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: October 23, 2013 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item 1 **File 13-0939**	**Department:** Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize DPH to (1) retroactively accept and expend State Vocational Rehabilitation Services Program grant funds of $271,200 from July 1, 2013 through June 30, 2016; and (2) enter into a grant agreement with the California Department of Rehabilitation (DOR).

Key Points

- Under the State Vocational Rehabilitation Services Program, which began in 1992, DOR provides grant funds to pay for State program costs and to directly fund non-profit organizations that provide vocational rehabilitation services to San Francisco Department of Public Health (DPH) clients. The DOR requires the City to enter into a grant agreement and provide matching funds as a condition of the State Vocational Rehabilitation Services Program grant.
- The proposed resolution provides for the retroactive acceptance and expenditure of $271,200 in State Vocational Rehabilitation Services Program grant funds to pay for DPH's 0.8 FTE Health Program Coordinator III position for three years from July 1, 2013 through June 30, 2016.
- As a condition of accepting the grant funds, DPH would enter into a grant agreement with DOR, which requires the City to allocate $2,079,945 in matching funds. The total grant agreement budget is $9,765,000, which includes $7,685,055 in State funds and $2,079,945 in City matching funds. The program budget of $9,675,000 includes (1) DOR program expenses, (2) the 0.8 FTE Health Program Coordinator III in DPH, and (3) services provided by three non-profit organizations under a cooperative agreement between DOR and the three non-profit organizations.

Fiscal Impact

- City matching funds are $693,315 per year or $2,079,945 for three years from FY 2013-14 through FY 2015-16, and consist of $1,479,945 in City General Fund and $600,000 in State Mental Health Services Act funds.
- City matching funds of $693,315 per year were included in the FY 2013-14 and FY 2014-15 Annual Appropriation Ordinance that were approved by the Board of Supervisors. Because the $693,315 per year in City matching funds are included in the FY 2013-14 and FY 2014-15 Annual Appropriation Ordinance, the FY 2015-16 City matching funds of $693,315 would be included in the baseline budget for DPH in FY 2015-16.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors' approval.

California Department of General Services State Contracting Manual Chapter 3.15 states that contracts for subvention or for local assistance between the State and nonprofit organizations are exempt from the competitive bidding process.

BACKGROUND

The State Vocational Rehabilitation Services Program provides vocational rehabilitation services to individuals with mental illness. Vocational rehabilitation services consist of:

- Situational assessments that allow clients to visit workplaces and perform limited work on a trial basis;
- Vocational assessments using interviews and questionnaires to assess employment opportunities which best fit the clients' skills and capabilities;
- Employment placement services; and
- Occupational training.

Under the State Vocational Rehabilitation Services Program, which began in 1992, the State Department of Rehabilitation (DOR) provides grant funds to pay for State program costs and to directly fund non-profit organizations that provide vocational rehabilitation services to San Francisco Department of Public Health (DPH) clients. The DOR requires the City to provide matching funds as a condition of receiving the State Vocational Rehabilitation Services Program grant funds.

The Board of Supervisors approved the acceptance and expenditure of the prior three-year State Vocational Rehabilitation Services Program grant in October 2010 (File 10-1199). As a condition of accepting the grant, DPH entered into a grant agreement with DOR in which the State provided $7,685,055 in grant funds and the City provided $2,079,945 in matching funds, totaling $9,765,000 for vocational rehabilitation services, as shown in Table 1 below. Under the grant agreement, DOR entered into cooperative agreements with three non-profit organizations to provide vocational rehabilitation services to DPH clients.

Table1: State Vocational Rehabilitation Services Grant Budget FY 2010-11 through FY 2012-13

Sources of Funds	Three-Year Budget
City Match	
General Fund	$1,479,945
State Mental Health Services Act (SMHSA) Funds	600,000
City Match Subtotal	**2,079,945**
State Funds	
California Department of Rehabilitation Grant	7,685,055
State Funds Subtotals	**7,685,055**
Total Sources	**$9,765,000**
Uses of Funds	
DOR Program Expenditures	
DOR Case Expenditures[1]	$2,235,723
DOR Rehabilitation Counselors	1,241,742
DOR Program Expenditures Subtotal	**3,477,465**
Non-Profit Expenditures	
Richmond Area Multi-Services	3,063,354
Community Vocational Enterprises	2,583,513
Citywide Case Management Forensics (UCSF)	640,668
Non-Profit Expenditures Subtotal	**6,287,535**
Total Uses	**$9,765,000**

[1] DOR case expenditures include tools, clothing and other work materials that may be necessary to assist in job placement.

In March 2012, the Board of Supervisors approved the first amendment to the grant agreement (File 12-0198) between DPH and DOR, allowing the City to accept and expend an additional $135,600 for a 0.8 full-time-equivalent (FTE) Health Program Coordinator III position over the remaining 18 months of the agreement.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize DPH to (1) retroactively accept and expend State Vocational Rehabilitation Services Program grant funds of $271,200 from July 1, 2013 through June 30, 2016; and (2) enter into a grant agreement with DOR.

The grant funds would pay for the existing 0.8 FTE Health Program Coordinator III position from July 1, 2013 through June 30, 2016, with annual salary and benefit costs of $90,400, totaling $271,200 over the three-year term of the grant.

DPH is requesting retroactive approval of the proposed grant agreement because the Department was not notified of the grant award until after the fiscal year began.

As a condition of accepting the grant, DPH would enter into a three-year grant agreement with DOR from July 1, 2013 through June 30, 2016 , in which DOR would allocate $7,685,055 in grant funds and the City would allocate $2,079,945 in matching funds, for total program funds of $9,765,000, as shown in Table 2 below.

Under the grant agreement between DPH and DOR, the State selects the nonprofit service providers while the City selects eligible vocational rehabilitation services program participants. For this agreement, the State has selected the following three nonprofit service providers: (1) Richmond Area Multi-Services, Inc., (2) Citywide Case Management Forensics (University of California, San Francisco - UCSF), and (3) Caminar, Inc.

When determining which non-profit organizations to select, the State considered the following criteria:

- Non-profit organizations with experience providing vocational rehabilitation services to persons with mental illness,
- Non-profit organizations that are willing to be certified by the Commission of Accreditation for Rehabilitation Facilities, which is required of any organization receiving more than $50,000 in DOR funds,
- Non-profit organizations that have experience working with the diverse populations found in San Francisco,
- Non-profit organizations that have facilities that are Americans with Disabilities Act compliant, and
- Non-profit organizations that are financially solvent.

In order to be eligible for the services provided under the new three-year grant agreement, a San Francisco resident must: (1) have a mental illness as defined in the DSM-IV[1]; (2) be over the age of 18; (3) express an interest in working; and (4) demonstrate necessary skills to obtain employment.

The selected nonprofit organizations will provide services including:

- Vocational Assessment: interviews to confirm eligibility by establishing baseline educational and vocational levels, skills and interests.
- Situational Assessment: Individualized assessment of needs, strengths, weaknesses, and barriers to employment.
- Work Adjustment: Training in actual work environment.
- Employment Services: Personalized training to help clients prepare for, obtain, and maintain employment.

[1] DSM-IV is the Diagnostic and Statistical Manual of Mental Disorders, published by the American Psychiatric Association in 2000 that includes all currently recognized mental health disorders. According to Mr. Charles Mayer, DPH Peer-to-Peer and Vocational Programs Manager, City and State billing systems have not yet been updated to reflect the DSM-V published in 2013.

- Non-Supported Employment Job Coaching: Ancillary services to maintain employment.

DPH estimates that 200 clients will receive services each year for a three-year total of 600 clients.

FISCAL IMPACT

$9,765,000 in sources and uses of funds under the State Vocational Rehabilitation Services grant agreement between DPH and DOR are shown in Table 2 below, which includes $271,200 allocated to DPH for the 0.8 FTE Health Program Coordinator III position

Table 2: State Vocational Rehabilitation Services Grant Budget FY 2013-14 through FY 2015-16

Sources of Funds	Annual	Three-Year Budget
City Match		
City General Fund	$493,315	$1,479,945
SMHSA Funds	200,000	600,000
City Match Subtotal (21.3% of Total Funds)	693,315	2,079,945
State Funds		
California Department of Rehabilitation Grant	2,561,685	7,685,055
State Funds Subtotal	2,561,685	7,685,055
Total Sources	**$3,255,000**	**$9,765,000**
Uses of Funds		
DOR/DPH Program Expenditures		
DOR Case Expenditures	$682,437	$2,047,311
DOR Rehabilitation Counselors	413,914	1,241,742
Subtotal, DOR Program Expenditures	1,096,351	3,289,053
DPH Health Program Coordinator III	90,400	271,200
DOR/DPH Program Expenditures Subtotal	1,186,751	3,560,253
Non-Profit Expenditures		
Richmond Area Multi-Services	1,021,118	3,063,354
Citywide Case Management Forensics (UCSF)	630,343	1,891,029
Caminar	416,788	1,250,364
Non-Profit Expenditures Subtotal	2,068,249	6,204,747
Total Uses	**$3,255,000**	**$9,765,000**

According to Mr. Charles Mayer, DPH Peer-to-Peer and Vocational Programs Manager, the grant-funded Health Program Coordinator III position and the City matching funds of $693,315 per year were included in the FY 2013-14 and FY 2014-15 Annual Appropriation Ordinance that were approved by the Board of Supervisors.

Because the $693,315 per year in City matching funds are included in the FY 2013-14 and FY 2014-15 Annual Appropriation Ordinance, the FY 2015-16 City matching funds of $693,315 would be included in the baseline budget for DPH in FY 2015-16.

RECOMMENDATION

Approve the proposed resolution.

Item 2 File 13-0977	Department: San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a new agreement between San Francisco Municipal Transportation Agency (SFMTA) and New Flyer of America Inc. (New Flyer) for the purchase of 50 40-foot low-floor diesel hybrid buses, and related tools, training and spare parts. The agreement is for not-to-exceed $38,348,847 and a term of up to six years.

Key Points

- The Board of Supervisors previously approved an agreement between SFMTA and New Flyer for the purchase of 45 40-foot low-floor diesel hybrid buses in October 2012 and a subsequent amendment to the agreement for an additional 17 buses in December 2012, totaling 62 buses, under a competitive process through the Minnesota Cooperative Purchasing Venture.
- New Flyer has an open slot in their production line and would be able to deliver the 50 new 40-foot low-floor diesel hybrid buses to SFMTA in a timely manner and at a base price of $689,686, which is below the base price of $691,941 of the 62 buses previously purchased by SFMTA from New Flyer. SFMTA staff determined that the most cost-effective and expeditious way to procure the 50 new buses would be to contract with New Flyer based on a new competitive process by the Minnesota Cooperative Purchasing Venture.

Fiscal Impact

- The budget for the purchase of 50 40-foot low-floor diesel hybrid buses is $38,348,847. The agreement budget includes: (1) the cost for 50 new buses; (2) training for staff to drive the new vehicles; (3) tools and diagnostics to maintain the new vehicles; (4) installation of wayside equipment for wireless download of signal priority, video and digital voice annunciation system (DVAS); and (5) an allowance for spare parts.
- SFMTA will incur associated project costs with the agreement, including: (1) an 8.75 percent Sales Tax on the 50 new buses, tools, the signal priority, video and DVAS wayside infrastructure, and spare parts; (2) warranty support; (3) SFMTA and consultant staff to provide project support to acquire and accept the new buses, and (4) Federal Transit Authority required vehicle inspection at the New Flyer plant. These associated costs total $6,114,893 and the total estimated project costs are $44,463,740.
- Funds to pay project cost of $44,463,740 include $28,467,700 in Federal grants and $15,996,040 in funds from Proposition K Sales Tax monies.

Policy Consideration

- The Zero Emissions 2020 Plan, approved by the SFMTA Board of Directors, commits the City to a clean air policy for public transit with the establishment of a bus fleet that may include hybrid buses, battery buses, and fuel-cell buses by 2020.
- By January 2014, SFMTA will have a fleet of 198 hybrid buses and plans to buy additional hybrid buses to replace the remaining 279 40-foot diesel buses and 60-foot diesel buses as part of SFMTA's bus procurement strategy. SFMTA will issue a Request for Proposals (RFP) in December 2013 for the purchase of hybrid buses to replace the diesel buses.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT/BACKGROUND

Mandate Statement

Charter Section 9.118 provides that any agreement (a) for $10,000,000 or more, (b) that extends more than ten years, or (c) with an amendment of more than $500,000, is subject to Board of Supervisors approval.

Administrative Code Section 21.16 provides that the San Francisco Municipal Transportation Agency (SFMTA) may utilize the competitive procurement process of any other public agency to make purchases of commodities under the terms established in that agency's procurement process, upon determination that use of the other agency's procurement process would be in the City's best interests.

Background

The Board of Supervisors previously approved an agreement between SFMTA and New Flyer of America, Inc. (New Flyer) for the purchase of 45 40-foot low-floor diesel hybrid buses in October 2012 and a subsequent amendment to the agreement for an additional 17 buses in December 2012, totaling 62 buses. The agreement was for an amount not-to-exceed $48,669,369, including the purchase price of the buses, and associated tools, spare parts, training, and storage and associated insurance costs.[1] The agreement was for six years through 2018.

SFMTA entered into the agreement with New Flyer subsequent to a competitive process through the Minnesota Cooperative Purchasing Venture, established by the State of Minnesota, pursuant to Administrative Code Section 21.16.

SFMTA received delivery of the 62 buses as of September 2, 2013 and has spent approximately $44,100,000 of the agreement amount. According to Mr. Elson Hao, SFMTA Principal Engineer, the agreement balance of approximately $4,570,000 will be spent for spare parts, special tools and training.

SFMTA Five-Year Procurement Strategy

According to an August 27, 2013 memorandum from SFMTA staff to John Haley, SFMTA Director of Transit, outlining SFMTA's five-year bus procurement strategy, SFMTA's current bus fleet includes 323 40-foot buses and 124 articulated 60-foot buses, including conventional diesel engines as well as hybrid engines, totaling 447 buses, which are the number of buses needed to meet SFMTA service levels, including daily service, maintenance, special events, and bus shuttles to provide service when there is a disruption in light rail service.

[1] According to Mr. Elson Hao, SFMTA Principal Engineer, the new agreement for the 50 40-foot low-floor diesel hybrid buses will not include fees for storage and associated insurance costs during storage because the buses will all be manufactured and delivered to SFMTA within a short period of time, precluding the need for storage.

According to the August 27, 2013 memorandum, SFMTA's five-year bus procurement strategy includes the following objectives:

- Replace existing buses within a five-year period to reduce average age of buses and reduce maintenance costs.
- Partner with other agencies where possible to reduce unit costs and create a shared demand for future parts.
- Spread procurements more evenly to ensure that major maintenance investments, such as midlife overhauls, are more evenly spaced, and to reduce the risk of technology obsolescence because buses are delivered in smaller batches.
- Accommodate up to a 10 percent service expansion by early 2015 as recommended in the SFMTA Transit Effectiveness Project (TEP).
- Build in flexibility to accommodate land use related growth and capital projects expected through 2020.

SFMTA's proposed bus replacement and expansion plan is shown in the Attachment[2] which outlines the purchase year and replacement year for each type of bus, based on Metropolitan Transportation Commission's (MTC) guidelines as shown in Table 1 below.

Table 1. Useful Life Guidelines of the SFMTA Bus Fleet

Vehicle Type	Metropolitan Transportation Commission (MTC) Guidelines	Federal Transit Administration (FTA) Guidelines
40-foot and 60-foot Bus	12 years	12 years
40-foot and 60-foot Trolley Bus	15 years	15 years

Source: SFMTA Five-Year Bus Procurement Strategy (August 27, 2013 SFMTA memorandum)

SFMTA plans to replace or expand their fleet of 40-foot buses over the seven-year period from 2013 through 2019, including the 62 replacement and expansion buses previously purchased from New Flyer through the Minnesota Cooperative Purchasing Venture in 2013, and 50 replacement buses proposed for purchase from New Flyer through the Minnesota Cooperative Purchasing Venture in 2014, totaling 112 buses.

SFMTA plans to issue a new competitive Request for Proposals (RFP) in December 2013 and enter into a new agreement for the procurement of 40-foot hybrid buses and articulated 60-foot hybrid buses between 2015 and 2019.[3]

[2] The Attachment, which was included as an appendix to SFMTA's August 27, 2013 memorandum, shows 324 40-foot buses ("motor coach") in 2013 but the actual number is 323.

[3] SFMTA purchased or plans to purchase 112 standard 40-foot buses in 2013 and 2014, and 200 standard 40-foot buses from 2015 through 2019, totaling 312 buses, offset by the reduction of 25 buses, for a net of 287 replacement and expansion buses. SFMTA plans to purchase 224 replacement and expansion articulated 60-foot buses by 2019.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new agreement between SFMTA and New Flyer for the purchase of 50 40-foot low-floor diesel hybrid buses, and related tools, training and spare parts. The agreement is for an amount not-to-exceed $38,348,847 and for a term not-to-exceed six years.

SFMTA selected New Flyer through its membership in the Minnesota Cooperative Purchasing Venture, based on a new competitive process conducted by the State of Minnesota for 2013, which conformed to the requirements established by the Federal Transportation Administration. According to SFMTA, purchasing the buses through the Minnesota Cooperative Purchasing Cooperative reduces SFTMA's time for procurement by approximately nine months. The SFMTA Board of Directors approved the award of the new agreement to New Flyer on October 15, 2013.

According to Mr. Haley, the 50 new 40-foot low-floor diesel hybrid buses will have the same features as the 62 buses previously purchased by SFMTA from New Flyer. New Flyer has advised SFMTA that there is an open slot in New Flyer's production line, and would be able to deliver the 50 new buses in a timely manner and at a base price of $689,686, which is below the base price of $691,941 of the 62 buses previously purchased by SFMTA from New Flyer.

FISCAL IMPACT

As shown in Table 3 below, the budget for the proposed agreement with New Flyer is $38,348,847. This amount includes: (1) the cost for 50 new 40-foot low-floor diesel hybrid buses; (2) training for staff to drive the new vehicles; (3) tools and diagnostics to maintain the new vehicles; (4) installation of wayside equipment for wireless download of signal priority, video and digital voice annunciation system (DVAS); and (5) an allowance for spare parts.

Table 3: Itemized Costs of New Flyer Agreement

Item	Total Cost
50 New 40-foot Low-Floor Diesel Hybrid Buses ($689,686.32 per 50 buses)	$34,484,316
Other Agreement Costs	
Training	76,998
Tools and Diagnostics	130,015
Signal Priority, Video and DVAS Wayside Infrastructure	1,357,518
Allowance for Spare Parts	2,300,000
Subtotal for Other Agreement Costs	*$3,864,531*
Agreement Total	**$38,348,847**

SFMTA will incur other associated project costs under the agreement, including: (1) an 8.75 percent Sales Tax on the new buses, tools, signal priority, video and DVAS wayside infrastructure, and spare parts; (2) warranty support; (3) SFMTA and consultant staff to provide project support to acquire and implement the new buses, and (4) Federal Transit Administration required vehicle inspection at the New Flyer plant. As shown in Table 4 below, with associated costs of $6,114,893 the total estimated project costs are $44,463,740.

Table 4: Associated Project Costs for the New Flyer Agreement

Item	Cost
Tax (8.75%)	$3,348,787
Warranty support	230,000
Project support (SFMTA staff, ODC)	1,936,106
Vehicle Inspection at Plant (FTA Required)	600,000
Subtotal Other Associated Costs	**$6,114,893**
Agreement Total (see Table 3 above)	$38,348,847
Total Estimated Project Costs Including Agreement Total & Associated Costs	**$44,463,740**

As shown in Table 5 below, the SFMTA has identified the needed funding sources of $44,463,740 to pay for this project.

Table 5: Funding Sources for Proposed Purchase

Fund Source	Amount
Federal 5307 Grant[4]	$28,467,700
Proposition K Sales Tax[5]	15,996,040
Total	**$44,463,740**

POLICY CONSIDERATION

The SFMTA's Zero Emissions 2020 Plan

The Zero Emissions 2020 Plan, approved by the SFMTA Board of Directors, commits the City to a clean air policy for public transit with the establishment of a low-emissions bus fleet that may include hybrid buses, battery buses, and fuel-cell buses by 2020. In coordination with the SFMTA and the San Francisco Department of Environment, the Zero Emissions 2020 Plan focuses on the purchase of cleaner transit buses including hybrid diesel-electric buses, which (1) emit 95 percent less particle matter (PM, or soot) than the diesel buses replaced, (2) produce 40 percent less oxides of nitrogen, and (3) reduce greenhouse gases by 30 percent. The plan also discusses purchasing and upgrading to hydrogen fuel cell buses when they become commercially available for large fleet purchases.

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[4] U.S. Department of Transportation, Federal Transit Administration (FTA), Urbanized Area Formula Program (Section 5307) is a formula grant program for urbanized areas providing capital, operating, and planning assistance for mass transportation.

[5] Proposition K was passed by San Francisco voters in November 2003, allowing the half-cent transportation sales tax to be allocated to the Prop K Expenditure Plan. The Expenditure Plan does not provide guidance as to the allocation of those revenues over the 30-year period, but instead only stipulates eligible programs.

According to Mr. Hao, by January 2014, SFMTA will have a fleet of 1,051 vehicles, of which 168 will be 40-foot hybrid buses, as shown in Table 6 below.

Table 6: Planned SFMTA Muni Vehicle Fleet by January 2014

Type of Vehicle	Vehicle Count
Hybrid Buses	
30-foot Hybrid Buses	30
40-foot Hybrid Buses	168
Subtotal Hybrid Buses	**198**
Diesel Buses	
40-foot Buses	155
60-foot Buses	124
Subtotal Diesel Buses	**279**
Electric Trolley Buses	333
Metro Streetcars	151
Historic and President's Conference Committee Streetcars[6]	50
Cable Cars	40
Subtotal Other Vehicles	**574**
Total Vehicles	**1,051**

Additionally, SFMTA plans to buy additional hybrid buses to replace the remaining 279 diesel buses of its 40-ft and 60-ft diesel bus fleet as part of SFMTA's bus procurement strategy discussed above and will be part of the planned new December 2013 RFP for the procurement of 40-foot hybrid buses and articulated 60-foot hybrid buses.

RECOMMENDATION

Approve the proposed resolution.

[6] Restored historic rail vehicles used on the F-Line along Market Street and the Embarcadero.

Appendix A: Proposed Vehicle Replacement and Expansion Plan 2013-2022

Fleet	Purchase Year	Replacement Year	Size	# of Current Vehicles	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	New Fleet Size	Change in Fleet Size
Motor Coach 30 ft																	
Orion	2007	2019	30'	30							30					30	0
Extra 10 in 2017		2017	30'	10												0	-10
Reduction									-10								
Total Fleet Planned				**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**-10**
Total Fleet Demand					26	26	26	26	26	26	26	26	26	26	26		
Motor Coach 40 ft																	
NABI	1999	2011	40'	45	45											45	0
Neoplans	2002	2014	40'	58		50	8									58	0
Neoplans	2003	2015	40'	67			26	41								67	0
Neoplans - overhaul	2002	2019	40'	80					30	36						66	-14
Orion	2007	2019	40'	56							45					45	-11
Expansion					17		14									31	31
Reduction										-14	-11						
Total Fleet Planned				**306**	**324**	**324**	**338**	**338**	**338**	**324**	**312**	**312**	**312**	**312**	**312**	**312**	**6**
Total Fleet Demand					331	331	338	338	338	325	312	312	309	308	306		
Motor Coach 60 ft																	
Neoplans	2002	2014	60'	26		26										26	0
Neoplans	2003	2015	60'	98			50	48								98	0
Extra 24 in 2015		2015	60'	24						24						24	0
Expansion			60'	0		35				11	30					76	76
Total Fleet Planned				**124**	**124**	**159**	**159**	**159**	**159**	**194**	**224**	**224**	**224**	**224**	**224**	**224**	**76**
Total Fleet Demand					136	146	159	170	182	191	203	214	224	236	240		
Trolley Coach 40 ft																	
ETI	2002	2017	40'	105			50	10								60	-45
ETI	2003	2018	40'	135				40	50	40						130	-5
Expansion			40'													0	0
Reduction			40'						-45	-5							
Total Fleet Planned				**240**	**240**	**240**	**240**	**240**	**195**	**190**	**190**	**190**	**190**	**190**	**190**	**190**	**-50**
Total Fleet Demand					156	158	162	163	165	167	170	169	171	173	173		
Trolley Coach 60 ft																	
New Flyer	1994	2009	60'	60		1	59									60	0
ETI	2003	2018	60'	33				33								33	0
Expansion			60'						17							17	17
Total Fleet Planned				**93**	**93**	**93**	**93**	**93**	**110**	**110**	**110**	**110**	**110**	**110**	**110**	**110**	**17**
Total Fleet Demand					72	75	81	84	90	93	98	102	103	103	103		
																866	39

YEAR	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
TOTAL	811	846	860	860	832	848	866	866	866	866	866

NOTES:

green text indicates that a fleet is being procurred late

red text indicates fleet being purchased early

blue text indicates an option that is not in the current fleet, but could be brought back

Item 3 **File 13-0778**	**Department:** Airport

EXECUTIVE SUMMARY

Legislative Objective

The proposed resolution would approve Amendment No. 2 to the five existing leases between the Airport and five rental car companies: Hertz Corporation (Hertz); Avis Budget Car Rental, LLC (Avis/Budget); EAN, LLC (EAN); DTG Operations, Inc. (DTG); and Fox Rent a Car, Inc. (Fox).

Key Points

- In 2008, the Airport Commission awarded leases for the Airport's consolidated Rental Car Center to five rental car companies - Hertz, Avis/Budget, EAN, DTG, and Fox - based on a competitive bid process. The original leases were for five years from January 1, 2009 through December 31, 2013, with one five-year option to extend the leases through December 31, 2018.
- The proposed Amendment No. 2 to the five existing leases would (1) increase the space rent, as discussed further below; and (2) make other non-financial adjustments to the leases.

Fiscal Impact

- Rents paid by each of the five rental car companies to the Airport under the existing leases consist of (1) the greater of the Minimum Annual Guarantee (MAG) or percentage rent; and (2) space rent.
- The MAG was set in the initial year of the leases and increased annually to equal 8.5 percent of each rental car company's prior years' gross revenues, but to not less than the initial MAG. Percentage rent is 10 percent of each rental car company's gross revenues.
- Space rent consists of (1) structure rent for Rental Car Center and Quick Turn Around (vehicle washing and other quick turn-around) space; and (2) surface rent for unimproved land. Space rent was initially set based on the Airport's annual debt service for construction of the Rental Car Center and Quick Turn Around facilities, maintenance and operating and other expenses, and unimproved land, increased annually by the Consumer Price Index (CPI).
- For the first four years of the leases from 2009 through 2012, total percentage rent payments were \$160,874,320, and total space rent payments were \$60,471,673, for total percentage and space rent payments to the Airport by the five rental car companies of \$221,345,993.
- Under the proposed Amendment No. 2, the terms for the payment of the MAG or percentage rent are unchanged. Space rent would be adjusted upward in 2014 based on the Airport's 2014 costs for annual debt service, operations and maintenance and other expenses, increased annually by the CPI.
- While the Airport cannot estimate total percentage rent in 2014 because the five car rental companies' gross revenues, and therefore their percentage rent based on gross revenues, is not yet known, the Airport estimates that total 2014 space and percentage rent paid to the Airport by the five rental car companies will exceed 2012 rent (the most recent full year of rent under the existing lease) of \$60,826,188**.**

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT & BACKGROUND

Mandate Statement

According to San Francisco Charter Section 9.118, any lease or amendments to an existing lease with a term of ten or more years or having anticipated revenue to the City of $1,000,000 or more is subject to approval by the Board of Supervisors.

Background

The Airport has five existing leases with rental car companies located in the Airport's Rental Car Center, selected through a competitive bid process and approved by the Board of Supervisors in December 2008 (Resolution 509-08). The five Airport rental car companies are:

- Hertz Corporation (Hertz);
- Avis Budget Car Rental, LLC (Avis/Budget);
- EAN, LLC (EAN), consisting of Enterprise, National and Alamo;
- DTG Operations, Inc. (DTG), consisting of Dollar and Thrifty; and
- Fox Rent a Car, Inc. (Fox).

Each of the five leases is for five years from January 1, 2009 through December 31, 2013 with one option to extend each of the leases for an additional five years through December 31, 2018.

The rent structure for each of the leases consists of two components:

- Base rent equal to the greater of the Minimum Annual Guarantee (MAG) or 10 percent of gross revenues; and
- Space rent.

Base Rent

Each of the five leases set the initial MAG, to be increased annually to equal 8.5 percent of prior year gross revenues but to no less than the initial MAG. As shown in Table 1 below, total MAG for the five leases increased by 25.6 percent from 2009 through 2013.

Table 1: Comparison of 2009 and 2013 MAG

	2009	2013	Increase	Percent
Hertz	$10,399,000	$12,496,211	$2,097,211	20.2%
Avis	8,688,000	10,065,033	1,377,033	15.8%
EAN	6,855,200	10,555,252	3,700,052	54.0%
DTG	3,576,350	4,007,851	431,501	12.1%
Fox	1,351,200	1,641,152	289,952	21.5%
Total	**$30,869,750**	**$38,765,499**	**$7,895,749**	**25.6%**

Under the existing leases and as noted above, the rental car companies pay the greater of the MAG or 10 percent of gross revenues. Under each of the five leases, gross revenues are defined as:

- All charges, including time and mileage charges as well as separately stated fees for car rental and other related or incidental services;
- All insurance charges included in a rental agreement with the rental car company;
- All charges attributed to any car rented at the Airport but exchanged at a different rental car company location;
- All proceeds from the long-term leases of vehicles from any Airport car rental location;
- Total amount charged for waiver by rental car company of the right to recover money from customer for damage to or loss of the vehicle rented;
- Amount charged for furnishing and/or replacing fuel; and
- Amount charged to customers for rent payable to the Airport at the rental car facility.

Currently excluded from the definition of gross revenues are:

- Federal, state, county, or city sales or other similar taxes;
- Insurance proceeds for damage to vehicles;
- Revenue from wholesale transfer of salvage vehicles; and
- Discounts for rental of qualified green vehicles.

Four rental car companies paid percentage rent, rather than the MAG, to the Airport from 2009 through 2012; FOX paid the MAG to the Airport in 2009 and then percentage rent in 2010 through 2012. Table 2 below shows MAG and percentage rent payments for the first four years of the existing leases from 2009 through 2012, totaling $160,874,320.

Table 2: Payment of MAG or Percentage Rent by Five Rental Car Companies 2009 through 2012

	2009	2010	2011	2012	Four Year Total
Hertz	$11,173,765	$12,701,819	$13,988,831	$14,710,424	$52,574,839
Avis/Budget	8,963,517	9,641,799	11,071,638	11,838,452	41,515,406
EAN	8,899,027	10,023,836	11,617,984	12,417,944	42,958,791
DTG	3,771,193	4,549,113	4,384,708	4,708,581	17,413,595
Fox[1]	1,351,200	1,445,984	1,694,136	1,920,369	6,411,689
Total	**$34,158,702**	**$38,362,551**	**$42,757,297**	**$45,595,770**	**$160,874,320**

[1] Fox paid the MAG rather than percentage rent in 2009.

Space Rent

In addition to the base rent, under each of the five leases, the Airport charges space rent to the five rental car companies for:

- Structure space, which includes the Airport's Rental Car Center and Quick-Turn-Around facilities[1]; and
- Surface space, which is the rental value of unimproved land at the Rental Car Center and Quick-Turn-Around facilities.

The Airport initially set space rent in 2009, based on the Airport's costs for annual debt service for the construction and financing of the consolidated Rental Car Center and the Quick-Turn-Around facilities, custodial and maintenance services, infrastructure maintenance, and land value. Space rent is increased annually by the Consumer Price Index (CPI).

Table 3 below shows space rent payments to the Airport over the first four years of the leases from 2009 through 2012, totaling $60,471,673.

Table 3: Payment of Space Rent by Five Rental Car Companies 2009 through 2012

	2009	2010	2011	2012	Four Year Total
Hertz	$5,143,101	$5,147,430	$5,193,723	$5,331,102	$20,815,356
Avis/Budget	3,504,018	4,135,682	4,172,893	3,903,397	15,715,990
EAN	3,503,027	3,505,991	3,537,509	4,082,691	14,629,218
DTG	1,637,113	1,628,091	1,653,220	1,762,231	6,680,655
Fox	666,505	667,060	673,073	623,816	2,630,454
Total	**$14,453,764**	**$15,084,254**	**$15,230,418**	**$15,703,237**	**$60,471,673**

Table 4 below shows combined MAG and percentage rent (base rent) and space rent paid by each of the five rental car companies to the Airport in the first four years of the existing leases from 2009 through 2012, totaling $221,345,993.

Table 4: Total Rent Payments to the Airport by Five Rental Car Companies 2009 through 2012

	2009	2010	2011	2012	Four Year Total
Hertz	$16,316,866	$17,849,249	$19,182,554	$20,041,526	$73,390,195
Avis/Budget	12,467,535	13,777,481	15,244,531	15,741,849	57,231,396
EAN	12,402,054	13,529,827	15,155,493	16,500,635	57,588,009
DTG	5,408,306	6,177,204	6,037,928	6,470,812	24,094,250
Fox	2,017,705	2,113,044	2,367,209	2,544,185	9,042,143
Total	**$48,612,466**	**$53,446,805**	**$57,987,715**	**$61,299,007**	**$221,345,993**

[1] The Rental Car Center facility includes the parking garage for rental cars, and the Quick-Turn-Around facility includes the vehicle washing space.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 2[2] to the five existing rental car company leases between the Airport and Hertz, Avis, EAN, DTG and Fox to:

- Allow for early termination of the existing leases if the construction of a new rental car center is complete or substantially complete prior to December 31, 2018 or the rental car center is substantially renovated prior to December 31, 2018;[3]
- Approve the relocation of counter and office space for brands owned by the same rental car center companies adjacent to each other during the 2014 reallocation of space[4];
- Approve the exclusion of toll collection charges from the definition of gross revenues given that toll collection charges are incurred by the rental car customer and paid for by the rental car companies to be later reimbursed and do not result in any profit;
- Revise the space and structure rental rates; and
- Authorize the Airport Director to approve subleasing requests between rental car center companies at his discretion.

Under the existing leases, all rental car companies' subleasing agreements require Airport Commission approval. According to Mr. Sam El Gord, Airport Principal Property Manager, authorizing the Airport Director at his discretion to approve subleasing requests between Airport rental car companies would increase efficiency given the customary and inconsequential subleasing of parking spaces that occurs between the rental car companies within the rental car center.

FISCAL IMPACT

Under the proposed Amendment No. 2 to the existing leases between the Airport and the five rental car companies:

- Base rent provisions remain the same as in the existing leases, in which the rental car companies pay the Airport the greater of the MAG or percentage rent equal to 10 percent of gross revenues. The MAG would continue to be adjusted annually to an amount equal to 8.5 percent of the prior year's gross revenues but not less than the initial MAG of each of the five leases.

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[2] Amendment No. 1 to each of the five leases corrected errors in the calculation of space rent and in billing.

[3] According to Mr. El Gord, the Airport has not yet determined whether to build a new rental car center or expand the existing Rental Car Center.

[4] The rental car companies, Enterprise, National and Alamo that are owned by EAN, would operate next to each other and the rental car companies, Dollar and Thrifty, that are owned by DTG would operate next to each other.

- Space rent would be adjusted on January 1, 2014 for calendar year 2014, based on land value, annual debt service, custodian and maintenance costs, and other costs, as noted above and as shown in Table 5 below, and would increase annually by the CPI.

Table 5: Proposed Space Rent Under Amendment No. 2

Facility	Square Feet	2013 Rent Per Square Foot	2013 Rent Total	2014 Rent Per Square Foot	2014 Rent Total	Change in Total Rent in 2014 Compared to 2013[5]	Percent
Structure Rent- Rental Car Center	1,267,963	$9.50	$12,045,648	$9.74	$12,349,959	$304,311	2.5%
Surface Rent- Rental Car Center	1,267,963	$1.40	$1,775,148	$1.34	$1,699,070	($76,077)	(4.3%)
Structure Rent- Quick Turn Around	720,196	$0.86	$619,367	$2.68	$1,930,122	$1,310,754	211.6%
Surface Rent- Quick Turn Around	720,197	$2.47	$1,778,881	$2.30	$1,656,448	($122,433)	(6.9%)
Total	**1,988,158**		**$16,219,046**		**$17,635,601**	**$1,416,555**	**8.7%**

While the Airport cannot estimate total space and percentage (base) rent in 2014 because the five rental car companies' gross revenues, and therefore their percentage rent based on gross revenues, is not yet known, Mr. El Gord estimates that total 2014 space and percentage rent revenues paid to the Airport by the five rental car companies will exceed 2012 rent (the most recent full year of rent under the existing lease) of $61,299,007.

Over the five-year term of the proposed amendments to the five existing rental car companies' leases, the total rent to the Airport would be a minimum of $282,005,500, based on the total MAG in the current year of $38,765,499 and total proposed space rent of $17,635,601, as shown in Table 5 above, totaling $56,401,100 per year.

RECOMMENDATION

Approve the proposed resolution.

[5] According to Mr. El Gord, the Airport's recent appraisal showed a decrease in land value, which resulted in a decrease in surface rent.

Item 4 **File 13-0800**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the first amendment to an existing lease between the Airport and Gate 74, Inc. (Gate 74) for food and beverage space in Boarding Area F in Terminal 3.

Key Points

- The Airport entered into a 10-year domestic terminal food and beverage lease agreement with WSE Group, Inc. from approximately September 2004 through August 2014 for two spaces in Boarding Areas E and F in Terminal 3. In 2009, the Airport exercised an option to extend the term through August 2016.
- Since 2004, the lease agreement has been transferred from WSE Group, Inc. to SFO Equities, LLC, and then to the Burger King Corporation.
- Due to the Airport's seismic renovations of Boarding Area F in Terminal 3, the Airport Commission approved the first amendment to the lease in October 2012, relocating the Boarding Area F space to a new location within Boarding Area F, and allowing the tenant to relinquish the space in Boarding Area E. The Airport Commission approved transfer of the lease to Gate 74 in March 2013. Gate 74 subsequently relinquished use of the Boarding Area E space in April 2013 and retained use of Boarding Area F space.
- The Airport began a major renovation of Boarding Area F in Terminal 3 on April 1, 2013 for seismic retrofits that will extend through March 1, 2015. According to the Airport, the new lease term will commence on approximately July 1, 2015, when Gate 74 fully occupies the space.
- The proposed first amendment is for (1) 834 square feet of food and beverage space in Boarding Area F in Terminal 3 and (2) a term of ten years, from July 1, 2015 through June 30, 2025.

Fiscal Impact

- Under the proposed lease amendment, Gate 74, Inc. will pay the Airport the greater of (1) percentage rent based on gross revenues or (2) the Minimum Annual Guarantee (MAG) of $40,032.
- Based on estimated gross revenues of at least $1,777,772 in the first year of the proposed amendment to the lease, the Budget and Legislative Analyst estimates Gate 74 will pay percentage rent of $174,327.
- The proposed resolution states that Gate 74 will pay a MAG of $72,720, and should be amended to reflect the correct MAG of $40,032 calculated at a rate of $48 per square foot for 834 square feet of space.

Recommendations

- Amend the proposed resolution to reflect the correct MAG of $40,032.
- Approve the resolution as amended.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million, or more is subject to Board of Supervisors approval.

City Administrative Code Section 2A.173 authorizes the Airport to negotiate and execute leases of Airport land and space in Airport buildings without undergoing a competitive bid process for contracts where the original term does not exceed 50 years.

BACKGROUND

The San Francisco International Airport (Airport) entered into a 10-year domestic terminal food and beverage lease from September 1, 2004 through August 30, 2014 with WSE Group, Inc. for two spaces, totaling 1,818 square feet, in Boarding Areas E and F in Terminal 3. The original lease provided for one two-year option to extend the lease through August 30, 2016, for a total of 12 years.

The lease was transferred from WSE Group, Inc. to SFO Equities, LLC (SFO Equities) in 2004 and was then transferred to Burger King Corporation (Burger King) in 2007. Since taking possession of the two leased spaces in 2007, Burger King has operated as a master lease holder and has been subleasing the spaces to Gate 74, Inc. (Gate 74) and to SFO Equities. In 2009, the Airport Commission approved an early two-year extension for the term of the lease from September 1, 2014 through August 30, 2016.

Because Boarding Area F in Terminal 3, one of the two spaces under the original lease, was scheduled for closure and seismic retrofitting, the Airport Commission approved the first amendment to the lease in October 2012, which replaced the original Boarding Area F space with an alternative Boarding Area F space in Terminal 3. The first amendment also provided for:

- The tenant to surrender the second space in Boarding Area E in Terminal 3;
- The Airport to reimburse the tenant for unamortized construction investments; and
- A new lease commencement date following the end of construction in Terminal 3.

In March 2013, the Airport Commission approved the transfer of the lease from Burger King to Gate 74. In accordance with the first amendment to the lease, approved by the Airport Commission in October 2012, Gate 74 relinquished the Boarding Area E space and retained the Boarding Area F space in Terminal 3. [1]

On April 1, 2013, the Airport began renovating Boarding Area F in Terminal 3 for seismic retrofitting, which the Airport estimates will continue through approximately March 1, 2015. Due to the renovations, the Boarding Area F space in Terminal 3, leased by Gate 74, closed on June 30, 2013.

[1] The original Boarding Area F space (T3.2.079) was for 1,002 square feet and the alternative space (T21) is for 834 square feet. The relinquished space (T3.3.020C) was for 816 square feet.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to the lease between the Airport and Gate 74, operating as a Burger King franchise, which was approved by the Airport Commission on October 30, 2012.The Airport began renovations to Boarding Area F in Terminal 3 on April 1, 2013, closed the existing Burger King location, and approved the amendment to replace the closed location.

Under the proposed first amendment to the lease, Gate 74 would occupy 834 square feet of food and beverage space in the food court adjacent to Boarding Area F in Terminal 3. Because the leased space is under renovation and will not be available for occupancy until approximately July 2015, the lease term is revised for a new 10-year term, beginning approximately July 2015 through June 2025.

The proposed first amendment to the lease also:

- Increases the Minimum Annual Guarantee per square foot of space from $40 to $48;
- Increases the Minimum Investment Amount per square foot of space from $250 to $350;
- Reimburses Gate 74 for $70,588 for unamortized construction costs due to Airport renovations; and
- Requires Gate 74 to abide by the Airport's sustainable food guidelines.

Table 1 below summarizes the amended lease provisions.

Table 1: Summary of Lease Provisions	
Term	10 years from approximately July 2015 through June 2025
Options to Extend	None
Premises	834 square feet of space in the Terminal 3, Boarding Area F food court
Minimum Annual Guarantee (MAG)	$48 per square foot - $40,032 per year
Revenue Percentage Rent	8 percent of revenues up to and including $750,000
Payable if percentage rent exceeds the MAG	Plus 10 percent of revenues between $750,001 and $1,200,000
	Plus 12 percent of revenues greater than $1,200,000
MAG Adjustment	Adjusted annually based on the Consumer Price Index (CPI)
Promotional Fee	$1 per square foot - $834 per year
Food Court Fee	To be determined prior to March 1, 2015
Tenant Infrastructure Fee	To be determined prior to March 1, 2015
Deposit Amount	Half of the MAG in effect when the lease commences
Minimum Initial Investment	$350 per square foot - $291,900 per year

The original lease provided for a 10-year term with one two-year option to extend the term through August 2016, for a total 12-year lease term, as noted above. The proposed first amendment to the original lease sets a new 10-year lease term, commencing when renovations by the Airport to Boarding Area F in Terminal 3 are completed and the space is occupied by Gate 74, which is anticipated to be in approximately July 2015. According to Ms. Sharon Perez, Airport Principal Property Manager, the Airport is proposing amending the existing lease rather than entering into a new lease because Gate 74 expressed interest in continuing operations in the Terminal 3 location once renovations are complete. Under Administrative Code Section 2A.173, the Airport may enter into leases without undergoing a competitive solicitation process where the original term does not exceed 50 years.

The proposed resolution states that Gate 74 will pay a MAG of $72,720, and should be amended to reflect the correct MAG of $40,032 calculated at a rate of $48 per square foot for 834 square feet of space.

FISCAL IMPACT

Under the amended lease, Gate 74 will pay the Airport the greater of (1) percentage rent based on gross revenues of the new Burger King location in the food court, or (2) the Minimum Annual Guarantee (MAG) of $40,032.

The Airport estimates that the new Burger King franchise located in the Terminal 3, Boarding Area F food court will generate $1,777,722 or more in gross revenues in the first year of operation based on previous Burger King performance. Based on the Airport's estimate of gross revenues, the Budget and Legislative Analyst estimates that Gate 74 would pay approximately $174,327 in percentage rent in the first year, $134,295 in excess of the MAG of $40,032.

RECOMMENDATIONS

1. Amend the proposed resolution to reflect the correct MAG amount of $40,032.
2. Approve the resolution as amended.

Item 5 File 13-0882	Department: Recreation and Park Department (RPD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend the Park Code to set temporary reduced greens fees for the Harding Park Golf Course from December 2, 2013 through no later than May 31, 2014 to accommodate the renovation of the greens; and make environmental findings.

Key Points.

- Under an existing 11-year agreement with RPD, Tournament Players Club (TPC) of California operates all clubhouse and golfing activities at Harding Park. Under this agreement, all revenues received by TPC are deposited to RPD and all operating expenses are paid by RPD, which is also responsible for maintaining the golf course and setting greens fees, subject to Board of Supervisors approval.
- RPD is proposing to replace all of the greens at Harding Park between December 2013 and April 2014, given that (a) Harding Park greens have not been renovated for ten years, the industry-standard for replacement of greens; (b) over the last ten years a specific pest of nematodes have invaded the golf course, resulting in poor greens conditions; (c) additional PGA tournaments are not scheduled until at least 2015, allowing sufficient time for the golf course to season and mature; and (d) golf course use declines during the winter months.
- Based on a competitive bid process, RPD selected Continental Golf to complete the renovations at a cost of $1,233,903, funded by the Harding Park Golf Course Capital Fund, with a current balance of $1,508,534.

Fiscal Impacts

- The proposed temporary golf fees at Harding Park would be reduced by 20% to 81% from the existing fees. According to RPD, the percentage variation in the proposed reductions was developed by RPD and TPC staff in order to maintain a reasonable level of continued golf based on the historical actual usage of Harding Park during the winter months.
- The proposed reduction in green fees at Harding Park is estimated by RPD to result in a direct loss of approximately $590,000 in greens fees and total operating revenue at Harding Park in FY 2013-14 as compared to FY 2012-13. Overall, RPD's estimated annual loss in FY 2013-14, after factoring in operating expenses paid to TPC and RPD's maintenance costs, is estimated at approximately $1,205,621. The FY 2013-14 RPD budget already reflects the proposed reduction in greens fees and overall revenue, from the proposed temporary reduction in fees at Harding Park.
- The City's General Fund subsidizes the RPD Golf Fund for annual operating losses.

Recommendation

- Given that the City's General Fund subsidizes the RPD's Golf Fund annual operating losses, and the proposed reduction in temporary greens fees at Harding Park is estimated to result in a $1,205,621 annual operating loss to RPD in FY 2013-14, approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

Charter Section 2.109 requires that the Board of Supervisors approve or reject by ordinance any rate, fee or similar charge to be imposed by any City department, except as specified, within 30 days of submission by the Mayor. Charter Section 2.105 requires that legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

BACKGROUND

Harding Park Golf Course, a 163-acre, 18-hole City public course is located at 99 Harding Road adjacent to Lake Merced, and managed and maintained by the Recreation and Park Department (RPD). Harding Park Golf Course, originally opened in 1930, is host to various national golf tournaments, and last received extensive renovations in August 2003.

Under an existing 11-year agreement between RPD and Golf Course Properties, a private Professional Golf Association (PGA) authorized firm, Golf Course Properties created a subsidiary, Tournament Players Club (TPC) of California, to operate all clubhouse and golfing activities at Harding Park. This existing agreement extends from 2010 through 2021. Under this agreement, all revenues received by TPC are deposited to RPD and all operating expenses are paid by RPD, which is also responsible for maintaining the golf course and setting greens fees, subject to Board of Supervisors approval.

The RPD Harding Park Golf Course FY 2013-14 budget includes total operating revenues of $6,747,277, and total operating expenses of $3,619,613 to be reimbursed to TPC, resulting in net budgeted operating revenues of $3,127,664 to RPD. In addition, RPD's FY 2013-14 budgeted costs (salaries, fringe benefits, overhead and materials and supplies) to maintain Harding Park Golf Course is $4,333,285. Therefore, in FY 2013-14, Harding Park Golf Course is anticipated to incur $1,205,621 of annual operating loss ($3,127,664 less $4,333,285).

According to Mr. Tom Hart, Property Manager at RPD, Harding Park hosted the recent following PGA tournaments:

- American Express Championship in 2005;
- President's Cup in 2009;
- Charles Schwab Championship Cup (Schwab Cup) in 2010;
- Schwab Cup in 2011; and
- US Open Sectional Qualifying in 2012.

Mr. Hart advises that Harding Park is scheduled to again host the upcoming Schwab Cup from October 28 through November 4, 2013. According to Mr. Hart, after the 2013 Schwab Cup, Harding Park is not scheduled to host any additional PGA tournaments until 2015 and 2016.

Mr. Hart reports that RPD is proposing to replace all of the greens at Harding Park, given that

(a) Harding Park greens have not been renovated for ten years, the industry-standard for replacement of greens;

(b) over the last ten years a specific pest of nematodes[1] have invaded the golf course, resulting in poor greens conditions;
(c) additional PGA tournaments are not scheduled until at least 2015, allowing sufficient time for the golf course to season and mature; and
(d) golf course use declines during the winter months.

The renovations to replace the greens at Harding Park are anticipated to commence on December 2, 2013 and extend for approximately four months, or until early April, 2014. Based on a competitive bid process, Mr. Hart advises that RPD received five bids and selected the lowest responsive bidder, Continental Golf at a cost of $1,233,903. RPD will fund the renovations from the Harding Park Golf Course Capital Fund, which currently has a fund balance of $1,508,534.

In accordance with Administrative Code Section 10.100-256(b)(2), the Harding Park Golf Course Capital Fund is financed with an annual set aside of $250,000, increasing annually by the Consumer Price Index, to be used exclusively for capital improvements at Harding Park. According to Ms. Katharine Petrucione, Chief Financial Officer at RPD, in FY 2013-14, RPD budgeted $320,000 for the Harding Park Golf Course Capital Fund. In addition, Mr. Hart notes that the PGA Tour, as part of their agreement with RPD, will contribute a total of $400,000 in two installments of $200,000 each to the Harding Park Golf Course Capital Fund, with one remaining installment of $200,000 to be contributed by January 1, 2014.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (a) amend Section 12.12.1 of the City's Park Code to establish temporary reduced greens fees for the Harding Park Golf Course from December 2, 2013 through no later than May 31, 2014 to accommodate the renovation of the greens; and (b) make environmental findings.

Table 1 below shows both the existing and proposed temporary Harding Park Golf Course greens fees and the resulting percentage reduction of each fee.

[1] According to a recent TPC Harding Park Greens and Bunker Project report, the specific pest, the *Anguina pacificae* nematode, is invasive in the existing *Poa annua* turf at Harding Park, causing significant damage to the greens and putting conditions. RPD's FY 2013-14 maintenance budget includes $163,229 to treat all greens with neem oil to prevent more severe damage at Harding Park. The proposed replacement turf would be *Creeping bentgrass*, an alternative turf, more resistant to the *Anguina pacificae* nematode.

Table 1: Existing and Proposed Greens Fees at Harding Park Golf Course

	Weekday			Weekend		
Fee Categories	**Existing**	**Proposed**	**Percent Change**	**Existing**	**Proposed**	**Percent Change**
Standard[2]	$155	$50	68%	$175	$55	69%
Standard Twilight[3]	85	50	41%	100	55	45%
Standard Junior[4]	77	15	81%	88	20	77%
Bay Area[5]	90	45	50%	100	50	50%
Bay Area Twilight	71	45	37%	80	50	38%
Bay Area Junior	45	15	67%	50	20	60%
Resident[6]	52	30	42%	66	40	39%
Resident Twilight	41	30	27%	50	40	20%
Resident Junior	20	15	25%	25	20	20%
Resident Senior[7]	37	25	32%	66	40	39%
Tournament	125	70	44%	135	80	41%

The proposed ordinance would allow RPD to charge the reduced temporary greens fees from December 2, 2013 through either May 31, 2014 or the date of completion of the 2013-14 greens renovation as certified in writing by the General Manger, whichever occurs earlier. As discussed above, the renovation at Harding Park is anticipated to be completed in four months, or by early April, 2014. Mr. Hart advises that the proposed ordinance would allow RPD to charge the reduced temporary greens fees for up to six months, or through May 31, 2014, to allow for any unforeseen problems.

During this period of renovation of the Harding Park greens, Mr. Hart advises that golfers would be required to play on temporary greens[8], which is likely to significantly reduce the number of

[2] Standard rates apply to rounds played by anyone outside of the Bay Area.
[3] Twilight rates apply to rounds commencing no earlier than four hours before sunset.
[4] Junior rates apply to persons 17 years of age and under.
[5] Bay Area rates apply to residents of San Francisco (without valid Resident Golf Card), Alameda, Contra Costa, Marin, Nap, San Mateo, Santa Clara, Santa Cruz, Solano and Sonoma counties who provide proof of residency.
[6] Resident rates apply to San Francisco residents and property owners who obtain a $90 two-year Resident Golf Card from RPD.
[7] Senior rates apply to persons 65 years of age and above.

players wanting to play at Harding Park Golf Course. In order to provide a more realistic price for the quality of golf course play that would be available and to encourage golfers to continue to play at Harding Park over the next four to six month renovation period, RPD proposed these reduced temporary greens fees.

On October 16, 2013, the Planning Department determined that the proposed ordinance is exempt pursuant to California Environmental Quality Act (CEQA).

FISCAL IMPACTS

As shown in Table 1 above, the proposed temporary golf fees at Harding Park would be reduced by 20% to 81% from the existing fees. According to Mr. Hart, the percentage variation in the proposed reductions was developed by RPD and TPC staff in order to maintain a reasonable level of continued golf based on the following historical actual usage of Harding Park during the winter months:

- 73% Residents;
- 14% Bay Area;
- 5% Resident Seniors;
- 3% Standard;
- 3% Tournament; and
- 1% Juniors.

Mr. Hart notes that the more golf played at Harding Park during the construction period will not only provide needed greens fee revenues but also provide the golf shop and clubhouse food and beverage revenues, all of which directly accrue to RPD.

The proposed reduction in green fees at Harding Park is estimated by RPD to result in a direct loss of approximately $590,000 in greens fees and total operating revenue at Harding Park in FY 2013-14 as compared to FY 2012-13. Overall, as shown in Table 2 below, RPD's estimated annual loss in FY 2013-14, after factoring in operating expenses paid to TPC and RPD's maintenance costs, is estimated at approximately $1,205,621. FY 2013-14 budget already reflects the proposed reduction in greens fees and overall revenue, from the proposed temporary reduction in fees at Harding Park.

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[8] Mr. Hart advises that temporary greens are closely mowed areas created at the end of fairways near the actual putting greens. However, the grass, while mowed differently from the fairways to assimilate actual putting greens, does not respond in the same manner as mature putting greens.

Table 2: RPD's FY 2012-13 and FY 2013-14 Approved Budgets for Harding Park Golf Course

	FY 2012-13	FY 2013-14	Difference
Greens Fees Revenue	$4,497,218	$3,905,264	$591,954
Total Operating Revenue*	7,329,818	6,747,277	582,541
Total Operating Expenses Paid to TPC	3,650,000	3,619,613	30,387
Net Operating Revenue	**$3,679,818**	**$3,127,664**	**$552,154**
RPD's Maintenance Expense	4,010,506	4,333,285	(322,779)
Net Annual RPD Losses	**$330,688**	**$1,205,621**	**$874,933**

*Operating Revenue for FY 2013-14 does not include $750,000 of one-time funds from 2013 Schwab Cup. Including the $750,000 will result in total revenues of $7,497,277 in FY 2013-14.

The estimated FY 2013-14 operating loss of $1,205,621 reflects an increase of $874,933, as compared to the $330,688 Harding Park operating loss incur in FY 2012-13. The City's General Fund subsidizes the RPD Golf Fund for annual operating losses.

However, RPD anticipates that there may be a positive potential impact on the adjacent Fleming Park 9-hole Golf Course, which will not be undergoing renovations during the upcoming winter months, and where the greens fees will remain the same. However, Mr. Hart could not estimate what such potential impacts would be in terms of increased Fleming Park greens fees and overall revenues to RPD.

POLICY CONSIDERATIONS

The Park Code Allows the RPD General Manager to Increase or Decrease Golf Course Fees

San Francisco Park Code Section 12.12(d) provides that RPD's General Manager or his designee based on fluctuations in customer demand at Harding Park, Sharp Park and Lincoln Park golf courses may approve the following temporary fee increases and/or decreases:

- Discounts of up to 25% for greens fees;
- Increases of up to 50% for all non-resident fees and tournament fees; and
- Increases of up to 25% for resident fees.

Therefore, in addition to the proposed requested temporary reduced golf course greens fees at Harding Park, the RPD General Manager may further reduce or increase these greens fees based on golfer demand. Mr. Hart advises that the amount of such potential additional reductions or increases and the impacts on RPD revenues cannot be estimated at this time.

The Proposed Temporary Fee Reduction Would Increase the General Fund Subsidy to the Golf Fund

Approval of the proposed reduction in greens fees will result in an estimated reduction in revenues of $591,954 in FY 2013-14. Overall, it is estimated that the Harding Park annual shortfall would increase by $874,973 from $330,668 in FY 2012-13 to $1,205,621 in FY 2013-14, as shown in Table 2 above. The annual shortfalls require a General Fund subsidy of equal amounts.

Alternatively, if the Board of Supervisors does not approve the proposed temporary reduction in greens fees, the reduction in revenues could potentially be higher than $591,954 in FY 2013-14, if golfer demand declines significantly due to Harding Park renovations. However, as noted above, if customer demand declines, the General Manager is authorized under the Park Code to discount greens fees up to 25%.

RECOMMENDATION

Given that the City's General Fund subsidizes the RPD's Golf Fund annual operating losses, and the proposed reduction in temporary greens fees at Harding Park is estimated to result in a $1,205,621 annual operating loss to RPD in FY 2013-14, approval of the proposed ordinance is a policy matter for the Board of Supervisors.