

**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: February 11, 2015 Budget and Finance Committee Meeting

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Item 1 File: 14-1038 <i>(Continued on December 3, 2014)</i>	Department: Small Business Commission
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • Ordinance amending the City’s Administrative Code to (a) direct the Small Business Commission to establish a Legacy Business Registry, (b) authorize an administrative fee for the Registry not to exceed \$50, and (c) for the next five years, provide a rebate to Qualified Legacy Businesses that purchase the real property from which they operate, and to Qualified Landlords that purchase the real property from which Legacy Businesses operate if the purchaser extends the term of the Legacy Business’s lease by at least ten years, in an amount equal to the Real Property Transfer Tax levied on the purchase. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • A one-time administrative fee of \$50 is estimated to be charged to Legacy Businesses which apply for inclusion in the new registry. To implement this Legacy Business Registry, Ms. Dick-Endrizzi estimates expending \$6,000-\$8,000, to hire a consultant to develop an enhanced data format to be integrated with the Office of Small Business’ existing computer management system, which would be offset by the one-time \$50 administrative fees collected and absorbed within the Office of Small Businesses’ existing budget. • The survey and report to the Board of Supervisors would be conducted with existing staff, within the Office of Small Business’ existing budget. However, depending on the results of the survey and the recommendations made by the Small Business Commission regarding Legacy Businesses, there may be additional costs to implement these recommendations in the future. • The proposed ordinance limits the total combined rebates that would be paid to all Qualified Legacy Businesses and Qualified Landlords to a maximum of \$400,000 per fiscal year, subject to appropriation approval by the Board of Supervisors. In FY 2013-14, the City collected \$261,924,190 in Real Property Transfer Taxes, which are deposited into the City’s General Fund. The proposed ordinance specifies that the City would pay the rebates from the City’s General Fund. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The proposed ordinance does not address the monthly lease costs that would be charged by the Qualified Landlord to the Legacy Business. If the Qualified Landlord charges significantly increased rent to the Legacy Business for the extended ten year term, such that the Legacy Business could no longer afford to stay in that location, the merits of the proposed ordinance may be negated. • The office of the sponsor of the proposed ordinance advises that amendments will be introduced at the February 11, 2015 Budget and Finance Committee Meeting. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed ordinance is a policy decision for the Board of Supervisors. 	

MANDATE STATEMENT

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

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would add Sections 2A.242 and 2A.243 to the City's Administrative Code to (a) direct the Small Business Commission to establish a Legacy Business Registry, (b) authorize an administrative fee for the Registry not to exceed \$50, and (c) for the next five years, provide a rebate to Qualified Legacy Businesses and Qualified Landlords. Qualified Legacy Businesses would be required to purchase the real property from which they operate, and Qualified Landlords would be required to purchase the real property from which the Legacy Businesses operate and extend the term of the Legacy Business's lease by at least ten years. The rebate would be equal to the Real Estate Property Transfer Tax levied on the purchase.

Legacy Business Registry

Under the proposed ordinance, the Small Business Commission would be responsible for establishing and maintaining a registry of Legacy Businesses in San Francisco. The Administrative Code would define a Legacy Business based on the following criteria:

- The business is a bar, restaurant, retail store, arts space, performance venue or business primarily engaged in Production, Distribution and Repair activities, as described in Article 2 of the City's Planning Code;
- The business has operated in San Francisco for 30 or more years, with no more than a two-year break in operations and must have been established and currently based in San Francisco;
- The business has contributed to the neighborhood's history and/or identity of a particular neighborhood or community; and
- The business is committed to maintaining the physical features or traditions that define the business, including craft, culinary or art forms.

The Small Business Commission, in consultation with the Controller, would be responsible for establishing a one-time administrative fee to offset the costs of administering this new program, but not to exceed \$50, for Legacy Businesses to pay for applying to be included in the Legacy Business Registry.

Qualified Rebates

Under the proposed ordinance, a Legacy Business that purchases the real property from which it operates its business on or after January 1, 2015, could be entitled to a rebate from the City. Similarly, a landlord that purchases a real property from which a Legacy Business operates on or

after January 1, 2015, and extends the term of the Legacy Business's lease by at least an additional ten years, could be entitled to a rebate from the City. Under the proposed ordinance, the Qualified Legacy Business or Qualified Landlord would have to meet all the specified requirements and regulations established by the Executive Director of the Office of Small Business to qualify for such rebates.

Such rebates would be equal to the Real Property Transfer Tax with respect to the purchase of the real property from which the Legacy Business operates its business. However, the proposed ordinance limits the total combined rebates that would be paid to all Qualified Legacy Businesses and Qualified Landlords to a maximum of \$400,000 per fiscal year, subject to appropriation approval by the Board of Supervisors. If the total rebates requested exceed \$400,000 in a fiscal year or exceed the total annual amount previously appropriated by the Board of Supervisors for this purpose, the City would pay rebates to Qualified Legacy Businesses and Qualified Landlords based on the date the Office of Small Business received the rebate applications, up to the amount appropriated in the City's annual budget.

The rebates would be limited to that portion of the Real Property Transfer Tax that relates directly to the land and improvements from which the Legacy Business operates its business. Therefore, if a purchase includes improvements that the Legacy Business does not use to operate its business, the proportional square footage of the Legacy Business would be applied to the total Real Property Transfer Tax to determine the proportional amount eligible for rebate.

Small Business Commission and Office of Small Business

The Small Business Commission would be responsible for surveying San Francisco's Legacy Businesses and making recommendations to the Board of Supervisors no later than June 30, 2015 for programs for Legacy Businesses, such as technical assistance, marketing, lease and acquisition assistance, public education, financial incentives and business and continuity initiatives.

The Executive Director of the Office of Small Business, after holding a public hearing and consulting with the Controller, would be responsible for developing rules and regulations to implement the proposed Legacy Business Rebate Program, including the application procedures, documentation required to qualify for rebates, amount of rebates, appeal process and other necessary provisions.

Reports by Office of Small Business and Controller

By May 1 of each year, the Executive Director of the Office of Small Business would be required to report to the Board of Supervisors on the status of the Legacy Business Rebate Program, including (a) identifying each Qualified Legacy Business and amount of rebate paid to each, and (b) identifying each Qualified Landlord, and the associated Legacy Business which entered into an extended lease, including the original lease term, extended term and amount of rebate paid to each Qualified Landlord. By September 1 of each year, the Controller would be required to

perform an assessment and review of the effect of the Legacy Business Rebate Program for the prior fiscal year and submit such analysis to the Board of Supervisors.

The proposed ordinance would be effective 30 days after enactment and expire on December 31, 2019, a term of approximately five years.

FISCAL IMPACT

Ms. Regina Dick-Endrizzi, Executive Director of the Office of Small Business advises that based on preliminary estimates there are approximately 200-300 Legacy Businesses in San Francisco. A one-time administrative fee of \$50 is estimated to be charged to Legacy Businesses which apply for inclusion in the new registry, according to Ms. Dick-Endrizzi. To implement this Legacy Business Registry, Ms. Dick-Endrizzi estimates expending \$6,000-\$8,000, to hire a consultant to develop an enhanced data format to be integrated with the Office of Small Business' existing computer management system. This cost would be offset by the administrative fees collected and absorbed within the Office of Small Businesses' existing budget.

The proposed ordinance also requires the Small Business Commission to survey San Francisco's Legacy Businesses and make recommendations to the Board of Supervisors by June 30, 2015 for programs for Legacy Businesses, such as technical assistance, marketing, lease and acquisition assistance, public education, financial incentives and business and continuity initiatives. Ms. Dick-Endrizzi advises that this survey and report to the Board of Supervisors will be conducted with existing staff, within their existing budget. However, depending on the results of the survey and the recommendations made by the Small Business Commission regarding Legacy Businesses, Ms. Dick-Endrizzi notes that there may be additional costs to implement these recommendations in the future. For example, there may be additional costs to develop public relations/marketing programs, including logos and signage for businesses, marketing materials and web presence, and to develop and maintain a business technical assistance program for Legacy Businesses.

Ms. Dick-Endrizzi also notes that the Office of Small Business is currently working with the University of San Francisco's (USF) School of Management and its Gellert Family Business Resource Center, at no cost to the City, to assist in designing the survey, reviewing databases and reviewing technical assistance options.

The proposed rebates to Qualified Legacy Businesses and Qualified Landlords, which would be equal to the Real Property Transfer Tax paid to the City for the subject property, would be the most significant cost of the proposed ordinance. Ms. Dick-Endrizzi cannot currently estimate the number of Qualified Legacy Businesses and Qualified Landlords that would seek rebates or the amount of such rebates. However, the proposed ordinance limits the total combined

rebates that would be paid to all Qualified Legacy Businesses and Qualified Landlords to a maximum of \$400,000 per fiscal year, subject to appropriation approval by the Board of Supervisors. In FY 2013-14, the City collected \$261,924,190 in Real Property Transfer Taxes, which are primarily deposited into the City's General Fund. The proposed ordinance specifies that the City would pay the rebates from the City's General Fund.

POLICY CONSIDERATION

Original Ordinance

Under the original proposed ordinance, a Real Property Transfer Tax rebate would be paid by the City to Qualified Landlords that purchase a real property from which a Legacy Business operates if the landlord extends the term of the Legacy Business's lease by at least an additional ten years. However, the proposed ordinance does not address the monthly lease costs that would be charged by the Qualified Landlord to the Legacy Business. If the Qualified Landlord charges significantly increased rent to the Legacy Business for the extended ten year term, such that the Legacy Business could no longer afford to stay in that location, the merits of the proposed ordinance may be negated.

Under the proposed ordinance, the Executive Director of the Office of Small Business, after holding a public hearing and consulting with the Controller, would be charged with developing rules and regulations to implement the proposed Legacy Business Rebate Program. Whether the Executive Director could limit monthly lease cost increases if a landlord otherwise qualifies to receive the subject rebates should be determined. Alternatively, the proposed ordinance could be amended to potentially limit such future lease increases for Legacy Businesses, if Qualified Landlords directly benefit from this ordinance. Therefore, if these provisions are included, the subject ordinance should be amended to provide for limited increases in monthly lease costs for properties in which the owner receives a Real Property Transfer Tax rebate. The Executive Director of the Office of Small Business should recommend to the Board of Supervisors the process and parameters for limiting lease cost increases to Legacy Businesses under the Legacy Business Rebate Program.

Amended Ordinance

The office of the sponsor of the proposed ordinance advises that amendments will be introduced at the February 11, 2015 Budget and Finance Committee Meeting.

RECOMMENDATION

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

<p>Item 3 File 15-0050</p>	<p>Department: Public Utilities Commission (PUC)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <p>The proposed resolution would authorize Amendment No. 1 to the agreement between SFPUC and HDR Engineering to increase the agreement amount by \$2,000,000, from \$16,000,000 to a total not-to-exceed amount of \$18,000,000, for additional construction management services for the Harry Tracy Wastewater Treatment Plant Long Term Improvements Project.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Harry Tracy Water Treatment Plant Long Term Improvements Project is one of 86 separate capital improvement projects included in SFPUC’s Water System Improvement Program (WSIP). • SFPUC determined additional construction management services are needed to respond to changes in the construction schedule, and to maintain the HTWTP plant operational during the construction period. According to SFPUC, without the additional construction management services, there would be limited team monitoring and management of the construction work which could potentially result in significant delays in putting the facilities into service, and possibly impact the final quality of the work. • The Project is currently 89% complete, and the subject request for additional construction management services is not expected to add any additional time to the overall project timeline. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • As of December 2014, \$14,395,055 has been expended on construction management services for this project, and an estimated \$3,604,945 worth of services remains for a total agreement amount of \$18,000,000. • The increase in the agreement amount of \$2,000,000 from \$16,000,000 to \$18,000,000 will come from savings in other WSIP projects within the Peninsula Region. <p style="text-align: center;">Recommendation</p> <p>Approve the proposed resolution.</p>	

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

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

Background

The Harry Tracy Water Treatment Plant Long Term Improvements Project is one of 86 separate capital improvement projects included in SFPUC's Water System Improvement Program (WSIP).¹ The Harry Tracy Water Treatment Plant (HTWTP) treats water pumped from the Peninsula local reservoirs for delivery to customers in Northern San Mateo County and San Francisco. The HTWTP Long Term Improvements Project will increase the capacity of the water treatment plant from 120 million gallons per day to 140 million gallons per day and improve seismic reliability following a major earthquake. The HTWTP Project includes: (a) extensive seismic, hydraulic, and electric upgrades throughout the Plant, (b) five new filters, (c) improvements to the wash water and sludge handling systems, (d) a new 11 million gallon treated water reservoir, and (e) associated piping and equipment replacement.

Original Contract

After a competitive Request for Proposal (RFP) issued in November 2010, SFPUC selected HDR Engineering to provide construction management services, including specialized staff, for the HTWTP Long Term Improvements Project during the construction and closeout phases. The scope for the HTWTP Long Term Improvements Project includes three additional projects directly related to the HTWTP project including:

- 1) Peninsula Pipeline Seismic Upgrade (PPSU), upgrading major water transmission lines associated with HTWTP as impacted by the seismic conditions discovered in the vicinity;
- 2) Bioregional Habitat Restoration (BHR), supporting environmental remediation associated with the watershed adjacent to HTWTP; and
- 3) Crystal Springs/San Andreas Transmission Upgrade (CCSA), providing key facilities supplying HTWTP with its water supply.

As shown in Table 1 below, the total project costs are \$351,525,000. The budget for this Project includes \$36,255,000 for all construction management services, \$16,000,000 of which was allocated to HDR Engineering.

¹ Propositions A and E, which were approved by the San Francisco voters on November 4, 2002, authorized the PUC to issue Wastewater and Water Revenue Bonds to finance the PUC's Water System Improvement Program, which consists of 86 separate projects designed to provide increased water delivery capacity and seismic reliability throughout the Hetch Hetchy water system. The original estimated cost of \$4,585,550,261 for the PUC's WSIP has been reduced to \$4,523,000,000 according to the most recent quarterly report published by the PUC on November 3, 2010 (WSIP Regional Projects Quarterly Report for the 1st Quarter of FY 2010-2011).

**Table 1: Harry Tracy Water Treatment Plant
Long-Term Improvement Estimated Project Costs**

Total Construction Costs	\$278,284,000
Construction Management (PUC Staff)	20,255,000
Construction Management (HDR Engineering)	<u>16,000,000</u>
Construction Management Subtotal	36,255,000
Project Management	8,786,000
Planning	4,816,000
Environment Review	2,422,000
Design	20,123,000
Bid and Award	685,000
Construction Closeout	<u>154,000</u>
Total Non-Construction Costs	73,241,000
Total Budget	\$351,525,000

Source: SFPUC

On February 15, 2011, the Board of Supervisors approved Resolution No. 087-11 (File 11-0052) authorizing the \$16,000,000 agreement with HDR Engineering to provide construction management services for SFPUC's HTWTP Long Term Improvements Project (a) for a maximum term of 60 months or five years, from February 25, 2011 through February 24, 2016 and (b) in an amount not-to-exceed \$16,000,000. The project is paid for by Water Revenue Bonds, previously appropriated by the Board of Supervisors on April 20, 2010 (File 10-0337).

According to the most recent WSIP Regional Projects Quarterly Report tracking projects through September 30, 2014, the project is 89% complete, and on schedule to finish on time in February 2015. According to Mr. Husam Masri, Peninsula Regional Project Manager for the SFPUC, the subject request for additional construction management services, as described below, is not expected to add any additional time to the overall project timeline.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize Amendment No. 1 to the agreement between SFPUC and HDR Engineering to increase the agreement amount for additional construction management services by \$2,000,000 from \$16,000,000 to a total not-to-exceed amount of \$18,000,000.

Need for Additional Construction Management Services

According to Mr. Masri, SFPUC determined additional construction management support is needed to respond to changes in the construction schedule, and to maintain the HTWTP plant operational during the construction period. This includes covering extended work shifts (overtime and additional staff) in response to revisions in the construction schedule, as well as additional construction management services supporting the Peninsula Pipeline Seismic Upgrade project environmental compliance monitoring including Native American, archaeological, and paleontological monitoring at all soil excavation sites. Construction

management support will also include efforts by specialty electrical, instrumentation and control, structural, and welding inspectors to supplement existing City staff.

If the additional \$2,000,000 in construction management services is not authorized, Mr. Masri states there would be limited team monitoring and management of the construction work which could potentially result in significant delays in putting the facilities into service, and possibly impact the final quality of the work. Mr. Masri believes this would jeopardize the SFPUC's ability to maintain the level of service to SFPUC customers, as well as the seismic reliability of the HTWTP.

On January 23, 2015, SFPUC approved Resolution No. 15-0004, authorizing the General Manager to execute Amendment No. 1, increasing the total agreement with HDR Engineering to an amount not-to-exceed \$18,000,000.

FISCAL IMPACT

The Harry Tracy Water Treatment Plant Long Term Improvements Project is funded by Water Revenue Bonds, previously appropriated by the Board of Supervisors (File No. 10-0337). Revenues received from the PUC's water ratepayers pay for the total bond costs.

According to Mr. Masri, the subject \$2,000,000 in funding requested under Amendment No. 1 to the agreement with HDR Engineering to provide additional construction management services to SFPUC for the Harry Tracy Water Treatment Plant Long Term Improvements Project will come from savings in other WSIP projects within the Peninsula Region.

The agreement between SFPUC and HDR Engineering consists of four task orders related to the project. A revised task order list reflecting the total not-to-exceed amount of \$18,000,000 is shown in Table 2 below.

**Table 2: Revised HDR Engineering Construction Management Services
Project Management Task Orders as of December 2014**

Task Order	Expenditures through December 2014	Estimated Cost to Complete	Total Estimated Costs
HTWTP Long Term Improvements	\$13,377,218	\$1,977,535	\$15,354,753
Peninsula Pipeline Seismic Upgrade Project	\$300,337	\$1,325,309*	\$1,625,646
Bioregional Habitat Restoration Project	\$448,126	\$0	\$448,126
Crystal Springs-San Andreas Transmission Upgrade/HTWTP Coordination	\$269,374	\$302,101*	\$571,475
TOTAL	\$14,395,055	\$3,604,945	\$18,000,000

* Total \$1,627,410

Source: SFPUC

As shown in Table 2 above, as of December 2014, \$14,395,055 has been expended on construction management services for this project, and an estimated \$3,604,945 is needed to

complete the construction management services. \$1,977,535 of this amount would be expended on the original HTWTP Long Term Improvements Project, and the remaining \$1,627,410 would be expended on needed construction management services for related Peninsula Regional WSIP projects.

RECOMMENDATION

Approve the proposed resolution.