


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

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February 21, 2014

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst 

**SUBJECT:** February 26, 2014 Budget and Finance Committee Meeting

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<p><b>Item 1</b>  <b>File 13-1218</b>  <i>(Continued from January 15, 2014)</i></p>	<p><b>Departments:</b>                  San Francisco Employees' Retirement System (SFERS)                  Real Estate Division</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p><b>Legislative Objectives</b></p>	
<ul style="list-style-type: none"> <li>• The proposed resolution would approve an initial 10-year lease between the City and 1145 Market St, LP to provide office space for the San Francisco Employees' Retirement System (SFERS) staff, with one five-year option to extend.</li> </ul>	
<p><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>• The SFERS staff has occupied 23,241 square feet of office space at 30 Van Ness Ave, a City-owned building, since 1999. Since 1999, SFERS staff has increased from 61 to 97 positions, such that SFERS advises their current space is insufficient to accommodate SFERS employees and does not provide space to offer private retirement counseling, conduct retirement seminars to groups greater than 30, or accommodate full public participation in monthly Retirement Board meetings.</li> <li>• On January 15, 2014, the Budget and Finance Committee considered and continued the proposed resolution to provide additional time for the Director of Real Estate to work with the SFERS and the landlord to reduce the amount of expanded space, tenant improvements and related costs. The Director of the Real Estate Division is submitting an amended resolution which reduces the proposed lease by 1,710 square feet, for a first year savings of \$60,500 and a ten-year lease savings of \$751,444.</li> <li>• The proposed resolution would approve a new lease for SFERS totaling 35,579 square feet, including 35,388 square feet of office space and 191 square feet of bike storage space at 1145 Market Street.</li> </ul>	
<p><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>• Currently, SFERS pays \$524,317 in annual rent for the City-owned building at 30 Van Ness Avenue, or \$22.56 per square foot. Under the proposed amended lease, SFERS will pay \$1,364,736 annually (\$113,728 per month), an average rate of \$38.36 per square foot. The proposed lease will increase SFERS' office space by 53 percent, the rent paid per square foot by 70 percent and the annual rent by 160 percent.</li> <li>• The proposed lease also includes \$1,946,340 of tenant improvements to be paid by the landlord and \$1,061,640 to be paid by the City, for a total one-time cost of \$3,007,980. City costs could be reimbursed to the landlord at an amended 6% annual interest rate.</li> </ul>	
<p><b>Recommendation</b></p>	
<ul style="list-style-type: none"> <li>• Approve the proposed amended resolution as revised by the Director of Real Estate.</li> </ul>	

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

San Francisco Administrative Code Section 23.27 requires Board of Supervisors approval by resolution of all leases on behalf of the City as tenant.

**Background**

Beginning in 1999, the San Francisco Employees' Retirement System (SFERS) occupied 19,814 square feet of space at 30 Van Ness Ave, a City-owned building. Approximately ten years later, in 2009, SFERS expanded their space by 3,427 square feet, such that SFERS currently occupies 23,241 square feet at 30 Van Ness. Mr. Jay Huish, Executive Director of the SFERS, advises that the current space at 30 Van Ness is insufficient to accommodate:

- **Increase in staffing levels:** In 1999, when SFERS first moved into the current space at 30 Van Ness Ave, SFERS employed 61.00<sup>1</sup> Full-Time Equivalent (FTE) permanent staff. As shown in Table 1 below, the number of FTE permanent staff increased by 59.8 percent, or 36.46 FTE, from 61.00 in FY 1998-99 to 97.46<sup>2</sup> in FY 2013-14. In addition, according to Mr. Huish, the SFERS is planning to request an additional five new positions for the SFERS' Investment Division in the FY 2014-15 budget.
- **Private retirement counseling:** SFERS staff currently conducts retirement counseling in the front office cubicle area, which has little to no privacy for the clients receiving counseling. According to Mr. Huish, SFERS staff currently provides 16-18 pre-scheduled counseling sessions and approximately 30 walk-in counseling sessions per day.
- **Seminars:** SFERS staff currently conducts seminars for clients in the boardroom, which limits the number of attendees to no more than 30. Mr. Huish advises that in 2014, SFERS plans to conduct five pre-retirement seminars with 120-180 attendees and six mid-career retirement seminars, with 40-50 attendees, which are currently accommodated by renting hotel space or using other available City-owned space.
- **Board meetings:** The Retirement Board, which is comprised of seven members, meets once a month, with additional committee meetings approximately twice per month, in the 30 Van Ness SFERS boardroom. The boardroom can currently accommodate all members of the Retirement Board and staff plus approximately 35 members of the public. Mr. Huish advises that there were three Retirement Board meetings over the past year which could not accommodate all members of the public.

As shown in Table 1 below, the average amount of square feet per employee has declined from 325 square feet per employee in FY 1998-99 to 238 square feet per employee in FY 2013-14, despite the above-noted increase in space in 2009, primarily due to the significant growth in the number of SFERS staff.

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<sup>1</sup> The 1998-99 Annual Salary Ordinance lists 61.00 permanent staff and 5.19 temporary staff.

<sup>2</sup> The 2013-14 Annual Salary Ordinance lists 97.46 permanent staff and 6.67 temporary staff.

**Table 1: Full-Time Equivalent (FTE) Staffing in the Employees Retirement System and Average Space per FTE**

FY	Employee Deferred Compensation Plan	Retirement Services	Investment	Administration	Total	Square Feet/FTE*
1998-99	-	43.50	11.75	5.75	61.00	325
1999-00	-	44.75	12.00	6.00	62.75	316
2000-01	-	47.25	13.50	6.00	66.75	297
2001-02	-	49.88	13.83	6.00	69.71	284
2002-03	2.00	50.50	14.00	6.75	73.25	270
2003-04	2.50	50.50	14.00	6.00	73.00	241
2004-05	2.50	50.50	14.00	6.00	73.00	241
2005-06	2.50	50.50	13.00	6.00	72.00	275
2006-07	2.50	54.50	11.00	6.75	74.75	265
2007-08	2.50	57.00	11.50	7.00	78.00	254
2008-09	2.77	64.92	15.00	7.00	89.69	259
2009-10	3.00	65.00	16.00	7.38	91.38	254
2010-11	3.00	65.00	16.00	7.62	91.62	254
2011-12	3.00	69.54	15.00	5.00	92.54	251
2012-13	4.54	70.77	15.00	5.00	95.31	244
2013-14	5.00	71.77	14.92	5.77	97.46	238
Total Increase	3.00	28.27	3.17	.02	36.46	
% Increase	150%	65%	27%	.3%	60%	

\*In 1999, the SFERS occupied 19,814 square feet of space at 30 Van Ness. In 2009, SFERS expanded their space to occupy 23,241 square feet of space at 30 Van Ness.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new ten-year lease, with one five-year option to extend, between the City on behalf of the SFERS (the tenant), and 1145 Market Street, LP (the landlord) for office space at 1145 Market Street. On January 15, 2014, the Budget and Finance Committee met to consider the proposed resolution and recommended that the resolution be continued in order to provide additional time for the Director of Real Estate to work with the

SFERS and the landlord to potentially reduce the need for expanded space, tenant improvements and the related costs. Mr. John Updike, the Director of the Real Estate Division, is submitting an amended resolution to address the changes. A summary of the original and amended major lease terms are shown in Table 2 below.

**Table 2: Summary of Original and Amended Major Lease Terms**

	<b>Original</b>	<b>Amended</b>	<b>Difference</b>
<b>Initial Term</b>	Ten years; July 1, 2014 through June 30, 2024	Ten years; August 1, 2014 through July 31, 2024	One month delay
<b>Location and Size of Office Lease</b>	37,098 square feet on three floors (Floors 5, 6 and 7) at 1145 Market St	35,388 square feet on three floors (Floors 5, 6 and 7) at 1145 Market St	1,710 square foot reduction on Floor 6
<b>Bike Room<sup>3</sup></b>	191 square feet on ground floor	191 square feet on ground floor	
<b>Options to Extend</b>	One five year option	One five year option	
<b>Options to Terminate</b>	At City's discretion after July 1, 2017	At City's discretion after August 1, 2017	One month delay
<b>Rates per Square Foot (psf)</b>	\$38.50 psf/year/office <u>\$12 psf/year/bike room</u> \$38.37 average psf/year	\$38.50 psf/year/office <u>\$12 psf/year/bike room</u> \$38.36 average psf/year	Reduction of \$.01 average psf/year
<b>Initial Monthly Rent</b>	\$119,228	\$113,728	\$5,500
<b>First Year Total Rent (First month abated)</b>	\$1,311,510	\$1,251,008	\$60,510
<b>Annual Rent Increases</b>	Three percent annually	Three percent annually	
<b>Tenant Improvements</b>	Landlord pays \$2,040,335 <u>Tenant pays \$1,112,910</u> Total cost of \$3,153,245 based on 37,098 sf at \$85 psf	Landlord pays \$1,946,340 <u>Tenant pays \$1,061,640</u> Total cost of \$3,007,980 based on 35,388 sf at \$85 psf	Total cost reduction of \$145,265 based on reduction of 1,710 square feet
<b>Interest Rate</b>	8% annually	6% annually	2% annually

As shown in Table 2 above, the proposed amended lease reflects a reduction of 1,710 square feet, for a savings of approximately 4.6% or \$5,500 per month, based on \$38.50 per square foot per year. Under the proposed lease and as shown in Table 2 above, SFERS will not pay the first month's rent to the landlord, which was negotiated by the Real Estate Division. As a result, the savings the first year based on 11 months will be \$60,510.

The subject lease also includes provisions that require the landlord to make tenant improvements. Mr. Updike advises that the tenant improvements will include improvements to: the heating, ventilation and air-conditioning (HVAC) systems, the electrical systems, the fire and life-safety systems, and other improvements to make space usable for the SFERS staff. Additionally, the lease states that the tenant improvements must be up to a LEED Gold

<sup>3</sup> Bike room requirement as per Planning Code Article 1.5, Section 155.1.

standard<sup>4</sup>, in accordance with Chapter 7 of the City’s Environment Code. Because the square footage of the amended lease is proposed to decrease by 1,710 square feet, the total cost of the tenant improvements, and proportional amounts paid by the landlord and SFERS would decrease similarly, as specified in the Fiscal Impact Section below.

Mr. Updike advises that that the amended 35,388 square feet of office space at 1145 Market Street is large enough for SFERS to: accommodate current and potentially future staffing levels, conduct client retirement counseling in private, offer seminars for up to 60 people at a time, and accommodate large attendance levels at Retirement Board meetings.

The proposed initial ten-year lease includes one five-year option to extend the lease, or up to a total of 15 years as well as an option to terminate the lease after August 1, 2017, or three years, at the City’s discretion. Mr. Updike advises that this termination provision is included because if a larger Civic Center office location is secured, this termination provision would allow the City the flexibility to vacate the subject 1145 Market Street location and relocate the Retirement staff into the new location. Mr. Updike notes that a financial analysis would be conducted at that time to determine whether it was beneficial for the Retirement staff to relocate. As of the writing of this report, Mr. Updike could not comment further on the specific potential location or details of another Civic Center office site.

**FISCAL IMPACTS**

***Comparison of Current and Proposed Amended Leases***

Currently, SFERS pays \$524,317 in annual rent for the City-owned building at 30 Van Ness Avenue, which reflects a rate of \$22.56 per square foot for 23,241 square feet. Under the proposed amended lease, SFERS will pay \$1,364,736 on an annual basis (\$113,728 per month x 12 months), which reflects an average rate of \$38.36 per square foot for 35,579 square feet, for both the office and bike room space. As shown in Table 3 below, under the proposed lease, SFERS will increase their office space by 53 percent, the rent paid per square foot by 70 percent and the annual rent by 160 percent.

**Table 3: Comparison of Current and Proposed Amended Leases**

	<b>Current Lease at 30 Van Ness</b>	<b>Proposed Amended Lease at 1145 Market Street</b>	<b>Increase</b>	<b>Percent</b>
Annual Rent	\$524,317	\$1,364,736	\$840,419	160%
Square Feet	23,241	35,579*	12,338	53%
Annual Rent/ Square Foot	\$22.56	\$38.36	\$15.80	70%

\*Proposed lease includes 35,388 square feet of office space and 191 square feet of bike storage space.

<sup>4</sup> The LEED (Leadership in Energy and Environmental Design) program provides third-party verification of the environmental efficiency of buildings, which includes access to public transit, water efficiency, lighting and energy efficiency and other standards.

According to Mr. Updike, SFERS currently pays \$22.56 per square foot, which is less than market rate for the City-owned building at 30 Van Ness because the City's costs to operate and maintain City-owned buildings are less than private commercial buildings. Although the proposed lease reflects an increase of \$15.80 per square foot per year, Mr. Updike advises that the proposed initial average rental rate of \$38.36 per square foot at 1145 Market Street reflects the fair market for the proposed privately leased office space in the Civic Center.

### ***Rental Costs for Proposed Lease***

The proposed resolution would approve a new initial ten-year lease between SFERS and 1145 Market Street, LP, in which SFERS will pay to 1145 Market Street, LP, first-year rent of \$1,251,008, or \$113,728 per month for 11 months. Per the provisions of the lease, the rent will increase annually by three percent, resulting in total estimated rent paid by SFERS to 1145 Market Street, LP of \$15,531,141 over the initial ten-year term of the lease as summarized in Table 4 below.

**Table 4: Total Rent to be Paid by SFERS to 1145 Market Street, LP  
Includes Three Percent Annual Increase**

	Monthly Rent	Annual Rent
<b>Year 1 (11 Months)</b>	\$113,728	\$1,251,000
<b>Year 2</b>	117,140	1,405,678
<b>Year 3</b>	120,654	1,447,850
<b>Year 4</b>	124,274	1,491,283
<b>Year 5</b>	128,002	1,536,026
<b>Year 6</b>	131,842	1,582,104
<b>Year 7</b>	135,797	1,629,560
<b>Year 8</b>	139,870	1,678,450
<b>Year 9</b>	144,066	1,728,799
<b>Year 10</b>	148,388	1,780,660
	<b>Total Rent to be Paid</b>	<b>\$15,531,141</b>

The Budget and Legislative Analyst notes that the lease as originally submitted would have cost the SFERS a total of \$16,282,585 over the initial ten years of the lease, or \$751,444 more than the proposed amended lease.

### ***Tenant Improvement Costs***

The total cost of the one-time tenant improvements is based on an estimated \$85 per square foot and the revised 35,388 square feet of office space, or total cost of up to \$3,007,980. Under the proposed lease, tenant improvements of up to \$1,946,340 would be paid by the landlord, based on the revised 35,388 square feet of office space times a rate of \$55 per square foot. SFERS would be responsible for paying for up to \$1,061,640 of the tenant improvement costs, based on the revised 35,388 square feet of office space times a rate of \$30 per square foot.

Under the proposed lease, the landlord will make all the tenant improvements and SFERS will reimburse the landlord for the City's share of tenant improvement costs up to \$1,061,640. The

proposed lease would allow the SFERS to make these reimbursements over the initial ten-year term of the lease at 6%<sup>5</sup> annual interest. Based on tenant improvement costs of \$1,061,640, reimbursable by SFERS to the landlord at 6% annual interest, the Budget and Legislative Analyst calculates that SFERS would pay the landlord \$1,414,366 over the initial ten-year term of the lease. If the SFERS terminates the lease prior to the ten-year initial term, as allowable under the proposed lease, the costs of the tenant improvements would be amortized over a shorter period of time.

According to Mr. Updike, the Real Estate Division evaluated the use of Certificates of Participation (COPS) to pay for the tenant improvements, rather than reimbursing the landlord for tenant improvements at 6% annual interest, but the Controller's Office determined that the use of COPS for this purpose is constrained by City's debt limit. The Real Estate Division is currently working with the Mayor's Budget Office to evaluate whether a one-time budget appropriation of \$1,061,640 is preferable to annual payments of \$141,437 per year distributed over ten years (\$1,414,366 over ten years).

Mr. Updike advises that the tenant improvements should be substantially completed prior to the lease commencement date of August 1, 2014. As such, SFERS should know the full cost of the tenant improvements as well as the amortized amount to include in the SFERS FY 2014-15 budget, subject to Board of Supervisors approval.

#### ***Additional Costs***

SFERS will also be responsible for the following variable costs:

- 100 percent of the electricity used by SFERS at the premises;
- 115 percent (includes a 15 percent administrative fee) of the cost of lighting and HVAC use on Saturdays;
- 27.5 percent of any annual increase in costs required to operate the building; and
- 27.5 percent of any annual increase in real estate taxes.

#### ***Source of Funding***

Mr. Huish advises that the SFERS would fund the proposed lease and tenant improvement costs with SFERS Trust funds, which is comprised of employer and employee contributions, and earned investment earnings.

## **POLICY CONSIDERATION**

The proposed lease for 1145 Market Street increases the square footage of leased office space for SFERS by 12,147 square feet or 52 percent, from 23,241 square feet under the current lease to 35,388 square feet under the proposed lease, which increases the average square footage per employee by 125 square feet or 53% from 238 square feet to 363 square feet as shown in Table 6 below.

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<sup>5</sup> The original proposed lease included an 8% interest rate, which was negotiated down to the proposed 6% rate.



**Table 6: Allocated Space per Employee Current vs. Proposed Office Space**

	<b>Current Lease at 30 Van Ness</b>	<b>Proposed Office Leased Space at 1145 Market Street</b>	<b>Increase</b>	<b>Percent</b>
Total Square Feet	23,241	35,388	12,147	52%
Number of Employees	97.46	97.46	0	0%
Square Feet per Employee	238	363	125	53%

Mr. Updike advises that the Real Estate Division works with client departments to achieve a square footage to employee ratio of 250 square feet, but accepts rates as high as 350 square feet. According to Mr. Updike, the Real Estate Division considers 363 square feet per employee at 1145 Market Street to be reasonable because the space will be used for member counseling, seminars and Retirement Board meetings, all of which are space-intensive activities.

In order to get a better understanding of how the proposed space would be used, Table 7 below divides the overall proposed increase of 12,147 square feet, to reflect an increase of 7,529 square feet, or 40% for SFERS staff and 4,618 square feet or 110% for members for expanded private counseling services.

**Table 7: Comparison of Uses of Office Space in the Current and Proposed Leases**

	<b>Current Lease at 30 Van Ness</b>	<b>Proposed Lease at 1145 Market Street</b>	<b>Increase</b>	<b>Percent</b>
SFERS Staff Area Square Feet	19,045	26,574	7,529	40%
Counseling Area Square Feet	4,196	8,814	4,618	110%
Total Square Feet	23,241	35,388	12,147	52%

In addition, Mr. Huish advises that as part of the expanded SFERS office space, SFERS intends to sublet three to four offices on the 5<sup>th</sup> Floor of the proposed 1145 Market Street lease to Prudential, the City's Deferred Compensation Plan third-party administrator, which will allow SFERS to consolidate customer service functions for the convenience of City employees and Plan participants. Under this arrangement, Prudential will reimburse the Trust Fund for rental of the space at the same rate that SFERS is being charged under the proposed lease. Mr. Huish advises that the City's Deferred Compensation Plan is currently maintained by Prudential staff in a separate local office.

### ***Reuse of Space at 30 Van Ness***

Mr. Updike advises that staff from the Recreation and Park Department (RPD) and the Department of Public Works (DPW) will occupy portions of the space at 30 Van Ness Avenue being vacated by SFERS. Currently, the RPD staff share office space with DPW staff at 30 Van Ness but RPD and DPW require additional space as new, bond-funded positions are being hired.

Mr. Updike advises that allowing DPW and RPD to expand into the space being vacated by SFERS and other available space at 30 Van Ness Avenue will provide sufficient space to accommodate these new employees for DPW and RPD, as shown in Table 5 below.

**Table 5: RPD and DPW Office Space Expansion at 30 Van Ness Avenue**

<b>Department</b>	<b>Current Employees</b>	<b>Current Square Footage</b>	<b>Current Square Feet per Employee</b>	<b>Proposed Square Footage</b>	<b>Proposed Square Feet per Employee</b>
Recreation and Park	26.0	4,420	170.00	7,750	298.08
Public Works	327.0	63,685	194.75	83,596	255.65
<b>Combined</b>	<b>353.0</b>	<b>68,105</b>	<b>192.93</b>	<b>91,346</b>	<b>258.77</b>

## RECOMMENDATION

Approve the proposed amended resolution as revised by the Director of Real Estate.

**Item 2**  
**File 14-0008**  
*(Continued from February 5, 2014)*

**Department:**  
**Mayor's Office of Housing and Community Development**

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed ordinance would appropriate \$4,515,000 of General Fund Reserve monies in the Mayor's Office of Housing and Community Development to establish a new Nonprofit Rent Stabilization Program.

### Key Points

- In 2000, the Board of Supervisors approved ordinances appropriating \$1,500,000 from the General Fund Reserve and establishing conditions for such expenditures to provide rent subsidies to nonprofit arts organizations in immediate danger of being evicted or displaced by rent increases. In 2000, the Board of Supervisors approved another ordinance to appropriate \$3,000,000 from the General Fund Reserve for (a) \$500,000 for rent subsidies, and (b) \$2,500,000 to fund capital improvements and real property acquisitions, specifying the criteria for such nonprofit organizations to receive these City funds.
- On October 8, 2013, the Budget and Legislative Analyst issued a report on the impact of increasing rents in San Francisco on local nonprofits, identifying 6,005 San Francisco nonprofits, of which 1,425 or 23.7% currently contract with the City. This report found that commercial vacancy rates decreased Citywide from 12.4% in 2011 to 9.3% in 2013, while average commercial rents increased from \$39.67 per square foot per year to \$52.69 per square foot per year, a 32.8% increase during this same period.
- On November 5, 2013, the Board of Supervisors approved a resolution to convene a work group to develop recommendations on how the City can address nonprofit displacement. A Nonprofit Displacement Work Group was created, which will present recommendations to the Board of Supervisors by April 11, 2014.

### Fiscal Impacts

- The initial \$2,515,000 is an estimate of the General Fund Property Tax revenue growth in the Central Market Street and Tenderloin exclusion zone since the Payroll Expense Tax Credit was established in FY 2010-2011. On February 5, 2014, the Budget and Finance Committee amended the proposed ordinance to add \$2,000,000 to the initial \$2,515,000 for a total of \$4,515,000, to provide sufficient funds to include arts and cultural community groups in the new Nonprofit Rent Stabilization Program.
- The amount of funding for the new Nonprofit Rent Stabilization Program, whether this would be a one-time appropriation or require ongoing appropriations, the specific use of the requested \$4,515,000, criteria for awarding rent stabilization funds to individual nonprofit organizations, any limits on the amount of funds awarded and administrative and selection procedures have not yet been decided.

### Recommendations

- Amend the proposed ordinance to place all of the \$4,515,000 General Funds on Budget and Finance Committee reserve, pending issuance of the April 2014 report from the Nonprofit Displacement Work Group to the Board of Supervisors, to provide more specific details on how such funds would be allocated.
- Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors.

## MANDATE STATEMENT

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

## BACKGROUND

### ***Nonprofit Arts Organizations in 2000 Needed Rental Assistance***

In late October and early November of 2000, the Board of Supervisors approved two ordinances (Files 00-1810 and 00-1811; Ordinances 266-00 and 267-00) to (a) appropriate \$1,500,000 from the City's General Fund Reserve and (b) establish the terms and conditions for the expenditure of these funds by the California Lawyers for the Arts, a nonprofit organization. California Lawyers for the Arts was to allocate such funds to provide rent subsidies to nonprofit arts organizations that were in immediate danger of being evicted or displaced by rent increases in San Francisco. One of the ordinances (File 00-1811) included specific (a) criteria for nonprofit organizations to be eligible to receive these City funds, (b) limits on the amount of grant funds to be awarded, (c) administrative and selection processes for distributing the rental assistance funds, and (d) reporting requirements.

Detailed information on overall expenditures, including administrative costs, for this nonprofit arts rental assistance program is not currently available. Mr. Brian Cheu, the Director of Community Development for the Mayor's Office of Housing and Community Development advises that approximately 12 grants for rental subsidies were provided under this nonprofit arts rental assistance program. The requests for nonprofit arts rental subsidies ranged from a maximum of \$80,000 which was the limit specified by the legislation, to a minimum of \$7,000, with average grant requests of approximately \$35,000.

### ***Other Nonprofit Organizations in 2000 Needed Rental and Capital Improvement Assistance***

In addition, on November 20, 2000, the Board of Supervisors approved another ordinance (File 00-1809; Ordinance 283-00) to appropriate \$3,000,000 from the City's General Fund Reserve for the Mayor's Office of Community Development to fund (a) a \$500,000 grant program for rent subsidies to nonprofit service and advocacy organizations at risk of being evicted or displaced by rent increases and (b) \$2,500,000 to fund capital improvements and real property acquisitions by nonprofit organizations. This ordinance also specified (a) criteria for nonprofit organizations to be eligible to receive these City funds, (b) limits on the amount of funds to be awarded to individual organizations and (c) individual administrative and selection processes. This ordinance also specified that the \$2,500,000 capital improvement and real property acquisition funds would be allocated by the Partnership for Affordable Nonprofit Space<sup>1</sup> and

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<sup>1</sup> A coalition that included the City and County of San Francisco, the Evelyn and Walter Haas Jr. Fund, the San Francisco Foundation and the United Way.

administered by the Northern California Community Loan Fund (NCCLF), a nonprofit intermediary. This ordinance specified that funding priorities would be given to (a) applications that benefit more than one nonprofit organization and result in long-term affordable space, (b) organizations that currently receive funding for operating expenses under a City grant or contract, and are in good standing, and (c) organizations primarily serving San Francisco citizens.

Mr. Cheu advises that there is no information on the \$500,000 portion of the grant program for rent subsidies to nonprofit service and advocacy organizations, such that it appears that the City may have never implemented this portion of the program. Regarding the \$2,500,000 City capital improvement and real property acquisition funds portion of the grant program, which was allocated by the Partnership for Affordable Nonprofit Space, Table 1 below identifies each of the nonprofit organizations, the address or location of their facility and the amount of funding received by each organization.

**Table 1: Nonprofit Organizations that Received Capital Improvement and Real Property Acquisition Funds Appropriated in 2000**

<b>Name of Nonprofit Organization</b>	<b>Address/Location</b>	<b>Amount of Funding*</b>
Ark of Refuge, Inc.	1025 Howard/30 Harriet	\$171,000
Chinatown Community Development Corp	1525 Grant Avenue	19,647
Coleman Advocates for Children and Youth	459 Vienna Street	30,000
Filipino American Development Foundation	1010 Mission Street	100,000
Mercy Housing California	Mission Creek at 4 <sup>th</sup> Street	100,000
Nihonmachi Little Friends	1830 Sutter Street	200,000
9th Street Media Consortium	145 Ninth Street	200,000
North of Market Senior Services	315 Turk Street	355,000
ODC Theater/San Francisco	3153 17 <sup>th</sup> Street	400,000
Portola Family Connections	25634 San Bruno Avenue	50,000
Raphael House	1045-1049 and 1065 Sutter	300,000
SF Museum & Historical Society	88 Fifth Street	100,000
SF Housing Development Corporation	4439 Third Street	100,000
Tenants and Owners Development Corp	328 Tehama Street	65,330
Tenderloin Neighborhood Development Corp	3145 Taylor Street	50,000
Bindlestiff Studio (Planning grant)	185 Sixth Street	10,000
Museum of the Africa Diaspora (Planning grant)	685 Mission Street	10,000
Subtotal		\$2,260,977
Title Recording Fees and Administrative Costs		297,000
<b>Total</b>		<b>\$2,557,977</b>

\* Reflects amount of funding provided by the City and County of San Francisco to each nonprofit organization. These organizations may have received additional funding from the other funders, such as the Evelyn and Walter Haas Jr. Fund, the San Francisco Foundation and the United Way, who participated in this program.

***Recent 2013 Report on the Impact of Increasing Rents in San Francisco on Local Nonprofits***

On October 8, 2013, the Budget and Legislative Analyst issued a report to Supervisor Jane Kim on the impact of increasing rents in San Francisco on local nonprofits. As part of this report, the Budget and Legislative Analyst surveyed nonprofit organizations to identify rents being paid by these organizations and to determine how they are being affected by current commercial real estate market conditions.

This report identified that as of July 2013, there were 6,005 nonprofit organizations in San Francisco, of which 1,425 nonprofits or 23.7% currently contract with the City and County of San Francisco. In addition, this report found that commercial vacancy rates decreased Citywide from 12.4% in 2011 to 9.3% in 2013, reflecting the reduction in available commercial space in the City. At the same time, average City commercial rental rates increased between 2011 and 2013 from \$39.67 per square foot per year to \$52.69 per square foot per year, a 32.8% increase.

This report notes that the financial burden of renting in San Francisco may require nonprofit organizations to devote a greater proportion of resources to renting, taking away from resources that could go to providing services to San Francisco residents. As a result, this report identified various policy options that the Board of Supervisors could consider to address the issue of escalating commercial rents impacting nonprofit organizations. Such policy options include:

- (1) evaluate development impact fees to be charged to commercial developers to be expended for renovating or acquiring facilities for nonprofit organizations, at controlled rents;
- (2) expand inclusionary zoning, to include incentives for commercial developers to provide (a) space for nonprofit organizations in their developments at below-market rates, or (b) pay fees in-lieu of providing space to be expended by nonprofit organizations to acquire or rehabilitate buildings and occupied by one or more nonprofits at controlled rents;
- (3) create City incentives for commercial landlords to offer below market rents for specified nonprofits;
- (4) enhance existing City programs or create new programs to provide loans and/or grants to nonprofits to acquire or rehabilitate facilities with controlled rents;
- (5) identify unutilized or underutilized City properties for occupancy by nonprofit organizations at controlled rents; and
- (6) collaborate with foundations, private donors and others to pool property and financial resources to provide ownership or leased facilities for nonprofits at controlled rents.

***Current Work Group***

On November 5, 2013, the Board of Supervisors approved a resolution (File 13-1072; Resolution 395-13) urging the Director of the Mayor's Office of Housing and Community Development to convene a work group to develop a series of recommendations on how the City can address the issue of nonprofit displacement. In accordance with this resolution, this work group would

include staff from the Mayor's Office of Housing and Community Development, Mayor's Office of Public Policy and Finance, Arts Commission, Office of Economic and Workforce Development, the Human Services Agency, the Department of Public Health, Department of Children, Youth and their Families, Real Estate Division and the Planning Department as well as a broad representation of nonprofit organizations, neighborhood advocates and impacted clients. As specified in the resolution, this work group would convene within 30 days and present a report to the Board of Supervisors within 120 days from its first meeting that includes a series of recommendations and action items.

Mr. Cheu advises that a Nonprofit Displacement Work Group was created and convened its first meeting on December 13, 2013. According to Mr. Cheu, the Nonprofit Displacement Work Group plans to meet monthly and to present a report to the Board of Supervisors by April 11, 2014, as required by Resolution 395-13. Mr. Cheu notes that in addition to the resolution's specified representatives, the Nonprofit Displacement Work Group includes representatives from two Board of Supervisors offices<sup>2</sup>, the Office of the City Administrator, the Controller's Office and specified nonprofit and other interested organizations<sup>3</sup>.

Based on the Controller's Office data from the past three years, the City funds approximately 500 nonprofit organizations with at least \$25,000 per agency each year. The Work Group distributed a survey to more than 300 such City-funded agencies and to date, has received responses from 84 nonprofit organizations, describing their needs at 102 different service locations. Based on this initial survey data:

1. 54% of the nonprofit respondents would benefit from technical assistance relating to real estate transactions;
2. 68% of the nonprofit respondents are interested in potentially sharing space with other nonprofit organizations;
3. 51% of the nonprofit respondents are interested in potentially sharing back office duties; and
4. 25% of the nonprofit respondents have leases expiring by 2017.

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<sup>2</sup> Representatives from President Chiu and Supervisor Kim's offices.

<sup>3</sup> Such nonprofit and interested organizations include Catholic Charities, Positive Resource, Lutheran Social Services, Council of Community Housing Organizations, Tenderloin Neighborhood Development Corporation, Northern Community Loan Fund, Legal Assistance for the Elderly, Hospitality House, San Francisco Foundation, YMCA of San Francisco, Yerba Buena Center for the Arts, and In-Home Supportive Services.

## DETAILS OF PROPOSED LEGISLATION

The proposed ordinance, as initially introduced would appropriate \$2,515,000 of General Fund Reserve monies to establish a new Nonprofit Rent Stabilization Program. On February 5, 2014, the Budget and Finance Committee amended the proposed ordinance to add \$2,000,000 of additional General Fund Reserve funds to the subject \$2,515,000 supplemental appropriation for a total of \$4,515,000, to provide sufficient funds to include arts and cultural community groups in the new Nonprofit Rent Stabilization Program. The proposed ordinance would now appropriate \$4,515,000 of General Fund Reserve monies in the FY 2013-14 Mayor's Office of Housing and Community Development budget to establish a new Nonprofit Rent Stabilization Program, as shown in Table 2 below.

**Table 2: Proposed Source and Use of \$4,515,000 General Fund Reserve**

<b>Source of Funds</b>	
General Fund Reserve	\$4,515,000
<b>Use of Funds</b>	
Mayor's Office of Housing and Community Development Nonprofit Rent Stabilization Program	\$4,515,000

## FISCAL IMPACTS

### ***Source of Funds***

The proposed \$4,515,000 supplemental appropriation would be funded from the City's General Fund Reserve. According to Ms. Risa Sandler, Citywide Budget Manager in the Controller's Office, the City's General Fund Reserve has a current balance of \$44,613,143. If the proposed \$4,515,000 supplemental appropriation is approved, the General Fund Reserve balance would be \$40,098,143.

According to Ms. Michelle Allersma of the Controller's Budget & Analysis Division, the initial \$2,515,000 represents an estimate by the Controller's Office of the General Fund Property Tax revenue growth in the Central Market Street and Tenderloin exclusion zone since the Payroll Expense Tax Credit was established in FY 2010-2011, based on information provided by the Assessor's Office.

### ***Use of Funds***

According to Mr. Cheu, the Nonprofit Displacement Work Group has identified 28 possible options for addressing nonprofit organizations potential displacement, which have been divided into the following four programmatic areas:

1. Options that involve the City and/or an intermediary agency to provide real estate-related technical assistance for City-funded agencies;
2. Options that involve potential policy decisions or legislative changes;
3. Options that involve the expansion of private/public partnerships; and



- Options that require the provision of City funds, provided either directly by the City or through an intermediary agency, to non-profit organizations facing the possibility of displacement.

As the final report of the Work Group will not be completed until April 2014, the specific amount of funding needed for the new Nonprofit Rent Stabilization Program is not yet known, and whether this would be a one-time appropriation or require ongoing appropriations has not yet been decided. In addition, the specific use of the requested \$4,515,000 within each of the above-noted programmatic areas has not yet been determined. Specified criteria for awarding rent stabilization funds to individual nonprofit organizations, any limits on the amount of funds to be awarded to individual organizations and required administrative and selection procedures have also not yet been decided.

However, Mr. Cheu notes that the award of such General Fund monies to nonprofit organizations would be subject to a competitive Request for Proposal (RFP) process. Based on the number of responses received, the number of grants awarded and the level of City administration and oversight required, Mr. Cheu estimates that implementation of a new Nonprofit Rent Stabilization Program would require approximately 1.25 FTE positions in the Mayor's Office. Mr. Cheu also notes that the specifics of the funding needs, ongoing requirements, criteria for award of the funds and recommended uses of the funds would be provided in the Nonprofit Displacement Work Group report to be presented to the Board of Supervisors by April 11, 2014.

Although there is an identified need to address the issue of escalating commercial rents impacting nonprofit organizations in San Francisco, given that (a) the amount of funding needed for a new Nonprofit Rent Stabilization Program has not yet been determined, (b) whether this Program would require only this one-time appropriation or require ongoing appropriations is not known, (c) the specific uses of the subject \$4,515,000 has not yet been decided, and (d) specified criteria for equitable allocation of the proposed funding has not been determined, approval of the proposed supplemental appropriation is a policy decision for the Board of Supervisors.

## RECOMMENDATIONS

- Amend the proposed ordinance to place all of the \$4,515,000 General Funds on Budget and Finance Committee reserve, pending issuance of the April 2014 report from the Nonprofit Displacement Work Group to the Board of Supervisors, to provide more specific details on how such funds would be allocated.
- Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors.

<b>Item 4</b> <b>File 13-1229</b>	<b>Department:</b> Sheriff's Department
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would authorize the Sheriff's Department to enter into a three-year contract with the California Department of Corrections and Rehabilitation in an amount not-to-exceed \$4,195,576 to establish the Secure Reentry Program Facility (Reentry Pod) in County Jail #2, adjacent to the Hall of Justice.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Public Safety Realignment Act of 2011 (AB 109) transferred responsibility for some low-level offenders from the California Department of Corrections and Rehabilitation (CDCR) to community supervision under the San Francisco Adult Probation Department. As part of Public Safety Realignment, the San Francisco Sheriff's Department and Adult Probation Department collaborated on a pre-release Reentry Pod in County Jail #2, which opened in February 2013 and can house up to 56 male inmates per day.</li> <li>• Under the proposed contract between CDCR and the Sheriff's Department, the Sheriff's Department will house additional State inmates in the Reentry Pod for 60 days prior to their release to community supervision under the Adult Probation Department. The Adult Probation Department will provide assessments of these inmates and supportive services, such as substance abuse programs and pre-employment training, prior to their release to community supervision.</li> <li>• The proposed contract between CDCR and the Sheriff's Department to house the State inmates in the Reentry Pod is a pilot program and requires San Francisco to report annually to the State on (1) State inmate participation in the Reentry Pod programs, including the assessments and services provided to the inmates, and (2) the outcomes of these inmates after release, including re-arrest rates.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• CDCR would reimburse the Sheriff's Department at a rate of \$77 per inmate per day under the terms of the contract. Based on an average daily population of 24 State inmates in the Reentry Pod, the Budget and Legislative Analyst estimates annual reimbursements by CDCR to the Sheriff's Department \$674,520.</li> <li>• The Sheriff's Department estimates that the Department will only incur the incremental costs to house the State inmates in the Reentry Pod of \$20.59 per inmate per day, which for an average daily population of 24 State inmates equals to \$180,368 per year, or \$492,152 less than the State's reimbursement. These State reimbursements will offset the City's General Fund allocation to the Sheriff's Department's annual budget.</li> <li>• The Adult Probation Department estimates increased costs of \$50,128 to provide services to the State inmates in the Reentry Pod. These increased costs are funded by the State allocation of Public Safety Realignment and other funds to San Francisco.</li> </ul>	

**Policy Consideration**

- The Governor has proposed the transfer of additional State inmates to the counties for up to 365 days in the FY 2014-15 State budget. The average daily population of State inmates potentially eligible for transfer to the County Jail 365 days prior to release could increase to 131 by March 2016, which exceeds the Reentry Pod's maximum capacity of 56. A new contract between the Sheriff's Department and the CDCR to transfer additional State inmates to the County for a longer period of time would be subject to Board of Supervisors approval.
- Although the City's Capital Plan provides for a 640-bed jail to replace County Jails #3 and #4 in 2019, the Budget and Legislative Analyst found in the January 2014 "Analysis of the Proposed County Jail #3 and County Jail #4 Replacement Project" that San Francisco will require fewer than 640 replacement jail beds in 2019 due to the downward trend in the average daily jail population. However, the increase in the average daily population under the proposed contract between the Sheriff's Department and CDCR could impact the size and costs of a replacement jail.

**Recommendations**

- Amend the proposed resolution to affirm that the Sheriff's Department would submit to the Board of Supervisors for approval any future agreement with CDCR that increases the number of State inmates transferred to the County and the length of stay.
- Amend the proposed resolution to request the Sheriff's Department and Adult Probation Department to report annually to the Board of Supervisors and the Capital Planning Committee on the increase in the average daily inmate population.
- Approve the proposed resolution as amended.

## MANDATE STATEMENT

San Francisco Charter Section 9.118 (a) provides that contracts entered into by a department having anticipated revenue to the City and County of \$1,000,000 or more shall be subject to approval of the Board of Supervisors by resolution.

## BACKGROUND

### Public Safety Realignment

In 2011 Governor Jerry Brown signed into law California Assembly Bill (AB) 109, the Public Safety Realignment Act of 2011, and Assembly Bill 17, which transferred responsibility from the State to local jurisdictions for certain low-level offenders; these offenders are under the supervision of adult probation departments. This legislation also amended the California Penal Code (Sec. 4115.56) to authorize a board of supervisors, upon agreement with the sheriff, to enter into a contract with the California Department of Corrections and Rehabilitation (CDCR) to house inmates who are transferred to the county from State prison and are within 60 days or less of release for the purpose of reentry and community transition.

### Secure Program Reentry Facility (Reentry Pod)

As part of Public Safety Realignment implementation, the Sheriff's Department and Adult Probation Department collaborated on a pre-release Reentry Pod in the County jail, in which the Adult Probation Department assesses and plans services for inmates prior to their release from jail. The Reentry Pod, located in County Jail 2 adjacent to the Hall of Justice, was implemented on February 27, 2013, and can house up to 56 male inmates.

According to the January 2014 report prepared by the San Francisco Community Corrections Partnership Executive Committee<sup>1</sup>, from February 27, 2013 through September 30, 2013 (a period of approximately 7 months), 106 inmates had been housed in the Reentry Pod, of whom 92 had been released from jail after an average stay of 37 days. These inmates included (1) County probationers who had violated the terms of their probation, (2) former State prisoners who were under Post-Release Community Supervision by the Adult Probation Department as part of Public Safety Realignment and who had violated the terms of their supervision, and (3) former State prisoners under the purview of the Adult Probation Department who were sentenced to split sentences (combined of jail time and community supervision). According to Ms. Jennifer Scaife, Adult Probation Department Reentry Division Acting Director, the average daily inmate population in the Reentry Pod from February 2013 through September 2013 was 17 inmates.

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<sup>1</sup> The Community Corrections Partnership was established by AB 109 to oversee implementation of Public Safety Realignment; the Executive Committee consists of the Chief Adult Probation Officer, Public Defender, District Attorney, Sheriff, Chief of Police, Superior Court representative, and Director of Health.

### **Status of San Francisco Jail Population**

San Francisco has 2,143 combined County jail beds in County Jails 2, 3, 4 and 5.<sup>2</sup> The average daily population in the County jails decreased from 2,105 in 2008 to 1,413 in 2013, a decrease of approximately 33 percent. This decrease in inmate population has been driven mainly by a decrease in arrests, in particular drug-related arrests, due largely to implementation of law enforcement policies that promote alternatives to incarceration<sup>3</sup>. As a result, the San Francisco Jails currently have excess capacity that can be used to house State inmates in the Reentry Pod.

#### **DETAILS OF PROPOSED LEGISLATION**

Under the proposed resolution, the Board of Supervisors would authorize the Sheriff's Department to enter into a contract with the CDCR for an amount not to exceed \$4,195,576 to house State inmates in the Reentry Pod. The term of the subject contract is for three years from the date the Board of Supervisors approves the proposed resolution through approximately March 2017.

Under the proposed contract, the Sheriff's Department will provide for the care, confinement and rehabilitative programming of State inmates at the Reentry Pod. When housed at the Reentry Pod, inmates are under the legal custody and jurisdiction of the Sheriff's Department. The contract gives the Sheriff's Department the authority to co-mingle State inmates with the County's general inmate population, and provides the CDCR reasonable access to State inmates when necessary.

#### **Contracted Scope of Work**

Under the proposed contract, the Sheriff's Department is required to staff the Reentry Pod to ensure in-custody supervision of State inmates and to provide supportive services, including substance abuse programs, pre-employment training and other related services. The Sheriff's Department may house up to 56 inmates per day who are within 60 days or less of release from State prison. The Sheriff's Department may review all inmate files and information and select which inmates will be transferred from State prison into the Reentry Pod on a case-by-case basis. If the Sheriff's Department determines that an individual inmate may require supervision or services that cannot be provided in the Reentry Pod, then the Sheriff's Department will notify CDCR within 15 days of receiving the eligibility review documents.

#### *Medical Care*

The Sheriff's Department is responsible to provide adequate medical, dental and mental health care for all State inmates housed in the Reentry Pod. This includes all routine, non-routine and emergency medical care for State inmates. Long-term, non-routine medical services are the responsibility of CDCR.

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<sup>2</sup> Of the 2,143 jail beds, 1,988 are "rated" beds, which are defined by the California Code of Regulations as those that conform "to the standards and requirements" of the State. These 1,988 rated jail beds do not include County Jail 6, the minimum security jail located at San Bruno.

<sup>3</sup> The Sheriff's Department operates three alternatives to incarceration programs: (1) a pre-trial release program, (2) electronic monitoring program, and (3) a work alternative to incarceration program.

*Programming and Services*

Programs and supportive services for inmates will be coordinated by the San Francisco Adult Probation Department. Adult Probation staff will assess each inmate to develop an individual reentry plan and coordinate services to be provided after release from the County Jail and while under the Adult Probation Department's supervision.

*Terms of Incarceration*

State inmates will be subject to the same protocols and procedures as County inmates, including discipline, visitation rights, clothing, meals, and other procedures for the County Jails.

*Return of inmates to the CDCR*

The CDCR will accept custody of any State inmate in which the Sheriff's Department requests the inmate's return, within 72 hours of receiving a good faith request. Good faith will be based on the diagnosis of a serious medical or mental health condition, on-going or serious disciplinary reasons, or inability to provide a level of custody consistent with the safety and security of the inmate and/or staff.

*Performance Management*

The CDCR shall have the right to inspect and/or audit the Reentry Pod at its discretion. If CDCR identifies deficiencies or non-compliance as mandated by Title 15, the Sheriff's Department will be required to complete and return a Corrective Action Plan within 30 days and monitor timely compliance with the required corrective actions.

*County Rate Increases*

The Sheriff's Department may request a one-time increase in the daily rate paid by the CDCR during the term of the contract for the care, confinement and rehabilitative programming of State inmates at the Reentry Pod. A resolution listing the prior rates and the new rates charged by the Sheriff's Department to the CDCR and the effective date of the new rates is subject to approval by the Board of Supervisors.

**Pilot Program**

The housing of State inmates in the Reentry Pod is a three-year pilot program. Under the proposed contract, San Francisco is required to report to the State Legislature and the CDCR on the implementation of the Reentry Pod at the end of the first, second and third years of the program on (1) State inmate participation in the Reentry Pod programs, including the assessments and services provided to the inmates, and (2) the outcomes of these inmates after release, including re-arrest rates.

**FISCAL IMPACT****CDCR Reimbursements to the Sheriff's Department**

Under the proposed contract between CDCR and the Sheriff's Department, CDCR will reimburse the Sheriff's Department for the costs of housing up to 56 State inmates per day in the Reentry Pod, in an amount not to exceed \$4,195,576 over the three year contract.

The CDCR will reimburse the Sheriff's Department a per diem rate of \$77 per inmate to be housed in the Reentry Pod. According to Ms. Nan Chen, Staff Services Manager III at CDCR, the rate of \$77 was established by CDCR as the standard rate for contracting local beds and is based on CDCR's marginal, average daily cost to house an inmate.

According to Ms. Bree Mawhorter, Sheriff's Department Chief Financial Officer, the Sheriff's Department estimates that the average daily population of State inmates in the Reentry Pod under the proposed contract will be 24, rather than the full 56 inmate capacity stated in the contract. Therefore, assuming an average of 24 inmates per day in the Reentry Pod, the estimated reimbursements to the Sheriff's Department over the three-year term of the contract are \$2,025,408, as shown in Table 1 below.

**Table 1: Estimated Actual CDCR Reimbursements to the Sheriff's Department**

<b>Contract Year</b>	<b>Per Diem Rate per Inmate</b>	<b>Average Daily Population</b>	<b>Total Days</b>	<b>Amount</b>
Year One	\$77	24	365	\$674,520
Year Two	\$77	24	365	674,520
Year Three	\$77	24	366	676,368
<i>Total reimbursements:</i>				<i>\$2,025,408</i>

Source: Budget and Legislative Analyst's Estimate

**The Sheriff's Department's Estimated Costs**

According to Ms. Mawhorter, the Sheriff's Department currently assigns Sheriff's deputies to the Reentry Pod to supervise the current population; the Sheriff's Department will not incur increased staffing costs to house the additional State inmates in the Reentry Pod because the Reentry Pod was designed to accommodate up to 56 inmates with a fixed level of staffing. Therefore, the Sheriff's Department estimates that the increased cost per day to the Sheriff's Department to house State inmates in the Reentry Pod includes only the incremental costs for each inmate of \$20.59 per inmate per day, which is \$56.41 or 73 percent less than the reimbursement rate of \$77 per day. This estimated cost of \$20.59 per day is composed of the following costs, summarized in Table 2 below:

**Table 2: Incremental Cost per Day to House State Inmates in the Reentry Pod<sup>4</sup>**

<b>Item</b>	<b>Daily Cost</b>
Health Care	\$7.09
Meals	4.31
Clothing	6.23
Linen and Bedding	2.96
<i>Incremental cost per inmate per day</i>	<i>\$20.59</i>

Under the proposed contract, the Sheriff's Department's total estimated incremental costs per year to house an average daily population of 24 State inmates in the Reentry Pod are \$180,368, which is \$494,152 less than the State's reimbursement of \$674,520 (see Table 1 above). These State reimbursements will offset the City's General Fund allocation to the Sheriff's Department's annual budget.

#### **The Adult Probation Department's Estimated Costs**

The Adult Probation Department will provide assessments and supportive services for the State inmates in the Reentry Pod prior to their release to community supervision, although the proposed contract between the CDCR and the Sheriff's Department does not cover these assessments and supportive services. According to Ms. Scaife, these assessments and services are funded by the State's allocation of Public Safety Realignment funds to the County. The Adult Probation Department's (1) annual salary and benefit costs for probation officers assigned to the Reentry Pod are \$241,605, and (2) non-profit contractor costs to provide supportive services are \$441,501, totaling \$683,106. The supportive services provided by non-profit contractors are summarized in Table 3 below:

<sup>4</sup> The average cost per inmate per day in the Reentry Pod, based on an average daily population of 56, which is maximum capacity of the Reentry Pod, is \$135.07. These costs include staffing, facilities costs, overhead, and other costs, which are fixed regardless of the average daily inmate population. Therefore, the increased costs to the Sheriff's Department for each additional inmate only include the variable costs noted in Table 2.



**Table 3: Contracted Programs and Supportive Services**

<b>Service</b>	<b>Provider</b>	<b>Annual Contracted amount</b>
Discharge planning and case management	Leaders in Community Alternatives <sup>5</sup>	\$145,811
Pre-employment Training	America Works <sup>6</sup>	61,600
Cognitive Behavioral Therapy	Senior Ex-Offender Program <sup>7</sup>	107,737
Victim Offender Education	Insight Prison Project <sup>8</sup>	75,000
Substance abuse treatment	San Francisco Department of Health <sup>9</sup>	51,353
<b>Total</b>		<b>\$441,501</b>

Source: Adult Probation Department

The Adult Probation Department's costs for the Reentry Pod are separately funded by California Public Safety Realignment (AB 109) and Senate Bill (SB) 678 funds<sup>10</sup>. The Adult Probation Department anticipates adding one case manager to its contract with the non-profit agency, Leaders in Community Alternatives, to assist with reentry planning. This added position would cost an additional \$41,773 in salary and \$8,355 in benefits, totaling \$50,128, which will be funded by Public Safety Realignment funds.

## **POLICY CONSIDERATION**

### **The Number of State Inmates and Length of Stay May Increase**

As part of the Governor's proposed State budget for FY 2014-15, counties would have the option to accept the transfer of State inmates to county jails for up to 12 months in advance of their release date to support local reentry efforts. This policy would extend the period in which

<sup>5</sup> The Leaders in Community Alternatives contract includes a Reentry Pod Facilitator who teaches workshops such as Seeking Safety and Thinking for a Change, takes the lead on developing 72-hour discharge plans for all clients, and acting as a liaison between the Adult Probation Department and nonprofit case managers.

<sup>6</sup> The America Works' contract includes a Job Readiness Trainer who conducts employability skills training, and acts as a liaison between Reentry Pod clients, and America Works' post release barrier removal and job development services.

<sup>7</sup> The Senior Ex-Offender Program provides 6 hours per week of anger management classes, 6 hours per week of life coaching classes and 6 hours per week of peer mentoring classes.

<sup>8</sup> The Insight Prison Project provides restorative justice classes whose core elements are based on the evidence based Victim Offender Education Group

<sup>9</sup> The work order with the Department of Public Health includes 1.0 FTE facilitator for Substance Abuse Treatment and Relapse Prevention

<sup>10</sup> SB 678 funds county probation departments' implementation of evidence-based practices in adult felony probation supervision.

State inmates would be incarcerated in county jails from 60 days prior to release, as indicated in the proposed contract between the CDCR and the Sheriff's Department, to up to 365 days.

According to Ms. Scaife, the average daily population of State inmates potentially eligible for transfer to the County Jail 365 days prior to release could increase from the current estimate of 24 to an estimated 131 by March 2016. An increase in the average daily population to 131, which exceeds the Reentry Pod's maximum capacity of 56, would require additional jail beds and a potential increase in Sheriff's Department staffing, resulting in increased costs to the Sheriff's Department. Ms. Scaife states that the State may increase the reimbursement rate to the County to more than the current \$77<sup>11</sup> per inmate per day to encourage the County to allow the transfer of additional State inmates.

According to Ms. Mawhorter, a new contract between the Sheriff's Department and the CDCR to transfer additional State inmates to the County for a longer period of time would be subject to Board of Supervisors approval.

### **The Increase in the Average Daily Population May Impact the Decisions to Build a Replacement Jail**

The City's 2014-2023 Capital Plan provides for a 640-bed jail to replace County Jails #3 and #4 in 2019. According to the Budget and Legislative Analyst's January 2014 "Analysis of the Proposed County Jail #3 and County Jail #4 Replacement Project", the County of San Francisco will require fewer than the planned 640 replacement jail beds in 2019 due to the downward trend in the average daily jail population.

The proposed contract between the Sheriff's Department and CDCR is a three-year pilot program, which requires an annual evaluation report to the State Legislature and CDCR. If the program is determined to be successful and is extended beyond the initial three-year term, the increased average daily population, estimated to be 24 State inmates per day, could impact the size and costs of a replacement jail in 2019. If the Sheriff's Department enters into a new contract with CDCR to accept the transfer of additional State inmates to the County for up to 365 days prior to release from jail, which could increase the average daily population to 131, the size and costs of a replacement jail in 2019 could be higher.

In order for the Board of Supervisors and other City officials to assess the full impact of the increase in the average daily inmate population on the size and cost for a replacement jail, the Sheriff's Department and Adult Probation Department should report annually to the Board of Supervisors and the Capital Planning Committee on the increase in the average daily inmate population.

The Budget and Legislative Analyst recommends that the proposed resolution be amended to (1) affirm that the Sheriff's Department would submit to the Board of Supervisors for approval any future contract with CDCR that increases the number of State inmates transferred to the County and the length of stay for these inmates; and (2) request the Sheriff's Department and

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<sup>11</sup> As noted above, the proposed contract between the Sheriff's Department and CDCR allows the Sheriff's Department to request a one-time increase to the reimbursement rate. This differs from the potential rate increase that may result from the Governor's proposed FY 2014-15 State budget, which would allow the transfer of additional State inmates to the counties.

Adult Probation Department to report annually to the Board of Supervisors and the City's Capital Planning Committee on the increase in the average daily inmate population.

## RECOMMENDATIONS

1. Amend the proposed resolution to affirm that the Sheriff's Department would submit to the Board of Supervisors for approval any future contract with CDCR that increases the number of State inmates transferred to the County and the length of stay for these inmates.
2. Amend the proposed resolution to request the Sheriff's Department and Adult Probation Department to report annually to the Board of Supervisors and the Capital Planning Committee on the increase in the average daily inmate population.
3. Approve the proposed resolution as amended.

**Item 6**  
**File 13-1236**

**Department:**  
Public Utilities Commission (PUC)

## EXECUTIVE SUMMARY

### Legislative Objective

- The proposed resolution would authorize the Public Utilities Commission (PUC) to enter into the second amendment to the existing contract between the City and HDR Engineering, Inc. to provide construction management services for the PUC's Crystal Springs/San Andreas Transmission (CSSAT) Upgrade Project (a) to extend the contract for an additional six months from June 29, 2014 through December 29, 2014, and (b) to increase the not-to-exceed amount by \$1,500,000, from \$26,000,000 to \$27,500,000.

### Key Points

- The CSSAT Upgrade Project is a Peninsula Region Water System Improvement Program (WSIP) project to increase the capacity, safety, and reliability of the infrastructure that moves water from the Crystal Springs and San Andreas Reservoirs to the Harry Tracy Water Treatment Plant. The Public Utilities Commission approved a \$170 million budget in April 2010 with a targeted completion date of April 2014.
- The project has seen schedule delays and cost increases due to unforeseen site conditions and disputes with the primary construction firm, Kiewit Infrastructure West. PUC now estimates total project costs of \$195.3 million, and project completion has been extended by eight months to December 2014.
- HDR Engineering, Inc. (HDR) provides construction management services on nine Peninsula Water System Improvement Projects, including CSSAT. Their 55-month contract was authorized in October 2009 in the amount of \$22,000,000, including a CSSAT project budget of \$11,254,000. PUC entered into an amendment to the agreement in December 2010 to increase the not-to-exceed amount by \$4,000,000 from \$22,000,000 to \$26,000,000 to provide for additional construction management services related to habitat restoration for Peninsula Region WSIP projects.
- The proposed resolution contains a reference to "the contract option to extend the term by two years", which according to the PUC, was included as the result of an administrative error and a two-year option is not needed. Therefore, the proposed resolution should be amended to delete the reference to the "contract option to extend the term by two years".

**Fiscal Impact**

- HDR reports CSSAT project expenditures of \$14,096,306 as of December 2013 and estimates 2014 expenditures of \$2,165,744, resulting in total CSSAT expenditures of \$16,262,050 – an increase of \$5,008,050 from the original budget of \$11,254,000. HDR and PUC project these overruns will cause overall contract expenditures to be over-budget by more than \$1,500,000, necessitating the requested increase.
- Funds for the proposed \$1,500,000 increase are available from the WSIP bond allocation for Peninsula Water System Improvement Projects, previously appropriated by the Board of Supervisors. PUC will re-allocate savings realized from other projects to fund the contract extension. Overall Peninsula Region WSIP projects are expected to complete within the approved budget.

**Recommendations**

- Amend the proposed resolution to delete the reference to the “contract option to extend the term by two years”.
- Approve the proposed resolution as amended.

## MANDATE STATEMENT / BACKGROUND

### Mandate Statement

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

### Background

#### Crystal Springs/San Andreas Transmission System Upgrade Project

The Crystal Springs/San Andreas Transmission (CSSAT) System Upgrade Project in San Mateo County is one of 82 projects included in the Public Utilities Commission's (PUC's) Water System Improvement Program (WSIP). A subset of WSIP Peninsula Water System Improvement Projects, CSSAT is a series of inlet and outlet structures, pipelines, and pumping facilities that move water from the Crystal Springs Reservoirs to the San Andreas Reservoir and, eventually, to the Harry Tracy Water Treatment Plant on the Peninsula. These facilities serve as the primary supplementary water supply for the San Francisco Peninsula. The Upgrade Project provides for construction and improvement of facilities to allow the PUC to increase capacity, reliability, and safety, including seismic upgrades, the construction of a new pump station, and major work on the Upper Crystal Springs Dam culverts.

The Board of Supervisors appropriated \$1.6 billion of Water Revenue Bonds for the PUC's Water System Improvement Program (WSIP) in April 2010<sup>1</sup>, of which \$170 million were allocated to the CSSAT System Upgrade Project. In April 2013, the PUC approved a revised budget of \$193.6 million to the CSSAT System Upgrade Project. As of January 4, 2014, the PUC estimates that total project costs will be \$195.3 million, an increase of \$1.7 million from the previously revised budget. The estimated prior project completion date of April 2014 has been extended by eight months to December 2014.

According to PUC Project Manager Mr. Husam Masri the increases in the project budget and extended project timeline are due to (1) unforeseen site conditions, related to underwater work and unexpected rock formations, and (2) disputes with the primary construction firm, Kiewit Infrastructure West.

With respect to the unforeseen site conditions, an unforeseen underwater condition was encountered at the four outlet structures at both the Crystal Springs and San Andreas Reservoirs. According to Mr. Masri, because the geotechnical characteristics of underwater soil conditions are highly variable, the redesign of certain facilities was necessary, which impacted and delayed the completion of the work. With respect to the dispute with the primary

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<sup>1</sup> The total appropriation for WSIP was \$4.5 billion, including \$1.6 billion appropriated by the Board of Supervisors in April 2010 and \$2.9 billion previously appropriated.

construction contractor, Mr. Masri states that there are a number of outstanding issues related to contractor work quality, contractor liability, schedule-related claims, and increased regulatory costs, which are being actively negotiated by PUC and the contractor<sup>2</sup>.

### **HDR Engineering, Inc. Contract for Construction Management Services**

HDR Engineering, Inc. (HDR), the subject of this request, currently provides construction management services on nine Peninsula Water System Improvement Projects, including CSSAT. HDR's original contract was authorized in October 2009<sup>3</sup> in the amount of \$22,000,000 and for a term of 55 months, ending on June 29, 2014 (File 09-1056). The contract was amended in December 2010 to increase the not-to-exceed amount by \$4,000,000 to \$26,000,000 to provide for additional construction management services related to habitat restoration required for WSIP projects in the Peninsula Region (File 10-0462).

PUC is requesting an extension of the existing contract with HDR Engineering and an increase in the contract amount because of the delays in the CSSAT Upgrade Project, noted above.

## **DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would authorize the Public Utilities Commission (PUC) to enter into the second amendment to the existing contract with HDR Engineering, Inc. to provide construction management services for the PUC's CSSAT Upgrade Project (a) to extend the contract for an additional six months from June 29, 2014 through December 29, 2014, and (b) to increase the not-to-exceed amount by \$1,500,000, from \$26,000,000 to \$27,500,000.

HDR will continue to provide services agreed to in their existing contract with PUC. According to Mr. Masri, HDR supplements PUC's in-house construction management staff by providing specialized construction management, inspection, and environmental monitoring services that the PUC cannot perform internally due to the scope and complexity of Peninsula Water System Improvement Projects<sup>4</sup>. HDR also assists with ensuring environmental compliance for the ecologically sensitive area around the watershed. The extension of this work was necessitated by delays in the overall CSSAT Upgrade Project noted above. According to Mr. Masri, PUC has been "very happy" with the work provided by HDR thus far.

## **FISCAL IMPACT**

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<sup>2</sup> Kiewit Infrastructure West is a large, national firm which was one of five firms that the PUC pre-qualified based upon experience with similar projects. Kiewit Infrastructure West was the low bidder.

<sup>3</sup> While the CSSAT System Upgrade Project was funded in 2010, the construction management contract between HDR and PUC covers nine WSIP projects, some of which were funded at an earlier date.

<sup>4</sup> The PUC's contract with HDR specifies the following obligations: (1) Pre-construction services, (2) Contract Administration, (3) Quality Assurance, (4) Contracts Management, (5) Project Controls, (6) Environmental Compliance Inspection and Monitoring, (7) Site Specific Stormwater Pollution Prevention Plan, and (8) Special Studies and Investigations.

Under the proposed second amendment to the contract between PUC and HRD, the contract amount would increase by \$1,500,000 from not-to-exceed \$26,000,000 to \$27,500,000. Table 1 below shows the budgeted and actual expenditures for the contract between PUC and HDR for all Peninsula Region Projects.

**Table 1: HDR Construction Management Contract Budgeted and Actual Contract Expenditures: Peninsula Water System Improvement Projects**

	Budget under 1 <sup>st</sup> Amendment	Expenditures as of December 2013	Projected Expenditures 2014	Total Budget under Proposed 2 <sup>nd</sup> Amendment	Increase/ (Decrease) of Projected Expenditures to Budget under 1 <sup>st</sup> Amendment
Lower Crystal Springs Dam	\$1,500,000	\$1,889,645	\$0	\$1,889,645	\$389,646
Pulgas - Discharge Channel Mod.	117,641	48,891	0	48,891	(68,750)
Pulgas Reservoir Str Rehab & Roof	2,000,000	1,498,771	0	1,498,771	(501,229)
Pulgas – Existing De-chlorination	500,850	498,750	0	498,750	(2,100)
<b>CSSAT System Upgrade</b>	<b>11,254,000</b>	<b>14,096,306</b>	<b>2,165,744</b>	<b>16,262,050</b>	<b>5,008,050</b>
Crystal Springs Pipeline No. 2	5,000,900	3,807,289	0	3,807,289	(1,193,611)
San Andreas Pipeline No. 3	1,425,400	795,919	0	795,920	(629,480)
Baden-San Pedro Valve Lot	200,000	67,600	0	67,600	(132,400)
CM Services - Peninsula Region	3,916,800	2,631,085	0	2,631,085	(1,285,715)
<b>Total</b>	<b>\$25,915,590</b>	<b>\$25,334,255</b>	<b>\$2,165,745</b>	<b>\$27,500,000</b>	<b>\$1,584,410</b>

Source: PUC

Although the contract between PUC and HDR pertains to nine Peninsula Water System Improvement Projects, the requested funds will be directed entirely to CSSAT project needs. Funds for the proposed increase of \$1,500,000 under the second amendment to the contract are available from savings under the WSIP bond allocation for projects in the Peninsula Region, previously appropriated by the Board of Supervisors.<sup>5</sup> Peninsula Water System Improvement Projects have an approved budget of \$808,597,000 and expenditures to date of \$622,800,000. According to Mr. Masri, the Peninsula Water System Improvement Project is still “on track” to complete within the approved budget.

As shown in Table 1 above, the proposed budget for construction management services for the CSSAT System Upgrade project of \$16,262,050 is an increase of \$5,008,050 from the approved budget of \$11,254,000. This increase is offset by savings in other projects, as shown in Table 1.

<sup>5</sup> Under the first amendment, the contract not-to-exceed amount is \$26 million and the budget is \$25.9 million (see Table 1 above); an increase of \$1.5 million under the proposed second amendment results in a contract not-to-exceed amount of \$27.5 million. As shown in Table 1, contract expenditures as of December 2013 are \$25.3 million, with projected additional expenditures in 2014 of \$2.2 million, for total estimated contract expenditures of \$27.5 million.



Table 2 below shows budget details of the proposed CSSAT System Upgrade construction management services provided by HDR.

**Table 2: HDR Construction Management Contract Budgeted and Actual Contract Expenditures: CSSAT System Upgrade Project**

Task	Budget under 1 <sup>st</sup> Amendment	Expenditures as of December 2013	Projected Expenditures 2014	Total Budget under Proposed 2 <sup>nd</sup> Amendment	Increase/ (Decrease)
Pre-Construction Phase	\$599,008	\$545,139	\$0	\$545,139	(\$53,869)
Construction Contract Administration	4,375,724	4,498,963	442,653	4,941,616	565,892
Construction Quality Assurance	1,652,147	3,634,481	418,895	4,053,376	2,401,229
Construction Contracts Management	602,489	871,253	51,904	923,157	320,668
Construction Project Controls	299,865	1,144,696	410,818	1,555,515	1,255,650
Construction Environmental Compliance Monitoring	1,387,268	3,228,944	234,165	3,463,109	2,075,842
Special Studies and Investigations	1,487,500	0	310,138	310,138	(1,177,362)
Other Direct Costs	850,000	172,830	297,170	470,000	(380,000)
<b>Total</b>	<b>\$11,254,000</b>	<b>\$14,096,306</b>	<b>\$2,165,744</b>	<b>\$16,262,050</b>	<b>\$5,008,050</b>

According to Mr. Masri, HDR staff will manage CSSAT construction through approximately August of 2014, and complete project documentation and close-out work through approximately December 29, 2014. The proposed resolution contains a reference to “the contract option to extend the term by two years”, which according to the PUC, was included as the result of an administrative error and a two-year option is not needed. Therefore, the proposed resolution should be amended to delete the reference to the “contract option to extend the term by two years”.

## RECOMMENDATIONS

1. Amend the proposed resolution to delete the reference to the “contract option to extend the term by two years”.
2. Approve the proposed resolution as amended.

<b>Item 8</b> <b>File 14-0053</b>	<b>Department:</b> Public Utilities Commission
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The Public Utilities Commission (PUC) is requesting the release of \$10,242,545 in Water Revenue Bonds previously appropriated and reserved by the Budget and Finance Committee for the Peninsula Pipelines Seismic Upgrade project. The Budget and Finance Committee reserved \$10,242,545 allocated to construction costs until the Environmental Impact Report (EIR) was completed and construction could begin. The resolution adopting the EIR findings will be heard at the February 26, 2014 Budget and Finance Committee meeting.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Peninsula Pipelines Seismic Upgrade project consists of seismic upgrades to three Hetch Hetchy regional water delivery pipelines located in San Mateo County. The pipelines in need of repair are known as San Andreas Pipelines No. 2 and 3, and Sunset Supply Branch Pipeline. Components of the project include replacing segments of the pipeline, open trench construction, surface restoration and installing structural support within an existing tunnel.</li> <li>• The Peninsula Pipelines Seismic Upgrade project is one project in the PUC's Water Systems Improvement Program (WSIP), a \$4,600,000,000, multi-year capital program to upgrade the City of San Francisco's regional and local drinking water systems.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The Board of Supervisors previously appropriated \$42,093,629 in Water Revenue Bonds for the Peninsula Pipelines Seismic Upgrade project (Files 10-0337, 11-1031, and 13-0483). The Budget and Finance Committee reserved \$10,242,545 allocated to construction costs until the Environmental Impact Report (EIR) was completed and construction could begin (File 10-0337).</li> <li>• In November 2013, PUC awarded a construction contract to Ranger Pipelines, Inc., which submitted the low bid of \$20,736,380. Total budgeted construction costs are \$24,375,232, which includes the construction contract, right of way agreements, environmental mitigation and a 12 percent construction contingency. According to PUC, release of the requested \$10,242,545 will fully fund the Peninsula Pipelines Seismic Upgrade project.</li> </ul> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the release of \$10,242,545, subject to Board of Supervisors approval of the Environmental Impact Report (File 14-0049).</li> </ul>	

## MANDATE STATEMENT

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

## BACKGROUND

### **Peninsula Pipelines Seismic Upgrade**

The Public Utilities Commission (PUC) Peninsula Pipelines Seismic Upgrade project is part of the PUC's Water System Improvement Program (WSIP) and consists of seismic upgrades to three Hetch Hetchy regional water delivery pipelines located in San Mateo County. The pipelines in need of repair are known as San Andreas Pipelines No. 2 and 3, and Sunset Supply Branch Pipeline. Components of the project include replacing segments of the pipeline, open trench construction, surface restoration and installing structural support within an existing tunnel. The Peninsula Pipelines Seismic Upgrade project includes six improvement components at five different locations on the San Francisco Peninsula and San Mateo County. The pipeline work areas for this project are located in residential areas of Colma, South San Francisco, San Bruno and Millbrae.

The Board of Supervisors previously appropriated \$42,093,629 in Water Revenue Bonds for the Peninsula Pipelines Seismic Upgrade project (Files 10-0337, 11-1031, and 13-0483). The Budget and Finance Committee reserved \$10,242,545 allocated to construction costs until the Environmental Impact Report (EIR) was completed and construction could begin (File 10-0337). The Planning Commission certified the EIR in October 2013, and a resolution adopting the EIR is calendared for the February 26, 2014 Budget and Finance Committee meeting, as noted below.

The Public Utilities Commission approved the Peninsula Pipelines Seismic Upgrade project in July 2009, which is expected to be completed in July 2016.

### **Water Systems Improvement Program**

The Peninsula Pipelines Seismic Upgrade project is one project in the Water Systems Improvement Program, a \$4,600,000,000, multi-year capital program to upgrade the City of San Francisco's regional and local drinking water systems. The program consists of 82 projects; 35 local projects located within San Francisco and 47 regional projects in seven additional counties. Funding for the WSIP was approved by the San Francisco voters in 2002 through (1) Proposition A authorizing the PUC to issue \$1.6 billion in Water Revenue Bonds to pay for

improvements to its water system; and (2) Proposition E authorizing the PUC to issue additional water revenues bonds, subject to two-thirds vote of the Board of Supervisors.<sup>1</sup>

### **Current Status of the Peninsula Pipelines Seismic Upgrade Project**

According to PUC's FY 2013-14 Quarterly Supplemental Report for the WSIP for the second quarter (October to December 2013), the Peninsula Pipelines Seismic Upgrade project is 23.6 percent complete, and is currently on schedule and on budget. Environmental work for the project began in the first quarter of 2010 and a first draft of the Environmental Impact Report (EIR) was published on March 13, 2013. Two public hearings were held on the draft EIR during the public comment period. Comments on the EIR were received through April 29, 2013 and the final report was certified by the San Francisco Planning Commission on October 17, 2013. The resolution adopting the EIR findings is calendared for the February 26, 2014 Budget and Finance Committee meeting (File 14-0049).

According to Mr. Husam Masri, PUC Project Manager, the design documents have been completed for the project. PUC advertised the invitation to bid for construction firms on November 15, 2013, and the Public Utilities Commission approved the award of the contract to Ranger Pipelines, Inc., which submitted the low bid of \$20,736,380 on January 28, 2014. PUC is requesting the release of the \$10,242,545, previously reserved by the Budget and Finance Committee, to fund construction costs.

### **DETAILS OF PROPOSED LEGISLATION**

PUC is requesting the release of \$10,242,545 previously appropriated and reserved by the Budget and Finance Committee for the Peninsula Pipelines Seismic Upgrade project. As noted above, the Budget and Finance Committee reserved \$10,242,545 allocated to construction costs until the Environmental Impact Report was completed and construction could begin. As noted above, the resolution adopting the EIR findings will be heard at the February 26, 2014 Budget and Finance Committee meeting.

### **FISCAL IMPACT**

The Peninsula Pipelines Upgrade project budget, approved by the Public Utilities Commission in April 2013, is \$42,093,629, as shown in the table below.

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<sup>1</sup> The PUC has authorization to issue \$1.6 billion in Proposition A Water Revenue Bonds and \$3.3 billion in Proposition E Water Revenue Bonds, totaling \$4.9 billion. As of June 2013, the PUC had issued \$1.3 billion in Proposition A Water Revenue Bonds and \$2.7 billion in Proposition E Water Revenue Bonds, totaling \$4.0 billion.

**Table 1: Peninsula Pipelines Seismic Upgrade Project Budget**

<b>Project Phase</b>	<b>Approved Budget</b>	<b>Expended to date</b>	<b>Balance</b>
Project Management	\$3,153,824	\$1,198,683	\$1,955,141
Planning	2,101,408	2,131,109	(29,701)
Environmental Review	2,663,900	2,139,849	524,051
Right-of-Way	861,678	260,909	600,769
Design	2,901,500	2,176,920	724,580
Bid and Award	240,736	24,819	215,917
Construction Management	5,392,431	0	5,392,431
<i>Construction Contract</i>	<i>20,736,380</i>		
<i>Right of Way Agreements</i>	<i>673,199</i>		
<i>Environmental Mitigation</i>	<i>100,000</i>		
<i>Construction Contingency (12%)</i>	<i>2,865,653</i>		
Construction	24,375,232	0	24,375,232
Close Out	402,920	0	402,920
<b>Total</b>	<b>\$42,093,629</b>	<b>\$7,932,289</b>	<b>\$34,161,340</b>

Source: PUC

According to Mr. Masri, release of the requested \$10,242,545 in Water Revenue Bonds will fully fund the Peninsula Pipelines Seismic Upgrade project.

### **RECOMMENDATION**

Approve the release of \$10,242,545, subject to Board of Supervisors approval of the Environmental Impact Report (File 14-0049).