technologies, Inc.	Products & Services	12,495,000
	Products	65,305,000
Xtech JV	Products & Services	90,580,000
	Products	79,830,000
Cornerstone Technology Partners JV	Products & Services	22,820,000
<b>TOTAL</b>		<b>\$326,880,000</b>

On September 27, 2013, OCA issued a RFP to create the Technology Marketplace, which divides contracts into three tiers.

- Tier 1 contracts have contract amounts of more than \$10 million and require the technology company to provide a wide selection of products, professional services, maintenance, and training services for City departments. The Tier 1 contracts are the subject of this resolution.
- Tier 2 contracts have contract amounts of less than \$10 million and require the technology company to provide a smaller selection of products, maintenance, and training services for City Departments. Tier 2 contracts have an estimated cap of \$2

million in the first year of the contract with options to increase each year. However, even with extensions, a Tier 2 contract cannot exceed \$10 million.

- Tier 3 contracts are contracts that target Local Business Enterprises (LBE) to participate in the Technology Marketplace. LBE's are eligible for set-aside contracts with caps of \$100,000 for computer equipment and \$400,000 for computer maintenance and repair.

According to Charter Section 9.118(b), only OCA's Tier 1 contracts require the Board of Supervisors approval. Within Tier 1, OCA sought "Tier 1A – Generalist" contracts which required the technology company to provide at least nine of the products and services listed in the RFP. OCA also sought "Tier 1B – Specialist" contracts which required the technology company to provide a single product or service listed in the RFP.

According to OCA, the City received 7 proposals for Tier 1A – Generalist contracts and 7 proposals for Tier 1B – Specialist contracts for the Technology Marketplace. OCA is recommending approval of 6 firms to provide Generalist services and 3 firms to provide Specialist services, resulting in a total of nine contractors. Based on a competitive process, OCA will award contracts to nine technology companies for a term of approximately three years, each under the materially-same terms and conditions and in an amount not-to-exceed \$12,000,000, as shown in Table 2 below.

**Table 2: Proposed Technology Marketplace Not-To-Exceed Contracts between for the City and Nine Technology Companies**

<b>Technology Company</b>	<b>Not-To-Exceed Contract Amount</b>
<u>Tier 1A- Generalist</u>	
En Pointe Technologies, Inc.	\$12,000,000
World Wide Technology, Inc.	12,000,000
ComputerLand of Silicon Valley	12,000,000
Xtech JV	12,000,000
Technology Integration Group	12,000,000
Central Computers	12,000,000
<u>Tier 1B - Specialist</u>	
Stellar Services	12,000,000
Robert Half Technology	12,000,000
InterVision Systems Technologies, Inc.	12,000,000
<b>TOTAL</b>	<b>\$108,000,000</b>

City departments can purchase technology products and services from the nine Tier 1 contracts in the Technology Market place. For technology products and services with a value between \$10,000 and \$2,500,000<sup>1</sup>, City departments must solicit competitive proposals from the nine Tier 1 contracts up to the contract not-to-exceed amount of \$12,000,000. For purchases of technology products and services with a value greater than \$2,500,000, the City departments

<sup>1</sup> For purchases below \$10,000, City department may purchase products or services directly through a Technology Marketplace contractor without requiring solicitation of competitive proposals.

must issue a separate RFP outside the Technology Marketplace. The nine Technology Marketplace contractors are still eligible to submit proposals for technology products and services exceeding \$2,500,000, but under the terms of these nine Technology Marketplace contracts, the City is not required to purchase technology products or services through Technology Marketplace contractors. The City may also add new contractors to the Technology Marketplace through a competitive solicitation, subject to Board of Supervisors approval pursuant to Charter Section 9.118(b).

## DETAILS OF PROPOSED LEGISLATION

Based on a competitive RFP process, the proposed resolution will authorize the Office of Contract Administration (OCA) to award contracts to nine technology firms, enabling such firms to sell products and services to City departments through the Technology Marketplace. The individual contracts to the nine technology companies include:

1. En Pointe Technologies, Inc. (En Pointe);
2. World Wide Technology, Inc. (World Wide Technology);
3. Computerland of Silicon Valley;
4. Xtech JV (Xtech);
5. Technology Integration Group;
6. Central Computers;
7. Stellar Services;
8. Robert Half Technology; and
9. Intervision Systems Technologies, Inc. (Intervision Systems Technologies).

As shown in Table 2 above, each of the nine contracts would be for a not to exceed amount of \$12,000,000, or \$108,000,000 for nine contracts, for a term of approximately three years, beginning following Board approval and ending September 30, 2017. The City may exercise two options to extend the contracts for up to one year each for total contract terms of five years.

## FISCAL IMPACT

Under the proposed contracts, City departments can purchase various technology products and services through the Technology Marketplace on an as-needed basis. Each contractor has a maximum contract amount of \$12,000,000, which is the cumulative amount that City departments may purchase from each contractor. Should the maximum contract amount of \$12,000,000 be reached before the end of the contract on September 30, 2017 for any individual contractor, OCA may amend the maximum contract amount subject to Board of Supervisors approval. All monies to purchase technology products and services are subject to appropriation approval by the Board of Supervisors.

## RECOMMENDATION

Approve the proposed resolution.

<b>Item 4</b> <b>File 14-0503</b>	<b>Department:</b> San Francisco International Airport
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objective</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution will approve and authorize the First Modification to the lease between the Airport and United to increase the amount of United’s Exclusive Use Space by approximately 92,331 square feet from 393,150 square feet to 485,481 square feet for a minimum annual incremental rent of \$10,745,068, or total of \$75,215,476 over the remaining seven years of the lease through June 30, 2021.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• On May 21, 2010, the Board of Supervisors approved a ten-year lease between the Airport and United Airlines, Inc., extending from July 1, 2011 through June 30, 2021.</li> <li>• Following the completion of several Airport construction projects, United has expanded its operations to include 92,331 square feet of additional Exclusive Use Space since August 5, 2014, under various ongoing 30-day permits to use this space.</li> </ul> <p style="text-align: center;"><b>Fiscal Impacts</b></p> <ul style="list-style-type: none"> <li>• The amounts included in the proposed resolution are based on the Airport’s rental rates from FY 2013-14, instead of FY 2014-15.</li> <li>• Using FY 2014-15 Airport Rental Rates, United will pay the Airport \$10,238,040 from August 5, 2014 through June 30, 2015 to lease 92,331 square feet of Exclusive Use Space and is estimated to pay the Airport a total of \$92,628,977 from August 5, 2014 through June 30, 2021.</li> </ul> <p style="text-align: center;"><b>Policy Considerations</b></p> <ul style="list-style-type: none"> <li>• On May 5, 2010, the Board of Supervisors approved Resolution 208-10 to authorize the Airport Director to enter into non-material modifications to the Airport 2011 Lease and Use Agreements, including expansion or reduction of leased space that is less than 10% of the total leased square footage without subsequent approval by the Board of Supervisors.</li> <li>• In FY 2014-15, the Airport and United will expand United’s lease to include the VIP Club and Customer Service Office and possibly Baggage Carousel 15. Together, these three projects would net an additional 4,041 square feet of Exclusive Use Space to United’s lease or 0.8% of the total leased space (<math>4,041 \div 485,481 = 0.8\%</math>).</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution <ul style="list-style-type: none"> <li>– on page 1, lines 1 and 6 to change the total projected rent to be paid by United to the Airport for use of the additional 92,331 square feet from \$75,215,476 to \$92,628,977 over the remaining seven years of the lease;</li> <li>– on page 2, line 17 to change the minimum incremental rent amount of \$10,745,068 per year (\$75,215,476 over the remaining seven years of the lease) to \$10,238,040 per year (\$92,628,977 over the remaining seven years of the lease).</li> </ul> </li> <li>• Approve the proposed resolution, as amended.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 9.118(c) states that any lease of real property for a period of ten years or more or that will generate revenue in excess of \$1 million or any modification of that lease is subject to Board of Supervisors approval.

**BACKGROUND**

On May 21, 2010, the Board of Supervisors approved a ten-year lease between the Airport and United Airlines, Inc. (United), extending from July 1, 2011 through June 30, 2021 (Resolution 208-10). Under this lease, United currently leases from the Airport 393,150 square feet of Exclusive Use Space<sup>1</sup>, 631,987 square feet of Joint Use Space<sup>2</sup>, and an annually determined amount of Preferential Use Space<sup>3</sup> in Terminals 1, 3, and the International Terminal. Since FY 2011-12, United has paid the Airport a total of \$240,819,207 for Exclusive Use, Joint Use and Preferential Use Space, as shown in Table 1 below.

**Table 1 – Total Rent Paid by United to the Airport from FY 2011-12 through FY 2013-14**

Space Type	FY 2011-12	FY 2012-13	FY 2013-14	TOTAL
Exclusive Use Space	\$35,858,935	\$38,331,548	\$41,050,444	<b>\$115,240,927</b>
Preferential Use Space	14,449,733	17,862,819	21,006,606	<b>53,319,158</b>
Joint Use Space	21,850,705	23,370,956	27,037,461	<b>72,259,122</b>
<b>Total</b>	<b>\$72,159,373</b>	<b>\$79,565,323</b>	<b>\$89,094,511</b>	<b>\$240,819,207</b>

Source: Airport Finance Division

In 2011, the Airport began various construction projects, including projects in Terminal 3 that reconfigured portions of United's leased space. Following the completion of these Airport construction projects, United has expanded its operations to include 92,331 square feet of additional Exclusive Use Space, under various ongoing 30-day permits to use this space. As a result, United has expanded its total occupied Exclusive Use Space by 23.5% to occupy a total of 485,481 (393,150 originally plus 92,331 proposed) square feet in the Airport. A breakdown of the expanded Exclusive Use Space is described in Table 2 below.

<sup>1</sup> Exclusive Use Space is leased space to a single airline carrier. Annual rents are determined by the Airport at the beginning of each fiscal year.

<sup>2</sup> Joint Use Space is leased space that is used by more than one airline carrier, also referred to as common use space. Annual rental payments for Joint Use Space are determined by the amount of activity from individual airline carrier's operations in relation to the amount of activity from all airline carriers operating in the International Terminal.

<sup>3</sup> Preferential Use Space is the gate space in the domestic terminals which is assigned by the Airport to airline carriers annually. The Airport designates gate space priority access to an airline but the Airport reserves the right to allow another airline to use a gate should the need arise.



**Table 2 – Allocation of an Additional 92,331 Square Feet of United Exclusive Use Leased Space**

Additional Leased Space	Square Feet
Ticket Counter	112
Airline Ticket Office	157
Temporary VIP Club	5,748
Other Enclosed Space on Floor Level 2 and above	12,953
Baggage Claim Lobby	11,129
Baggage Service Office	810
Curbside Check In	1,113
Other Enclosed Space on Floor Level 1 and below	17,320
Baggage Handling System	42,989
<b>Total Net Square Feet</b>	<b>92,331</b>

Source: Airport Aviation Management

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution will approve and authorize the First Modification to the lease between the Airport and United to increase the amount of United's Exclusive Use Space by 92,331 square feet from 393,150 square feet to 485,481 square feet to be effective beginning October 1, 2014 at a minimum annual incremental rent of \$10,745,068, or total of \$75,215,476 for use of an additional 92,331 square feet of Exclusive Use Space from August 5, 2014 through June 30, 2021.

## FISCAL IMPACT

The proposed resolution states that United will pay the Airport a minimum annual incremental rent of \$10,745,068 for use of the additional 92,331 square feet of Exclusive Use Space from July 1, 2014 through June 30, 2014, or a total of \$75,215,476 over the remaining seven years of the existing lease with United which expires on June 30, 2021 ( $\$10,745,068 \times 7 = \$75,215,476$ ). However, according to Ms. Diane Artz, Senior Property Manager at the Airport, the amounts included in the proposed resolution are based on Airport rental rates from a full year of occupancy in FY 2013-14, rather than FY 2014-15.

Using FY 2014-15 Airport Rental Rates, United began occupying 92,331 square feet of Exclusive Use Space from the Airport on August 5, 2014, under 30-day permits, pending approval of the subject proposed lease modification. In FY 2014-15, United will actually pay the Airport \$10,238,040 for use of the additional 92,331 square feet of Exclusive Use Space from August 5, 2014 through June 30, 2014, shown in Table 3 below. United will incorporate the additional 92,331 square feet of Exclusive Use Space into its existing lease effective October 1, 2014 upon Board of Supervisors approval.

**Table 3 – United’s Minimum Incremental Rent for an Additional 92,331 Square Feet of Exclusive Use Space from August 5, 2014 through June 30, 2015**

Leased Space <sup>4</sup>	Rent Per Square Foot Per Month	Square Feet	Rent from August 5, 2014 - June 30, 2015*
Category I	\$21.68	112	\$26,388
Category II	16.26	31,910	5,638,900
Category III	10.84	17,320	2,040,389
Category IV	5.42	42,989	2,532,363
Category V	2.17	0	-
<b>Total</b>		<b>92,331</b>	<b>\$10,238,040</b>

\* Includes 2 months with a 30-day permit.

Source: Airport Finance Division

Over the remaining seven years of the existing lease which expires on June 30, 2021, the Airport estimates that United will pay a total of at least \$92,628,977 for use of an additional 92,331 square feet of Exclusive Use Space from August 5, 2014 through June 30, 2021, as shown in Table 4 below. The projected annual rent for FY 2019-20 and FY 2020-21 remain the same as FY 2018-19 because the Airport does not project rent increases for more than five years. In each lease year, the Airport adjusts rental rates and charges for the entire Airport, subject to approval by the Airport Commission.

**Table 4 – United’s Projected Payments for an Additional 92,331 Square Feet of Exclusive Use Space from August 5, 2014 through June 30, 2021**

Lease Year	Total Additional Square Feet Leased	Projected Rent Increase	Annual Rent
August 5, 2014 – June 30, 2014	92,331	-	\$10,238,042
FY 2015-16*	92,331	6.1%	11,993,451
FY 2016-17*	92,331	6.2%	12,737,045
FY 2017-18*	92,331	7.3%	13,666,850
FY 2018-19*	92,331	7.3%	14,664,530
FY 2019-20*	92,331	n/a	14,664,530
FY 2020-21*	92,331	n/a	14,664,530
<b>Total</b>			<b>\$92,628,977</b>

\* Rates for FY 2015-16 to FY 2020-21 are projections only and are subject to change.

Source: Airport Finance Division

<sup>4</sup> The Airport rents Exclusive Use Space by five different categories.

Category I = Ticket counters, hold rooms, service counters and kiosks.

Category II = VIP clubs and lounges, baggage claim lobbies, baggage service offices, curbside check-in, and other enclosed space on the departure level and above.

Category III = Other enclosed space on the arrival level and below, non-public offices, and other enclosed areas on the arrival level and below.

Category IV = Inbound/outbound baggage, and equipment rooms.

Category V = Other unenclosed space, and covered areas at ramp level.

Therefore, the proposed resolution should be amended

- on page 1, lines 1 and 6 to change the total projected rent to be paid by United to the Airport for use of the additional 92,331 square feet from \$75,215,476 to \$92,628,977 over the remaining seven years of the lease;
- on page 2, line 17 to change the minimum incremental rent amount of \$10,745,068 per year (\$75,215,476 over the remaining seven years of the lease) to \$10,238,040 per year (\$92,628,977 over the remaining seven years of the lease).

## POLICY CONSIDERATIONS

On May 5, 2010, the Board of Supervisors approved Resolution 208-10 to authorize the Airport Director to enter into non-material modifications to the Airport's 2011 Lease and Use Agreements, including expansion or reduction of leased space that is less than 10% of the total leased square footage without subsequent approval by the Board of Supervisors, described as Exhibit L in the existing lease between United Airlines and the Airport. Since July 1, 2011, Ms. Artz advises that the Airport has used this provision to expand United's originally leased amount by 680 square feet or 0.2% of the total leased space.

In FY 2014-15, the Airport and United intend to exercise the Exhibit L provision when the Airport completes construction on United's VIP Club and Customer Service Office in April 2015.<sup>5</sup> The two projects subject to this expansion are:

- The construction of a new 6,137 square foot VIP Club located in Terminal 3. Upon completion of the new VIP Club, United will no longer use the temporary VIP Club of 5,748 square feet, resulting in a net increase of 389 square feet of space.
- The construction of a new Customer Service Office in Terminal 3 for a total increase of 879 square feet.

In addition, United may also expand its lease to include Baggage Carousel 15 for an additional 2,773 square feet of Exclusive Use Space should its operations require expansion; however, United has not yet determined if this expansion is necessary and has not yet provided a timeframe for when Baggage Carousel 15 may be included. Together, these three projects would add an additional 4,041 square feet of additional space to United's lease or 0.8% of the total leased space ( $4,041 \div 485,481 = 0.8\%$ ).

According to Ms. Artz, Exhibit L in the existing lease with United is intended to be used only for non-material space expansions or reductions not-to-exceed 10% of an airline's total leased space. Ms. Cathy Widener, Government Affairs Manager for the Airport adds that Charter Section 9.118 would take precedence in determining which leases are brought to the Board of Supervisors for approval, such that any changes to an Airport lease which result in changes in revenues of \$1 million or more would continue to be subject to approval by the Board of Supervisors.

<sup>5</sup> Both the VIP Club and the Customer Service Office are charged under the Airport's Category II rates.

**RECOMMENDATIONS**

1. Amend the proposed resolution
  - on page 1, lines 1 and 6 to change the total projected rent to be paid by United to the Airport for use of the additional 92,331 square feet from \$75,215,476 to \$92,628,977 over the remaining seven years of the lease;
  - on page 2, line 17 to change the minimum incremental rent amount of \$10,745,068 per year (\$75,215,476 over the remaining seven years of the lease) to \$10,238,040 per year (\$92,628,977 over the remaining seven years of the lease).
2. Approve the proposed resolution, as amended.

<b>Item 5</b> <b>File 14-0501</b>	<b>Department:</b> San Francisco International Airport
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objective</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution will approve the First Amendment to extend the lease agreement between the Airport and T-Mobile for five years from July 1, 2014 through June 30, 2019.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• On July 1, 2009, T-Mobile entered into a 5-year lease agreement with the Airport at an initial rent of \$350,000 per year that increased at a rate of \$25,000 each lease year and expired June 30, 2014.</li> <li>• T-Mobile leases space throughout the Airport terminals to provide cellular and data services to Airport passengers who use T-Mobile as their cellular carrier.</li> <li>• On March 4, 2014, the Airport Commission approved Amendment No. 1 to the existing T-Mobile lease to extend the term for an additional five years, or through June 30, 2019.</li> </ul> <p><b>Fiscal Impacts</b></p> <ul style="list-style-type: none"> <li>• Under the proposed resolution, T-Mobile will pay the Airport \$475,000 for leased space for the period from July 1, 2014 through June 30, 2015. In the subsequent four years, T-Mobile's rent will increase by \$25,000 per year for a total amount paid to the Airport of \$2,625,000 for the period of July 1, 2014 until June 30, 2019</li> <li>• Four other wireless companies including (1) New Cingular Wireless PCS, LLC, (2) Nextel of California, Inc., (3) Sprint Spectrum Realty Company, L.P., and (4) Verizon Wireless have leases with the Airport that extend through FY 2018-19, at the same annual rent rates proposed for T-Mobile.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution to authorize the subject lease with T-Mobile to be retroactive to July 1, 2014.</li> <li>• Approve the proposed resolution as amended.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board or commission that will generate revenue in excess of \$1 million or any modification of that contract is subject to Board of Supervisors approval.

## BACKGROUND

On July 1, 2009, T-Mobile West, LLC (T-Mobile) entered into a 5-year lease agreement with the Airport at an initial rent of \$350,000 per year that increased at a rate of \$25,000 each lease year and expired June 30, 2014. In 2012, the Board of Supervisors retroactively approved Resolution 12-1037, which included the original 5-year lease between T-Mobile and the Airport, along with 10-year leases between the Airport and the following three other wireless companies: (1) New Cingular Wireless PCS, LLC, (2) Nextel of California, Inc., and Sprint Spectrum Realty Company, L.P., and (3) Verizon Wireless. As stated in Resolution 12-1037, the Airport required all wireless companies, including T-Mobile, to pay the same rent starting at \$350,000 and increasing at a rate of \$25,000 a year, shown in Table 1 below.

**Table 1: Past Annual Rent Payments from T-Mobile to the Airport  
from FY 2009-10 through FY 2013-14**

Year*	Base Rent
FY 2009-10	\$350,000
FY 2010-11	375,000
FY 2011-12	400,000
FY 2012-13	425,000
FY 2013-14	450,000
<b>TOTAL</b>	<b>\$2,000,000</b>

\* Lease years begin on July 1 and end on June 30 of each year.

According to Ms. Gigi Ricasa, Senior Principal Property Manager at the Airport, T-Mobile leases space throughout the Airport terminals to provide cellular and data services to persons at the Airport who use T-Mobile as their cellular carrier.

On March 4, 2014, the Airport Commission approved Amendment No. 1 to the existing T-Mobile lease to extend the term for an additional five years, or through June 30, 2019, or a total of 10 years, the same term as had been granted to the other four wireless companies noted above.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution will approve the First Amendment to extend the lease agreement between the Airport and T-Mobile for five years from July 1, 2014 through June 30, 2019. Therefore, the proposed resolution should be amended to authorize the Airport to extend this

lease retroactive back to provide for retroactivity to July 1, 2014. Ms. Ricasa advises that, although this resolution was submitted to the Board of Supervisors on May 20, 2014, delays due to the Board of Supervisors annual budget review and August recess have resulted in the required retroactive approval.

## FISCAL IMPACT

Under the proposed resolution, T-Mobile will pay the Airport \$475,000 for leased space for the period from July 1, 2014 through June 30, 2015. In the subsequent four years, T-Mobile's rent will increase by \$25,000 per year for a total amount paid to the Airport of \$2,625,000 for the period of July 1, 2014 until June 30, 2019, shown in Table 2 below.

**Table 2: Annual Rent Payments from T-Mobile to the Airport  
from FY 2014-15 through FY 2018-19**

Year	Base Rent
FY 2014-15	\$475,000
FY 2015-16	500,000
FY 2016-17	525,000
FY 2017-18	550,000
FY 2018-19	575,000
<b>TOTAL</b>	<b>\$2,625,000</b>

\* Lease years begin on July 1 and end on June 30 of each year.

As noted above, three other wireless companies including (1) New Cingular Wireless PCS, LLC, (2) Nextel of California, Inc., and Sprint Spectrum Realty Company, L.P., and (3) Verizon Wireless have leases with the Airport that extend through FY 2018-19, at the same annual rent rates proposed for T-Mobile, shown in Table 2 above.

## RECOMMENDATIONS

1. Amend the proposed resolution to authorize the subject lease with T-Mobile to be retroactive to July 1, 2014.
2. Approve the proposed resolution as amended.

<b>Item 6</b> <b>File 14-0502</b>	<b>Department:</b> San Francisco International Airport
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objective</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve Modification No. 1 effective October 1, 2014 to the existing Hawaiian Airlines lease with the Airport to add 538 square feet of Exclusive Use Space for Hawaiian Airlines' administrative offices in the International Terminal for a minimum guarantee rent payable by Hawaiian Airlines to the Airport of \$698,480 over the remainder of the lease which expires June 30, 2021. This long term lease would replace the existing 30-day permits for the subject space.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• On April 15, 2011, the Board of Supervisors approved a lease between Hawaiian Airlines Inc. (Hawaiian Airlines) and the Airport for a term of 10 years, from July 1, 2011 through June 30, 2021 (Resolution 11-0210) for Joint Use Space in the Airport's International Terminal.</li> <li>• On October 1, 2013, the Airport began issuing ongoing 30-day permits to Hawaiian Airlines for use of 538 square feet of Exclusive Use Space in the International Terminal for Hawaiian Airlines' administrative offices. Hawaiian Airlines has used the 538 square feet of administrative office space to perform general office tasks and wishes to include the space in its existing lease.</li> </ul> <p><b>Fiscal Impacts</b></p> <ul style="list-style-type: none"> <li>• From October 1, 2013 through June 30, 2014, the Airport charged Hawaiian a rental rate of \$15.45 per square foot per month for a total of \$74,835 in FY 2013-14. On July 1, 2014, the Airport increased the rental rate for this Exclusive Use Space to \$16.26 per square foot per month for a total of \$17,496 from July 1, 2014 through August 31, 2014.</li> <li>• Hawaiian Airlines is projected to pay the Airport a total of approximately \$870,350 for use of 538 square feet of Exclusive Use space, from July 1, 2014 through June 30, 2021.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution to correctly state that the existing lease expires on June 30, 2021 and not June 30, 2014.</li> <li>• Amend the proposed resolution to require a minimum guarantee over the seven year term of the lease of \$870,350.</li> <li>• Approve the proposed resolution, as amended.</li> </ul>	



## MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten years or the modification of any lease, which when entered into was for a period of ten or more years, is subject to Board of Supervisors approval.

## BACKGROUND

On April 15, 2011, the Board of Supervisors approved a lease between Hawaiian Airlines Inc. (Hawaiian Airlines) and the Airport for a term of 10 years, from July 1, 2011 through June 30, 2021 (Resolution 11-0210) for Joint Use Space<sup>1</sup> in the Airport's International Terminal. Hawaiian Airlines needed this Joint Use Space lease to conduct its domestic carrier operations, which included gate space, ticket counters, and baggage claim. Hawaiian Airlines' rent under this lease is activity based, dependent on the actual number of incoming and outgoing flights Hawaiian Airlines operates. Since FY 2011-12, Hawaiian Airlines has paid the Airport \$554,715 for this Joint Use Space lease in the International Terminal, as shown in Table 1 below.

**Table 1: Lease Payments from Hawaiian Airlines to the Airport for International Terminal Joint Use Space**

Lease Year	Hawaiian Airlines Payments
FY 2011-12	\$139,335
FY 2012-13	186,750
FY 2013-14	196,398
July 1, 2014 - August 18, 2014	32,232
<b>Total</b>	<b>\$554,715</b>

Source: Airport Management Department

On October 1, 2013, the Airport began issuing ongoing 30-day permits to Hawaiian Airlines for use of 538 square feet of Exclusive Use Space in the International Terminal for Hawaiian Airlines' administrative offices. The Airport charged Hawaiian an initial rental rate of \$15.45 per square foot per month for a total monthly rent of \$8,315. On July 1, 2014, the Airport increased the rental rate for this Exclusive Use Space to \$16.26 per square foot per month for a total monthly rent of \$8,748. Table 2 below shows rent payments from Hawaiian Airlines to the Airport for use of 538 square feet of Exclusive Use Space since October 1, 2013.

<sup>1</sup> Joint Use Space is leased space that is used by more than one air carrier, also referred to as common use space.

**Table 2: Rent Payments by Hawaiian Airlines to the Airport for Use of 538 Square Feet of Exclusive Use Airport Space since October 2013.**

30-Day Permit Rental Dates	Rent Per Square Foot Per Month	Total Rent Per Month	Total Rent
October 1, 2013 - June 30, 2014	\$15.45	\$8,315	\$74,835
July 1, 2014 - August 31, 2014	16.26	8,748	17,496
<b>TOTAL</b>			<b>\$92,331</b>

Source: Airport Management Department

According to Ms. Gina Priest, Executive Secretary for Aviation Management at the Airport, Hawaiian Airlines has used the 538 square feet of administrative office space under a 30-day permit until the Commission and the Board approves its incorporation into the Lease and Use Agreement. Hawaiian Airlines uses the space to perform general office tasks.

#### DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 1 effective October 1, 2014 to the existing Hawaiian Airlines lease with the Airport to add 538 square feet of Exclusive Use Space for Hawaiian Airlines' administrative offices in the International Terminal for a minimum guarantee rent payable by Hawaiian Airlines to the Airport of \$698,480 over the remainder of the lease which expires June 30, 2021. This long term lease would replace the existing 30-day permits for the subject space.

Although the proposed resolution states that the lease expires on June 30, 2014, the existing Hawaiian Airlines lease actually expires on June 30, 2021. Therefore, the proposed resolution should be amended to correctly state the expiration date of June 30, 2021.

#### FISCAL IMPACT

In FY2014-15, based on a per square foot rate of \$16.26 per month or a rate of approximately \$195 per square foot per year, Hawaiian Airlines will pay the Airport annual rent of \$104,969 for use of the 538 square feet of office space, as shown in Table 3 below. In subsequent years, the annual rent will increase as determined by the Airport's Rates and Charges, which are adjusted each fiscal year and approved annually by the Airport Commission. As shown in Table 3 below, Hawaiian Airlines is projected to pay the Airport a total of approximately \$870,350 for use of 538 square feet of Exclusive Use space, from July 1, 2014 through June 30, 2021.

**Table 3: Projected Annual Rent Payments by Hawaiian Airlines to the Airport for Use of 538 Square Feet of Exclusive Use Airport Space.**

Fiscal Year	Per Square Foot Per Year	Total Annual Rent
2014-15	\$195	\$104,969**
2015-16	207	111,404
2016-17*	220	118,274
2017-18*	236	126,941
2018-19*	253	136,254
2019-20*	253	136,254
2020-21*	253	136,254
<b>TOTAL</b>		<b>\$870,350</b>

Source: Airport Management Department

\* Rates for FY 2016 to 2021 are projections only and subject to change.

\*\* Includes two months with a 30-day permit.

The resolution states that the proposed lease has a minimum guarantee rent payable to the Airport of \$698,480. According to Mr. Dan Ravina, Senior Property Manager at the Airport, the projected minimum rent guarantee was made by the Airport Finance Department using future rate increase projections for only five years, instead of the lease term which extends for seven years. As a result, the per square foot per year rate remains the same for the last three years. Based on the lease term of seven years, the proposed resolution should be amended to reflect the projected total of \$870,350 as the minimum guarantee payable by Hawaiian to the Airport over the seven year term of the lease, as shown in Table 3 above.

In contrast to the subject exclusive use space, Mr. Ravina advises that future rent payments for Hawaiian Airlines Joint Use Space in the International Terminal are activity dependent.

## RECOMMENDATIONS

1. Amend the proposed resolution to correctly state that the existing lease expires on June 30, 2021 and not June 30, 2014.
2. Amend the proposed resolution to require a minimum guarantee over the seven year term of the lease of \$870,350.
3. Approve the proposed resolution, as amended.

**Item 13**  
**File 14-0846**

**Department:**  
Department of Public Works

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed ordinance would amend Administrative Code Section 6.68(H) for the Traffic Company & Forensic Services Division (TC&FSD) Project to (a) authorize the Director of Public Works to issue RFPs to pre-qualified CM/GCs and their team of pre-qualified core trade subcontractors to design/build only the mechanical, electrical, plumbing and exterior building envelope scopes of work (core trades), (b) use both cost and non-cost criteria to evaluate the proposals for such subcontracted core trade work; (c) award the prime contract to the CM/GC and team of subcontractors based on cost and non-cost criteria; and (d) make environmental findings.

### Key Points

- The City plans to build a new facility to house the Police Department's TC&FSD Project in a four-story approximately 110,000 square foot building at 1995 Evans Street. The total budget for the project is \$165,000,000 with direct construction costs of approximately \$100,000,000.
- The City has multiple procurement methods listed in the Administrative Code that may be used to procure construction work, which include Integrated Project Delivery Procurement and Design/Build Procurement models. The proposed ordinance would approve the use of a hybrid method for the TC&FSD Project which would use elements of both Integrated Project Delivery Procurement and Design/Build Procurement models, which would increase use of qualitative, non-cost criteria in selecting subcontractors for the mechanical, electrical, plumbing and exterior envelope aspects of the project.

### Fiscal Impacts

- The proposed hybrid procurement model is difficult to quantify because the proposed model has not been previously used on City projects, likely resulting in fiscal impacts which are both positive and negative.

### Policy Consideration

- Given that the proposed ordinance would only apply to the TC&FSD project and that there are likely to be both positive and negative fiscal impacts, amending the City's procurement policy for the TC&FSD is a policy consideration for the Board of Supervisors.

### Recommendation

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

## MANDATE STATEMENT

Charter Section 2.105 authorizes all legislative acts by written ordinance or resolution, subject to majority vote of the members of the Board of Supervisors.

## BACKGROUND

### Project History

Currently, the Police Department's Traffic Company and Forensic Services Division's Administration is housed in the Hall of Justice at 850 Bryant Street. The Hall of Justice is over 50 years old and seismically deficient. The City's 10-year Capital Plan calls for replacing the Hall of Justice. The Crime Lab for the Forensic Services Division is currently housed at Building 606 in the Hunters Point Shipyard, which will be demolished prior to the area's development for residential use.

The City plans to build a new facility to house the Police Department's Traffic Company and Forensic Services Division Administration and Crime Lab (TC&FSD Project) in a four-story approximately 110,000 square foot building and a separate 2-story garage at 1995 Evans Street in the southeast portion of San Francisco. The Traffic Company would occupy approximately 30,000 square feet and the Forensic Services Division Administration and Crime Lab would occupy the remaining approximately 80,000 square feet. The total budget for the TC&FSD Project is \$165,000,000 with direct construction costs of approximately \$100,000,000. In November 2013, the Board of Supervisors approved Resolution No. 390-13 authorizing the City to lease the 1995 Evans Street facility, with an option to purchase, at a future date.

On June 3, 2014, San Francisco voters approved Proposition A, the Earthquake Safety and Emergency Response Bond, authorizing the City to incur \$400,000,000 of General Obligation bond debt to finance the construction, acquisition, improvement, and seismic retrofitting of projects and programs, including \$165,000,000 for the TC&FSD.

### City Project Procurement Policies

The City has multiple procurement methods to procure construction work. The use of a given procurement method is determined by the department head responsible for that project, based on anticipated cost savings, time efficiencies and the public's best interest. If the proposed project is under the jurisdiction of a commission, then the commission shall first approve the procurement method. If the project is not under the jurisdiction of a commission, such as the Department of Public Works, then the City Administrator must first approve the procurement method.

### Integrated Project Delivery Procurement Model

The City may procure design and construction services using a model known as Integrated Project Delivery Procurement Model which is codified in Administrative Code Section 6.68. Through this Integrated Project Delivery Procurement Model, a Construction Manager/General Contractor (CM/GC) is selected during the more detailed design phase to review and provide comments on the City Architect/Engineer's design. The CM/GC constructs the project based on the design developed by the Architect/Engineer.

To select the CM/GC under the Integrated Project Delivery Procurement Model, the City issues a competitive Request for Qualifications (RFQ) inviting CM/GCs to submit their qualifications to construct the project according to the proposed project's design parameters. Evaluative non-cost criteria for these qualifications may include: (1) ability to perform services, (2) financial capacity, (3) experience with similar projects, (4) compliance with City's Administrative Code, (5) ability to deliver projects on time and on budget, (6) litigation history, (7) reputation, (8) prior claims, and (9) Human Rights Commission compliance. The City sets objective scoring criteria and designates a panel to review the competing proposals against the established criteria.

The City then issues a Request for Proposals (RFP) to the pre-qualified CM/GCs identified through the competitive RFQ process. The RFP requests cost information including fees for pre-construction and construction phase services, specifying overhead/profit, general conditions and bond cost.

Under these provisions, CM/GCs are awarded contracts based on a combination of cost (requested during the RFP phase) and qualitative non-cost criteria (requested during the RFQ phase), with the cost criterion representing at least 65% of the overall evaluation and qualitative criteria up to 35%.

In accordance with Administrative Code Section 6.68(H), the CM/GC is required to procure all subcontracts for trade works through a pre-qualification and competitive bid process to award subcontracts to the lowest cost and most responsible bidder. Qualitative non-cost criteria are not currently used to evaluate subcontractor work.

### Design/Build Project Delivery Procurement Model

As an alternative to the Integrated Project Delivery Procurement Model as described above, the City may also procure design and construction services through a Design/Build Procurement Model which is specified in Administrative Code Section 6.61. Using Design/Build Procurement Model, the City creates general schematic designs for the project. A design-builder is then

selected to complete the design and construction of the project. Section 6.61 (L) specifies that the design-builder award subcontracts to the lowest responsive bidder.

#### Hybrid Design and Construction Procurement Model

The Director of DPW has determined that, instead of one of the two currently authorized procurement models, as described above, a Hybrid Design and Construction Procurement Model to procuring both the CM/GC and the core trade subcontractors that combines elements of the Integrated Project Delivery Procurement Model and the Design/Build Procurement Model is preferable and appropriate for the TC&FSD Project. On May 20, 2014, the City Administrator approved DPW's request.

### **DETAILS OF PROPOSED LEGISLATION**

The proposed ordinance would amend Administrative Code Section 6.68(H) for the Traffic Company & Forensic Services Division Administration and Crime Lab Project (TC&FSD Project) to (a) authorize the Director of Public Works to use the Hybrid Design and Construction Procurement Model, as described above, by issuing RFPs to pre-qualified CM/GCs and their team of pre-qualified core trade subcontractors to design/build only the mechanical, electrical, plumbing and exterior building envelope scopes of work (core trades), (b) use both cost and non-cost criteria to evaluate the proposals for such subcontracted core trade work; (c) award the prime contract to the CM/GC and team of subcontractors based in part on an evaluation of cost and non-cost criteria for such subcontracted core trade work; and (d) make environmental findings.

Under this Hybrid Design and Construction Procurement Model, the City would use the existing Integrated Project Delivery Procurement Model to select the CM/GC who would be responsible for constructing the overall project based on the designs developed by the Architect/Engineer. In addition, the CM/GC would be required to procure non-core trade subcontractors based solely on their responsive lowest cost competitive bids.

However, as detailed in Section 2(f) of the proposed ordinance, the City's architect/engineering team will also develop schematic design criteria for the mechanical, electrical, plumbing and exterior building envelope work (core trades). The mechanical, electrical, plumbing and exterior building envelope work would then be put out to bid on a design-build basis, such that each of these core trade subcontractors would submit their cost information, similar to what is requested of the CM/GC, e.g. fees for pre-construction and construction phase services, specifying overhead, profit, and general conditions. According to DPW, the core trades that would be subject to these new provisions for the TC&FSD Project would constitute

approximately 40 percent of the subcontracted work, while non-core trades would constitute 60 percent.

The subcontracted core trade proposals would be separately evaluated and pre-qualified during the RFQ phase, and after receiving their cost proposals during the RFP phase, will be scored using both quantitative (at least 65% of the total score) and qualitative (up to 35% of the total score) criteria.

On November 18, 2013, the Planning Department issued a Final Mitigated Negative Declaration for the TC&FSD and determined that the TC&FSD could not have a significant effect on the environment. On February 4, 2014, the Board of Supervisors approved Resolution No. 34-14 adopting the Final Mitigated Negative Declaration and a Mitigation Monitoring and Reporting Program. The proposed ordinance would find that, based on the Board of Supervisors previous approval of Resolution No. 34-14, and no significant changes to the TC&FSD project since then, no additional environmental review is required.

## FISCAL IMPACTS

It is difficult to quantify the specific fiscal impacts of the subject ordinance because the proposed Hybrid Design and Construction Procurement Model has not been previously used by the City. However, amending the Administrative Code to create this hybrid model and changing the selection criteria for specific subcontracted core trades for the TC&FSD would result in the general fiscal impacts discussed below.

- Under current City policy, qualified subcontractors are awarded contracts on the basis of submitting their proposal as the lowest and most responsible bidder. By using the Hybrid Design and Construction Procurement Model, non-cost factors for up to 35% of the total score could result in increased costs to the City.
- By using the Hybrid Design and Construction Procurement Model, more core trades subcontractors may bid on the project, potentially resulting in the City receiving more bids and related lower bid amounts, and fewer potential lawsuits which, overall, could result in reduced costs to the City.
- DPW advises that the Design/Build Procurement Model can provide greater cost assurances by consolidating design, architecture and engineering and construction in the same contract. A report cited by DPW found that design/build projects cost less, were constructed faster with higher delivery speeds and higher quality on average than other project delivery types.<sup>1</sup> This Hybrid Design and Construction Procurement Model can

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<sup>1</sup> Matt Konchar, "Comparison of U.S. Project Delivery Systems", *Journal of Construction Engineering and Management*, Vol. 124, Issue 6 (December 1998)



potentially reduce unnecessary change orders which would otherwise add costs to the project.

## **POLICY CONSIDERATION**

The proposed ordinance would create a Hybrid Design and Construction Procurement Model for a single project, the Traffic Company and Forensic Services Division Administration and Crime Lab. According to Mr. Edgar Lopez, Deputy Director and City Architect at DPW, the Design/Build Procurement Model is the current industry standard for procurement of more technical subcontracted work for complex laboratory construction projects, which have specific regulatory and legal requirements. As noted above, of the total 110,000 square foot TC&FSD building, approximately 80,000 square feet or 73% would be for the Forensic Services Division, including their medical and laboratory space.

At the same time, in using the proposed Hybrid Design and Construction Procurement Model, the City would still retain the Integrated Project Delivery Procurement Model to select the CM/GC who would be responsible for constructing the overall TC&FSD project and procuring the remaining subcontractors based on the lowest cost most responsible bids. According to Mr. Lopez, within the next six months, DPW plans to propose further changes to Chapter 6 of the Administrative Code to allow for greater flexibility in the City's design and construction procurement models for other future projects.

Given that the proposed ordinance would only apply to the TC&FSD project and that there are likely to be both positive and negative fiscal impacts, amending the City's procurement policy for the TC&FSD is a policy consideration for the Board of Supervisors.

## **RECOMMENDATION**

Approval of the proposed ordinance is a policy decision for the Board of Supervisors, given that the proposed use of the Hybrid Design and Construction Procurement Model would only apply to the Police Department's Traffic Control & Forensic Services Division Project and, could result in either net increased or decreased costs to the City.

<b>Items 14, 15 and 16</b> <b>Files 14-0851, 14-0852 &amp; 14-0853</b>	<b>Department:</b> Public Utilities Commission (PUC)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p>The proposed ordinances (Files 14-0851, 14-0852, and 14-0853<sup>1</sup>) would (a) de-appropriate surplus monies in permanent salaries and retirement benefits of \$285,664 in the Public Utilities Commission's (PUC) FY 2013-14 operating budgets for the Wastewater Enterprise, the Water Enterprise, and the PUC Bureaus, and (b) re-appropriate these funds to overtime expenditures for the three units of the PUC in the prior fiscal year (FY 2013-14).</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The City Administrative Code Section 3.17 states that the operating budgets for the PUC comprised of the Wastewater Enterprise, the Water Enterprise and the PUC Bureaus, must contain a separate line item for overtime expenditures and that the PUC must request a supplemental appropriation from the Board of Supervisors for any additional overtime.</li> <li>• Due to slower than anticipated hiring and a four-fold increase in the service requests from new construction projects throughout the city, the PUC expended \$285,664 more than its approved FY 2013-14 overtime budget.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinances would de-appropriate \$285,664 in surplus salaries and retirement and would re-appropriate these funds to overtime.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed ordinances to be retroactive to June 30, 2014.</li> <li>• Approve the proposed ordinances as amended.</li> </ul>	

<sup>1</sup> The PUC submitted three separate ordinances since the total PUC operating budget is comprised of three separate budgets for the Water Enterprise, the Wastewater Enterprise, and the PUC Bureaus, which includes management and administration.

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

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

Administrative Code Section 3.17, which was approved by the Board of Supervisors in September 2011, requires that the Annual Appropriation Ordinance contain a separate overtime appropriation within the operating budgets of the following eight City departments: San Francisco International Airport, Department of Emergency Management, Police Department, Department of Public Health, Public Utilities Commission, Department of Public Works, Recreation and Park Department, and the Sheriff.

Administrative Code Section 3.17(b) states that the eight City departments identified above must also request a supplemental appropriation ordinance for any overtime costs in excess of the overtime included in their operating budgets. Such requested ordinances are subject to Board of Supervisors appropriation approval.

**DETAILS OF PROPOSED LEGISLATION**

The proposed ordinances (Files 14-0851, 14-0852, and 14-0853<sup>2</sup>) would (a) de-appropriate surplus monies in permanent salaries and retirement benefits of \$285,664 in the Public Utilities Commission's (PUC) FY 2013-14 operating budgets for the Wastewater Enterprise, the Water Enterprise, and the PUC Bureaus, and (b) re-appropriate these funds to overtime expenditures for the three units of the PUC in the prior fiscal year (FY 2013-14).

According to Carlos Jacobo, PUC Budget Director, the PUC incurred overtime costs in excess of the budgeted amounts because of (1) delays in filling vacant positions due to slower than anticipated hiring, and (2) an estimated four-fold increase in service requests for connections to the PUC's water and sewer lines from new construction sites throughout the City.

**FISCAL IMPACT**

The proposed ordinances would de-appropriate \$285,664 and re-appropriate that same amount for overtime costs in the prior fiscal year (FY 2013-14). Since the proposed ordinance applies to the prior fiscal year (FY 2013-14), the Budget and Legislative Analyst's Office recommends amending the proposed ordinance to be retroactive to June 30, 2014, the last day in FY 2013-14.

Table 1 below shows the sources and uses of funds totaling \$285,664 for the proposed supplemental appropriations for additional overtime in fiscal year 2013-14.

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<sup>2</sup> The PUC submitted three separate ordinances since the total PUC operating budget is comprised of three separate budgets for the Water Enterprise, the Wastewater Enterprise, and the PUC Bureaus, which includes management and administration.

**Table 1: Sources and Uses of Funds**

<b>Source of Funds</b>	
Wastewater Enterprise Surplus Permanent Salaries	193,935
Water Enterprise Surplus Permanent Salaries	79,437
PUC Bureaus Surplus Retirement	12,292
<b>Total Sources of Funds</b>	<b>\$285,664</b>
<b>Uses of Funds</b>	<b>Overtime Expenditures</b>
<u>Wastewater Enterprise</u>	
Maintenance	\$282,563
Administration	24,455
Operations	2,627
Environmental Engineers	582
Collection System	(110,891)
Wastewater Labs	(5,401)
Subtotal, Wastewater Enterprise	\$193,935
<u>Water Enterprise</u>	
City Distribution	\$50,927
Water Supply and Treatment	24,892
Water Quality	9,896
Natural Resources	(6,278)
Subtotal, Water Enterprise	\$79,437
<u>PUC Bureaus</u>	
Business Services	\$11,644
General Manager	648
Subtotal, PUC Bureaus	12,292
<b>Total Uses of Funds</b>	<b>\$285,664</b>

## RECOMMENDATIONS

1. Amend the proposed ordinances to be retroactive to June 30, 2014.
2. Approve the proposed ordinances as amended.

<b>Item 17</b>	<b>Department:</b>
<b>File 14-0917</b>	Office of Public Finance

## EXECUTIVE SUMMARY

### Legislative Objectives

- Ordinance approving the (a) remarketing of San Francisco Finance Corporation Lease Revenue Refunding Bonds, Series 2008-1 and 2008-2 for the Moscone Center Expansion Project related to West Moscone; (b) form of a reimbursement agreement among the City and County of San Francisco, the San Francisco Finance Corporation, and State Street Bank and Trust Company; (c) form of amended and restated reimbursement agreement, fee agreement and custodian agreement; and (d) general authority for City officials to take necessary actions in connection with the remarketing of the Bonds, approving modifications to these documents and the execution, delivery and ratifying subsequent actions taken.

### Key Points

- Moscone Convention Center (Moscone) was originally constructed in 1981 (Moscone South), expanded in 1992, with the addition of Moscone North and again expanded in 2003 with the addition of Moscone West.
- In 1996, San Francisco voters authorized the lease financing of up to \$157.5 million for the Moscone West expansion, which were approved by the Board of Supervisors in 2000 through the San Francisco Finance Corporation. On August 12, 2008, the Board of Supervisors approved the re-issuance of the previously issued 2000 variable rate lease revenue bonds for the expansion of Moscone West, selecting the Bank of America and State Street Bank and Trust Corporation (State Street) to provide for principal and interest payments through letters of credit and related reimbursement agreements, which expire in October 2014. On September 11, 2008, the San Francisco Finance Corporation issued a total of \$145,340,000 Lease Revenue Refunding Bonds, Series 2008-1 and Series 2008-2.

### Fiscal Impacts

- Based on a competitive proposal process, State Street Bank submitted the lowest cost proposal to the City.
- As of September 2, 2014, the 2008 Bonds had a total outstanding balance of \$116,020,000. Currently, the City is paying commitment fees of 0.70% to Bank of America and 0.72% to State Street, total costs of approximately \$823,742 annually. Under the proposed new letter of credit and related agreements with State Street, the City would pay 0.35% commitment fees, or total annual costs of approximately \$406,070, an annual savings of \$417,672,
- Dedicated Hotel Tax revenues are used to repay these long term lease revenue debt obligations related to Moscone.

### Recommendation

- Approve the proposed ordinance.

## MANDATE STATEMENT

Charter Section 9.118 requires any agreement with a term of more than ten years or expenditures of more than \$10,000,000 be subject to approval by the Board of Supervisors.

## BACKGROUND

### Moscone Convention Center

The George Moscone Convention Center (Moscone) was originally constructed in 1981 as a single 300,000 square foot convention facility on Howard Street, now known as Moscone South between 3<sup>rd</sup> and 4<sup>th</sup> Streets, adjacent to Yerba Buena Gardens. In 1992, Moscone expanded with the addition of Moscone North across from Moscone South and again expanded in 2003 with the addition of Moscone West, at Howard and 4<sup>th</sup> Streets. Moscone now encompasses over 900,000 gross square feet of convention facility space on three adjacent blocks<sup>1</sup>.

Moscone is owned by the City and County of San Francisco and the Office of Community Investment and Infrastructure (the successor agency the San Francisco Redevelopment Agency). The Convention Facilities Department within the General Services Agency operates and maintains Moscone through contracts with (a) San Francisco Travel<sup>2</sup>, and (b) Moscone Joint Venture<sup>3</sup>, a private firm to manage the daily operations of Moscone.

### Moscone West Expansion Existing Lease Revenue Bonds

In 1996, San Francisco voters approved Proposition A, which authorized the lease financing of a not-to-exceed \$157.5 million for the acquisition, construction and improvements for the Moscone West expansion. On October 16, 2000, the Board of Supervisors approved the issuance of a not-to-exceed \$157.5 million of variable rate lease revenue bonds (Series 2000-1, 2000-2 and 2000-3) through the San Francisco Finance Corporation (Ordinance No. 241-00). The San Francisco Finance Corporation is a nonprofit public benefit corporation, formed by the City in 1991, in response to San Francisco voter's approval in 1990, to provide lease financing for the acquisition, construction and installation of facilities, equipment and other real and personal property for the City's purposes.

On August 12, 2008, the Board of Supervisors (a) approved the issuance of Variable Rate Lease Revenue Refunding Bonds (Series 2008-1 and 2008-2) to replace the previously issued 2000 variable rate lease revenue bonds for the expansion of Moscone West and (b) based on a competitive process, approved new letters of credit and reimbursement agreements with Bank of America N.A. (Bank of America) for Series 2008-1 and State Street Bank and Trust

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<sup>1</sup> Moscone is currently undergoing another expansion of 340,000 square feet.

<sup>2</sup> San Francisco Travel, previously the San Francisco Convention and Visitors Bureau, is a nonprofit organization which has an annual \$1.2 million agreement with the City to promote San Francisco as a premier destination for travel, funded through Grants for the Arts Hotel Tax revenues and the Office of Economic and Workforce Development General Fund revenues.

<sup>3</sup> Moscone Joint Venture, a private consortium of Spectator Management Group, has an eight-year agreement with the City, through June 30, 2017, to manage the day-to-day operations of Moscone Convention Center.

Corporation (State Street) for Series 2008-2, to provide for the specified principal and interest payments (Ordinance No. 203-08). These letters of credit and related reimbursement agreements with Bank of America and State Street were for an initial three years with a three year renewal option which was approved, and which now expire in October 2014. On September 11, 2008, the San Francisco Finance Corporation issued a total of \$145,340,000 Lease Revenue Refunding Bonds, Series 2008-1 and Series 2008-2, to refund the outstanding \$144,300,000 from the prior 2000 lease revenue bonds.

Dedicated Hotel Tax revenues are used to repay these long term lease revenue debt obligations related to Moscone. As of September 2, 2014, the Bond Series 2008-1 and 2008-2 had a total remaining outstanding balance of \$116,020,000.

## DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve the (a) remarketing<sup>4</sup> of San Francisco Finance Corporation Lease Revenue Refunding Bonds (Bonds), Series 2008-1 and 2008-2 for the Moscone Center Expansion Project related to West Moscone; (b) form of a reimbursement agreement among the City and County of San Francisco, the San Francisco Finance Corporation, and State Street Bank and Trust Company; (c) form of amended and restated reimbursement agreement, fee agreement and custodian agreement; and (d) general authority for City officials to take necessary actions in connection with the remarketing of the Bonds, approving modifications to these documents and the execution, delivery and ratifying subsequent actions taken.

The proposed ordinance would not authorize the reissuance of the existing 2008 lease revenue bonds for the Moscone West expansion project, but rather approve new supporting bank agreements, for the existing 2008 lease revenue bonds. As noted above, the existing letter of credit and reimbursement agreements with Bank of America (Series 2008-1) and State Street Bank (Series 2008-2) Moscone Bonds expire in October of 2014. According to Mr. Anthony Ababon, Bond Associate in the Controller's Office of Public Finance, the Office of Public Finance issued a request for proposals from banks to provide new letters of credit, reimbursement agreements and related documents for the 2008 Bonds. Based on responses from six banks<sup>5</sup>, the Office of Public Finance is requesting the Board of Supervisors approve the proposed ordinance to enter into new letter of credit, reimbursement, fee and custodian agreements with State Street Bank, which submitted the lowest cost proposal to the City.

Mr. Ababon notes that the existing lease revenue bonds for the Moscone West expansion project are variable rate bonds that are remarketed or resold weekly. Currently, these Series 2008-1 and 2008-2 bonds are budgeted at 3.25% annual interest rate. At 3.25%, the annual

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<sup>4</sup> Because these San Francisco Finance Corporation lease revenue bonds have variable interest rates, these bonds are re-sold or remarketed weekly.

<sup>5</sup> The six responses were from (1) Bank of America, (2) Bank of the West, (3) JP Morgan, (4) Wells Fargo, (5) Bank of Tokyo, Mitsubishi, and (6) State Street.

debt service on the outstanding \$116,020,000 is \$3,771,000. Dedicated Hotel Tax revenues are used to repay these 2008 variable rate lease revenue bonds.

## FISCAL IMPACT

As noted above, the existing outstanding debt on the combined Series 2008-1 and 2008-2 Bonds is \$116,020,000. Currently, the City is paying commitment fees of 0.70% to Bank of America for Series 2008-1 and 0.72% to State Street for Series 2008-2 or total costs of approximately \$823,742 annually. Under the proposed new letter of credit and related agreements with State Street, the City would pay 0.35% in commitment fees to State Street for both Series 2008-1 and 2008-2, or a total annual cost of approximately \$406,070, an annual savings of \$417,672, as summarized in the Table below.

<b>2008</b>	<b>Outstanding Debt at Existing Rate</b>	<b>Existing Annual Cost</b>
Series 2008-1 (Bank of America)	\$58,010,000 @ 0.70%	\$406,070
Series 2008-2 (State Street)	\$58,010,000 @ 0.72%	417,672
<b>Existing Annual Fees</b>	<b>\$116,020,000</b>	<b>\$823,742</b>
	<b>Outstanding Debt at Proposed Rate</b>	<b>Proposed Annual Cost</b>
Series 2008-1 (State Street)	\$58,010,000 @ 0.35%	\$203,035
Series 2008-2 (State Street)	\$58,010,000 @ 0.35%	203,035
<b>Proposed Annual Fee</b>	<b>\$116,020,000</b>	<b>\$406,070</b>
<b>Annual Savings</b>		<b>\$417,672</b>

Similar to the existing letter of credit and related agreement's structure, the proposed agreements with State Street provide that if the City's credit ratings are downgraded, the commitment fees to be paid to State Street would increase, resulting in higher fees and costs to the City. The proposed term of the agreements with State Street Bank is for five years, commencing in October 2014 through October 2019. For illustrative purposes, over the five year term, the City would realize savings of approximately \$2,088,360 (\$417,672 x 5 years), as compared to the existing agreements, assuming \$116,020,000 remains outstanding for the term of the agreement. However, as the outstanding principle is reduced over time, as the fees are on a percent basis, the actual fees paid to State Street will decrease.



**RECOMMENDATION**

Approve the proposed ordinance.