

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

SAC

SUBJECT: December 7, 2016 Budget and Finance Committee Meeting

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|---|---|
| Item 2 File 16-1293 | Department: Department of Environment (DOE) |
| EXECUTIVE SUMMARY | |
| Legislative Objectives | |
| <p>The proposed resolution would authorize the Department of the Environment to retroactively accept and expend a \$249,970 grant from the US Department of Energy to align local regulations and building codes to streamline the siting and construction of hydrogen fueling stations for zero-emission Fuel Cell Electric Vehicles in the San Francisco Bay Area.</p> | |
| Key Points | |
| <ul style="list-style-type: none">• San Francisco adopted a Climate Action Strategy in 2013 with a goal to reduce greenhouse gas emissions 40 percent below 1990 levels by 2025. As a component of the greenhouse gas emission strategy, the City's Department of the Environment is actively involved in electric vehicle initiatives and infrastructure deployment in San Francisco and the greater Bay Area.• In March 2016, the Department of the Environment applied for a \$249,970 grant from the United States (US) Department of Energy for its "Advancing Fuel Cell Electric Vehicles in San Francisco and Beyond" project. The US Department of Energy required a one to one match in funds from the grantee.• In May 2016, the US Department of Energy awarded the Department of the Environment the full requested amount of \$249,970. Grant negotiations with US Department of Energy were completed in October 2016. To date, no grant funds have been expended.• The grant term is two years, from October 1, 2016 to September 30, 2018. | |
| Fiscal Impact | |
| <ul style="list-style-type: none">• The total estimated project costs for the Advancing Fuel Cell Electric Vehicles Project are \$499,970. The US Department of Energy grant will fund \$249,970 of the costs. The remaining costs will be covered by \$245,000 in grants from the California Energy Commission, and \$5,000 through in-kind technical support from the San Francisco Planning Department. | |
| Recommendation | |
| <ul style="list-style-type: none">• Approve the proposed resolution. | |

MANDATE STATEMENT

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

BACKGROUND

San Francisco adopted a Climate Action Strategy in 2013 with a goal to reduce greenhouse gas emissions 40 percent below 1990 levels by 2025. Creating the infrastructure and permitting processes to support the market for alternative fuel vehicles, including fuel cell electric vehicles, is a component of the greenhouse gas emission reduction strategy. The City's Department of the Environment is actively involved in electric vehicle initiatives and infrastructure deployment in San Francisco and the greater Bay Area.

US Department of Energy Hydrogen and Fuel Cell Grant

In December 2015, the US Department of Energy announced available funding for research, development and demonstration projects related to hydrogen and fuel cell technologies. The San Francisco Department of the Environment applied for a \$249,970 grant for its "Advancing Fuel Cell Electric Vehicles in San Francisco and Beyond" initiative to:

- Align local regulations and building codes in order to streamline the siting and construction of hydrogen fueling stations for Fuel Cell Electric Vehicles (FCEVs)
- Increase community awareness of the benefits of FCEVs
- Update and standardize best practices in permitting and inspection of hydrogen fueling infrastructure
- Develop and implement a group-buy program aiming to reduce the cost and complexity of FCEVs to the community.

The goal of this initiative is to accelerate the implementation of hydrogen fueling infrastructure and the adoption of FCEVs in the greater San Francisco Bay Area.

On May 20, 2016, the United States (US) Department of Energy awarded the Department of the Environment the full requested amount of \$249,970, based on a competitive process, which requires a one-to-one match from the grantee.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Department of the Environment to retroactively accept and expend a \$249,970 grant from the US Department of Energy to align local regulations and building codes to streamline the siting and construction of hydrogen fueling stations for zero-emission Fuel Cell Electric Vehicles in the San Francisco Bay Area. The grant term is two years, from October 1, 2016 to September 30, 2018.

Retroactive Approval

The Department of the Environment accepted the \$249,470 grant award in early October 2016, after negotiations with the US Department of Energy were complete. According to Ms. Jessie Denver, Energy Program Manager at the Department of the Environment, the Department has not yet sought Board approval to accept and expend the grant due to delays in receiving final approval from the City Controller's office, which requested additional clarifying financial information from the Department of the Environment upon receiving the grant. To date, no grant funds have been expended.

FISCAL IMPACT

The total estimated project costs for the Advancing Fuel Cell Electric Vehicles Project are \$499,970, as shown in Table 1 below.

Table 1: Advancing Fuel Cell Electric Vehicles Project Budget

| Expenditure Category | Grant Funding | Grantee Match | Total |
|---|------------------|------------------|------------------|
| Department of the Environment Staff (5 partially funded positions) | \$96,127 | \$250,000 | \$346,127 |
| Contractor for outreach, education, training | \$52,500 | - | \$52,500 |
| Contractor to develop and administer group-buy program | \$20,000 | - | \$20,000 |
| Travel | \$10,690 | - | \$10,690 |
| Materials for Training & Workshops | \$8,350 | - | \$8,350 |
| Indirect Costs* | \$62,303 | - | \$62,303 |
| Total | \$249,970 | \$250,000 | \$499,970 |

Source: Department of the Environment

*Indirect costs include: grant support administrative staff; operation costs such as rent, phones, IT; mandated City-wide costs; and services of other departments.

Required Matching Funds

The US Department of Energy grant requires a one-to-one match in funds to the awarded amount from the grantee. Therefore, the Department of the Environment's required match is \$249,970. However, the City plans to provide \$250,000 in match, or \$30 above the required amount. The City's matching funds will provide partial funding for Department of the Environment staff, as shown in Table 1 above.

Sources of the City's \$250,000 match include grants from the California Energy Commission and minor in-kind services from the Department of City Planning, as shown in Table 2 below.

Table 2: Sources of the City's Match for the Advancing Fuel Cell Electric Vehicles Project

| Source | Description | Amount |
|------------------------------|--|------------------|
| California Energy Commission | SF Alternative Fuels Readiness Project Grant | \$135,000 |
| California Energy Commission | Fuel Cell Fleet Infrastructure Grant | \$110,000 |
| Department of City Planning | In-Kind Technical Support | \$5,000 |
| | Total | \$250,000 |

Source: Department of the Environment

According to Mr. Jon Swae of the Citywide Policy Division of the Planning Department, the source of funds for the \$5,000 in-kind technical support will come from the Department's operating budget.

RECOMMENDATION

Approve the proposed resolution.

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|---|---|
| Item 4 File 16-1244 | Department: Public Utilities Commission (PUC) |
| EXECUTIVE SUMMARY | |
| Legislative Objectives | |
| <ul style="list-style-type: none">The proposed resolution would authorize the San Francisco Public Utilities Commission (SFPUC) General Manager to (i) accept and expend grants in the amounts of \$100,000 from the Water Research Foundation, \$100,000 from the Water Environment & Reuse Foundation, and \$200,000 from the U.S. Bureau of Reclamation for a total of \$400,000 toward the implementation of a decentralized purified water pilot research project in San Francisco, and (ii) commit the SFPUC to providing \$300,000 in cash funds and \$100,000 in in-kind services over the 21-month duration of the grant agreement. | |
| Key Points | |
| <ul style="list-style-type: none">In June 2016, the San Francisco Public Utilities Commission (SFPUC) was awarded grants in the amounts of \$100,000 from the Water Research Foundation, \$100,000 from the Water Environment & Reuse Foundation, and \$200,000 from the U.S. Bureau of Reclamation for a total of \$400,000 toward the implementation of a decentralized purified water research pilot project in San Francisco.Grant funds will support efforts to investigate the technical viability of treating wastewater to be usable as potable water. The SFPUC and consultant team, Carollo Engineers, Inc., will test decentralized, advanced wastewater treatment over an eight-month period. The project will include real-time monitoring technology to ensure the reliability of the treatment system, as well as advanced analytics to regularly evaluate the water quality. Public information, such as online and print educational materials, and tours will be developed as part of the pilot project. Services are anticipated to begin in November 2016 and end in August of 2018 for a total duration of 21 months. | |
| Fiscal Impact | |
| <ul style="list-style-type: none">The total 21-month budget from November 2016 through August 2018 for the decentralized purified water pilot research project administered by SFPUC is \$800,000. Of this amount, \$400,000, or 50 percent of the budget, will be funded by grants from the Water Research Foundation, \$100,000 from the Water Environment & Reuse Foundation, and \$200,000 from the U.S. Bureau of Reclamation. SFPUC will contribute \$400,000, or 50 percent of the budget, in matching funds. Of the SFPUC matching funds, \$300,000 will be in cash and \$100,000 will be in-kind services, a portion of which will be allocated to public outreach. | |
| Recommendation | |
| <ul style="list-style-type: none">Approve the proposed resolution. | |

MANDATE STATEMENT

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

BACKGROUND

In June 2016, the San Francisco Public Utilities Commission (SFPUC) was awarded grants in the amounts of \$100,000 from the Water Research Foundation, \$100,000 from the Water Environment & Reuse Foundation, and \$200,000 from the U.S. Bureau of Reclamation for a total of \$400,000 toward the implementation of a decentralized purified water research pilot project in San Francisco. Grant funds will support efforts to investigate the technical viability of treating wastewater to be usable as potable water.

With this pilot project, the SFPUC and consultant team, Carollo Engineers, Inc., will test decentralized, advanced wastewater treatment over an eight-month period. Beginning in 2017, the proposed pilot project will take approximately 30 percent of the effluent produced by the SFPUC's existing tertiary wastewater treatment system and direct it through the advanced treatment system¹. The project will include real-time monitoring technology to ensure the reliability of the treatment system, as well as advanced analytics to regularly evaluate the water quality. The advanced purification system for Direct Potable Reuse (DPR) will be sited at the SFPUC Headquarters Building, where an existing Living Machine® System treats the building's wastewater to non-potable reuse standards. After performance data is collected, effluent from the purification treatment train² will be blended with the living machine effluent for toilet flushing in the building. Public information, such as online and print educational materials, and tours will be developed as part of the pilot project.

Services are anticipated to begin in November 2016³ and end in August of 2018 for a total duration of 21 months.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the San Francisco Public Utilities Commission (SFPUC) General Manager to (i) accept and expend grants in the amounts of \$100,000 from the Water Research Foundation, \$100,000 from the Water Environment & Reuse Foundation, and \$200,000 from the U.S. Bureau of Reclamation for a total of \$400,000 toward the implementation of a decentralized purified water pilot research project in San Francisco, and (ii)

¹ The advanced treatment system will treat wastewater with ultrafiltration, reverse osmosis, and ultraviolet light to produce purified water.

² A treatment train is a sequence of multiple stormwater treatments which are designed to meet the needs of a particular environment, in order to maximize results.

³ No funds have been expended for the project to date. However, according to Ms. Manisha Kothari, Project Manager at SFPUC, she has been tracking time spent on the project during the planning stages and will report this under the SFPUC in-kind contribution after the agreement is finalized. USBR will allow matching costs to be shown as of July 2016.

commit the SFPUC to providing \$300,000 in cash funds and \$100,000 in in-kind services over the 21-month duration of the grant agreement.

FISCAL IMPACT

The total budget for the decentralized purified water pilot research project administered by SFPUC is \$800,000. Of this amount, \$400,000, or 50 percent of the budget, will be funded by grants from the Water Research Foundation, \$100,000 from the Water Environment & Reuse Foundation, and \$200,000 from the U.S. Bureau of Reclamation. SFPUC will contribute \$400,000, or 50 percent of the budget, in matching funds. Of the SFPUC matching funds, \$300,000 will be in cash and \$100,000 will be in-kind services, a portion of which will be allocated to public outreach. The Table below summarizes the grant budget.

Table: Grant Budget

| Sources | |
|--|------------------|
| U.S. Bureau of Reclamation | \$200,000 |
| Water Research Foundation | 100,000 |
| Water Environment and Reuse Foundation | 100,000 |
| Subtotal Grant Funds | \$400,000 |
| SFPUC Water Enterprise Capital Improvement Funds | \$300,000 |
| SFPUC In-Kind Services | 100,000 |
| Subtotal SFPUC | \$400,000 |
| Total Sources | \$800,000 |
| Uses | |
| Project Management | \$33,000 |
| Initial Wastewater Treatment | 18,000 |
| Purification Facility | 237,000 |
| Monitoring and Analytics | 281,000 |
| Public Communication and Outreach | 116,000 |
| Project Communication and Reporting | 115,000 |
| Total Uses | \$800,000 |

The grants between the SFPUC and the Water Research Foundation, the Water Environment & Reuse Foundation and the U.S. Bureau of Reclamation require minimum matching funds equal to 100 percent of the grant award. For the Water Research Foundation, and the Water Environment & Reuse Foundation, the matching funds must be met through cash. For the U.S. Bureau of Reclamation, the matching funds may be met through cash, in-kind, or a combination of both. The source of SFPUC matching funds is Water Enterprise Project Code CUW278 under the 10-year Water Enterprise Capital Improvement Program, as appropriated by the Board of Supervisors. According to Ms. Manisha Kothari, Project Manager at SFPUC, there will be no ongoing costs for the pilot project once grant funds expire.

RECOMMENDATION

Approve the proposed resolution.

Table 1. Sources and Uses of Grant Funds for the SFPUC Decentralized Purified Water Pilot Project

| | U.S. Bureau of Reclamation (USBR) Grant | | | | Water Research Foundation (WRF) Grant | | | | Water Environment & Reuse Foundation (WE&RF) Grant | | | |
|--|---|-------------------|-------------------|------------------|---------------------------------------|-------------------|-------------------|------------------|--|-------------------|-------------------|------------------|
| | USBR | SFPUC, Cash | SFPUC, In-kind | Total | WRF | SFPUC, Cash | SFPUC, In-kind | Total | WE&RF | SFPUC, Cash | SFPUC, In-kind | Total |
| | Distribution of Service Cost | | | | Distribution of Service Cost | | | | Distribution of Service Cost | | | |
| Task Description | Professional Services | SFPUC, In-kind | Total | | Professional Services | SFPUC, In-kind | Total | | Professional Services | SFPUC, In-kind | Total | |
| Project Management | \$11,000 | \$0 | \$11,000 | \$22,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$11,000 | \$0 | \$11,000 |
| Site Preparation and Building Scale Treatment | \$0 | \$0 | \$18,000 | \$18,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Purification Facility Design and Construction | \$96,000 | \$50,000 | \$20,000 | \$166,000 | \$0 | \$0 | \$0 | \$0 | \$52,000 | \$19,000 | \$0 | \$71,000 |
| Direct Potable Water Reuse Performance Demonstration | \$54,000 | \$15,000 | \$18,000 | \$87,000 | \$0 | \$84,000 | \$0 | \$84,000 | \$48,000 | \$62,000 | \$0 | \$110,000 |
| Public Communication and Outreach | \$0 | \$0 | \$0 | \$0 | \$100,000 | \$16,000 | \$0 | \$116,000 | \$0 | \$0 | \$0 | \$0 |
| Project Communication and Reporting | \$39,000 | \$35,000 | \$33,000 | \$107,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$8,000 | \$0 | \$8,000 |
| Task Totals | \$200,000 | \$100,000 | \$100,000 | \$400,000 | \$100,000 | \$100,000 | \$0 | \$200,000 | \$100,000 | \$100,000 | \$0 | \$200,000 |

| | |
|---|---|
| Item 5 File 16-1186 | Department: Public Utilities Commission (PUC) |
| EXECUTIVE SUMMARY | |
| Legislative Objectives | |
| <ul style="list-style-type: none"> The proposed resolution would authorize three new 12-year Master License Agreements between the San Francisco Public Utilities Commission (SFPUC) and ExteNet, AT&T, and Verizon Wireless for the use of concrete poles to install Distributed Antenna Systems (DAS) equipment on an estimated 62 to 80 street light poles over the 12-year term which would provide expanded wireless cellular telephone and data capacity coverage. | |
| Key Points | |
| <ul style="list-style-type: none"> SFPUC owns and maintains approximately 16,800 street light poles in San Francisco, of which approximately 7,300 are concrete poles and 9,500 are steel poles. The Board of Supervisors previously approved four master license agreements with 12-year terms between SFPUC and ExteNet and Verizon Wireless in December 2014 (File 14-1162), Mobilitie (File 15-0015) in January 2015, and AT&T (File 16-0539) in July 2016 to install DAS on SFPUC's street light poles. The agreements excluded the licensing of concrete poles. The proposed resolution would authorize three new 12-year Master License Agreements between SFPUC and ExteNet, AT&T and Verizon Wireless, which establish the fees, charges, procedures and conditions in which SFPUC may grant permission to ExteNet, AT&T, and Verizon Wireless to install DAS equipment on specific concrete street light poles. | |
| Fiscal Impact | |
| <ul style="list-style-type: none"> SFPUC estimates revenues from the Master License Agreements of up to \$473,316 for installation of DAS equipment on concrete street light poles in the first year. Estimated revenues to SFPUC over the 12-year term of the Agreements range from \$4,000,191 for 62 concrete street light pole licenses to \$5,135,718 for 80 concrete street light pole licenses. | |
| Policy Consideration | |
| <ul style="list-style-type: none"> Prior policy discussion regarding the DAS program resulted in resolution that revenues from DAS master license agreements be appropriated to SFPUC's Streetlight Program in the Annual Appropriation Ordinance; this should be reflected in the proposed resolution. | |
| Recommendations | |
| <ul style="list-style-type: none"> Amend the proposed resolution to specify that the revenues generated by these licenses will be appropriated to the Streetlight Program in the Annual Appropriation Ordinance. Approve the proposed resolution as amended. | |

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of \$1 million or more, or (ii) have anticipated revenues of \$1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) owns and maintains approximately 16,800 street light poles in San Francisco, of which approximately 7,300 are concrete poles and 9,500 are steel poles. In April 2012, SFPUC adopted the San Francisco Street Light Pole Use Policy which identifies priorities for alternative uses of street light poles such as for decorative purposes or holiday displays, and grants the General Manager of SFPUC the authority to issue licenses for alternative uses of street light poles by city agencies, neighborhood associations and community business districts. The Street Light Use Policy does not address the use of street lights for private commercial uses.

The Board of Supervisors previously approved four master license agreements with 12-year terms between SFPUC and ExteNet Systems, LLC (ExteNet), GTE Mobilenet of California, LP (Verizon Wireless), Mobilitie Investments III, LLC (Mobilitie) and New Cingular Wireless PCS, LLC d.b.a. AT&T (AT&T) to install Distributed Antenna Systems (DAS) on SFPUC's street light poles. A DAS installation consists of multiple low power antennas that are connected by fiber-optic lines to the carrier's hubs. DAS facilities distribute wireless network coverage, providing for more efficient management of wireless cellular telephone and data capacity in heavily trafficked areas. The master license agreements between SFPUC and ExteNet and Verizon Wireless were approved by the Board of Supervisors in December 2014 (File 14-1162) and the master license agreement between SFPUC and Mobilitie was approved by the Board of Supervisors in January 2015 (File 15-0015). The master license agreement between SFPUC and AT&T was approved by the Board of Supervisors in July 2016 (File 16-0539).

The four master license agreements between SFPUC and ExteNet, Verizon, Mobilitie, and AT&T excluded the licensing of concrete poles. According to Ms. Mary Tienken, SFPUC Project Manager of the DAS Program, telecommunications carriers would like to have the opportunity to use concrete street light poles in order to maximize locations for small cell site placement and the installation of DAS equipment in order to provide enhanced wireless services to customers in San Francisco. In some neighborhoods, such as the Marina District, most of the poles are concrete.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize three new 12-year Master License Agreements between the SFPUC and ExteNet, AT&T, and Verizon Wireless for the use of concrete poles to install DAS equipment on an estimated 62 to 80 street light poles over the 12-year term which would provide expanded wireless cellular telephone and data capacity coverage. As was also authorized in prior resolutions approving DAS master license agreements, this resolution would

authorize the General Manager of SFPUC to enter into any modifications to the Master License Agreements, in consultation with the City Attorney, which do not materially increase the obligations or liabilities of the SFPUC or the City.

The proposed three new Master License Agreements establish the fees, charges, procedures and conditions in which SFPUC may grant permission to ExteNet, AT&T, and Verizon Wireless to install DAS equipment on specific concrete street light poles. Prior to installation of DAS equipment, ExteNet, AT&T and Verizon Wireless must apply for a street light pole license, which authorizes the specific street light pole location and any specific site constraints for that pole. As is the case with the four existing DAS master lease agreements, each street light pole license will constitute an amendment to the Master License Agreement, and will not be subject to future approval by the Board of Supervisors. The Master License Agreements for concrete poles require the licensees to replace the existing concrete poles with new concrete poles that meet the SFPUC's specifications and are capable of supporting the licensee's equipment, thereby mitigating any risk to these SFPUC assets. The agreements also require the SFPUC to inspect and approve the construction of each pole system for compliance with SFPUC and Department of Public Works (DPW) standards before the licensee begins site preparation or installs a concrete pole at any pole location. Table 1 below summarizes the key provisions of the proposed Master License Agreements with ExteNet, AT&T and Verizon Wireless.

Table 1: Key Provisions of the Master License Agreements

| | |
|--|--|
| Permitted Use | Installation, operation, and maintenance of DAS equipment on the License Area specified in each Pole License and no other location. Use of the License Area for any other purpose without SFPUC's prior consent is prohibited. |
| Term | 12 years from effective date in approximately December 2016 through December 2028 |
| Street Light Pole License Application Deadline | 10 years after effective date or approximately December 2026 |
| Master License Application Fee to be paid by ExteNet, AT&T and Verizon Wireless to SFPUC | \$7,500 (one-time) |
| Pole License Fees to be paid by ExteNet, AT&T and Verizon Wireless to SFPUC | Pole License Fee - \$4,160 (per pole, per year) Administration Fee - \$900 (per pole, one-time) Service Connection Fee - \$440 (per pole, one-time) Compliance Fee - \$1500 (per pole, one-time) |
| Pole License Fee Adjustments | Pole License Fees will escalate by 4% on January 1 of each year. |

Licensee Selection of Location and Quantity of Poles

According to Ms. Tienken, ExteNet, AT&T and Verizon Wireless plan to initially install DAS equipment on a total of 55 to 65 concrete street light poles, primarily to increase cellular coverage in areas near the Marina district, where most of the poles are concrete. Ms. Tienken reports that the companies plan to license from 62 to 80 concrete street light poles under the Master License Agreements.¹ This number may increase over the life of the agreement based upon increased demand for data capacity. ExteNet, AT&T and Verizon Wireless will select street light poles for installation of their DAS equipment to meet their service coverage needs, subject to SFPUC's approval requirements under the proposed Master License Agreements.

Description of Infrastructure and Installation

According to Ms. Tienken, the proposed DAS equipment is similar to that used by the companies with SFPUC's existing master license agreements for steel street light poles. The equipment consists of an antenna mounted on top of a street light pole, along with a radio enclosure attached to the street light pole at a height approximately 15 feet above the sidewalk.

SFPUC Rights to Poles

According to the Agreements, the SFPUC retains possession and control of all SFPUC poles for SFPUC operations. The SFPUC will maintain and repair SFPUC poles as needed, at any time. Licensees are liable for any damage to SFPUC poles. The SFPUC may terminate a pole license for street light pole(s) and require removal of the DAS equipment if the SFPUC determines that continued use of the street light pole for DAS interferes with the SFPUC's street light operations.

In approving a pole license, SFPUC may consider any matter affecting its municipal obligations and interests. SFPUC staff engineers will review the pole license applications and conduct site visits with Licensees to determine feasibility of use for each pole location to adhere to SFPUC interests. Examples of these interests may include:

- 1) The resulting total load on the SFPUC pole;
- 2) The impact of the installation on street lighting operations;
- 3) Whether the equipment would create a hazardous or unsafe condition;
- 4) Aesthetic concerns, particularly for historic or decorative poles;
- 5) Cumulative level of emissions in the vicinity of the pole.

Coordination with Other City agencies

SFPUC, in consultation with the Department of Public Health (DPH), will require each DAS installation to fully comply with Federal Communications Commission requirements for human

¹ Over the 12-year term under the Master License Agreements, ExteNet plans to license between five to 15 concrete street light poles. AT&T plans to license seven to 15 concrete street light poles, and Verizon Wireless plans to license 50 concrete street light poles.

exposure to radio frequency emissions. SFPUC will also consult with the Planning Department to limit the aesthetic impacts of the proposed DAS installation.

Prior to approval of the street light pole license, licensees must demonstrate compliance with regulatory approvals from the Department of Public Works (DPW). DPW will review Wireless Telecommunications Service Facility Site Permit applications and issue a Wireless Telecommunications Service Facility Site Permit, under Article 25 of the San Francisco Public Works Code, which sets limits on the number, size, and type of antennas that can be installed on street light poles. Additionally, Article 25 requires that DPW and the Planning Department consider the aesthetic impacts of a proposed street light pole installation, and that DPH confirms that the proposed street light pole is in compliance with the Public Health Compliance Standard. Compliance with regulations is performed by the licensee and SFPUC does not have a role in coordinating approvals from DPW, DPH and the Planning Department, although SFPUC will confirm that all regulatory approvals have been granted prior to issuing a street light pole use license.

Municipal Use of Fiber-Optic Cables

According to the Agreements, ExteNet, AT&T and Verizon Wireless will grant the City a license to use four strands of any fiber-optic cable that ExteNet, AT&T and Verizon Wireless own at each licensed SFPUC street light pole. ExteNet, AT&T and Verizon Wireless agree that upon the expiration or termination of the Master License, it will grant to the City by quitclaim or sale, any fiber strands that the City uses or desires to use.

FISCAL IMPACT

ExteNet, AT&T and Verizon Wireless will be required to pay a one-time application fee of \$7,500 for the processing of the Master License Agreement. The licensees will also be required to pay fees for each concrete street light pole license: an annual street light pole license of \$4,160, a one-time administration fee of \$900, a one-time service connection fee of \$440, and a one-time compliance fee of \$1500. The annual street light pole license fee is set at \$4,160 for 2016 and is subject to an increase of four percent per year, which conforms to prior SFPUC DAS master license agreements and results from research conducted by SFPUC on comparable agreements in other cities. Table 2 below shows the fees associated with the agreement.

Table 2: Fees Associated with the Master License Agreement

| Fees | Amount | Frequency |
|--|---------|--------------------|
| Master License Agreement Application Fee | \$7,500 | One-time |
| Street Light Pole License Fee* | \$4,160 | Per pole, per year |
| Administration Fee | \$900 | Per pole, one-time |
| Service Connection Fee | \$440 | Per pole, one-time |
| Compliance Fee | \$1500 | Per pole, one-time |

*Street Light Pole License Fee increases 4% per year

According to Ms. Tienken, the licensees plan to install DAS equipment on between 55 to 65 SFPUC concrete street light poles in the first year of the Master License Agreements. The total

estimated revenue to SFPUC from the Master License Agreement would thus range from \$401,652 to \$473,316 in the first year, as shown in Table 3 below.

Table 3: Estimated Year One Revenues Paid by ExteNet, AT&T and Verizon Wireless to SFPUC

| Year One (2017) | 55 Poles | 65 Poles |
|--|------------------|------------------|
| Master License Agreement Application Fee | \$7,500 | \$7,500 |
| Street Light Pole License Fee | 237,952 | 281,216 |
| Administration Fee | 49,500 | 58,500 |
| Service Connection Fee | 24,200 | 28,600 |
| Compliance Fee | 82,500 | 97,500 |
| Total | \$401,652 | \$473,316 |

Over the 12-year term of the Master License Agreements, the estimated revenues to SFPUC from ExteNet, AT&T and Verizon Wireless for annual concrete street light pole license fees, not including one-time fees noted above, range from \$4,000,191 for 62 concrete street light pole licenses to \$5,135,718 for 80 concrete street light pole licenses, as shown in Table 4 below.

Table 4: Estimated Total Annual License Fee Revenue Paid by ExteNet, AT&T and Verizon Wireless to SFPUC

| | Annual License Fee | Low Estimate* | Total Annual Revenue | High Estimate* | Total Annual Revenue |
|--|-----------------------|---------------|-------------------------|-------------------|-------------------------|
| Year 1 | \$4,326.40 | 55 | \$237,952 | 65 | \$281,216 |
| Year 2 | 4,499.46 | 62 | 278,967 | 80 | 359,957 |
| Year 3 | 4,679.43 | 62 | 290,125 | 80 | 374,354 |
| Year 4 | 4,866.61 | 62 | 301,730 | 80 | 389,329 |
| Year 5 | 5,061.28 | 62 | 313,799 | 80 | 404,902 |
| Year 6 | 5,263.73 | 62 | 326,351 | 80 | 421,098 |
| Year 7 | 5,474.28 | 62 | 339,405 | 80 | 437,942 |
| Year 8 | 5,693.25 | 62 | 352,982 | 80 | 455,460 |
| Year 9 | 5,920.98 | 62 | 367,101 | 80 | 473,678 |
| Year 10 | 6,157.82 | 62 | 381,785 | 80 | 492,626 |
| Year 11 | 6,404.13 | 62 | 397,056 | 80 | 512,330 |
| Year 12 | 6,660.30 | 62 | 412,939 | 80 | 532,824 |
| Total Annual License Fee Revenues | | | \$ 4,000,191 | | \$ 5,135,718 |

*Source: SFPUC

According to Ms. Tienken, the City will also benefit from the use of four fiber-optic cables at each licensed concrete street light pole. SFPUC has not estimated the value of these fiber-optic cables to the City.

POLICY CONSIDERATION

Previous Policy Discussions

Under the July 2016 resolution approving the master license agreement between SFPUC and AT&T (File 16-0539), the December 2014 resolution approving the two master license agreements between SFPUC and ExteNet and Verizon (File 14-1162), and under the January 2015 resolution approving the master license agreement between SFPUC and Mobilitie (File 15-0015), the Board of Supervisors amended the legislation to require that all revenues from those agreements be appropriated to the streetlight program in the Annual Appropriation Ordinance.

In accordance with the Board of Supervisors' previous amendments to those resolutions approving the existing master license agreements, the Budget and Legislative Analyst recommends amending the proposed resolution to require that all revenues from the proposed Master License Agreements with ExteNet, Verizon Wireless and AT&T for the use of concrete poles be appropriated to the SFPUC Streetlight Program in the Annual Appropriation Ordinance.

Management of Street Light Pole Licenses

SFPUC is required to submit to the Board of Supervisors reports detailing the number and locations of existing DAS street light pole licenses annually and with each proposed resolution to approve a new DAS master license agreement. SFPUC has provided a report to the Board of Supervisors on July 5, 2016 and will submit the next report by June 30, 2017.

RECOMMENDATIONS

1. Consistent with previous Board of Supervisors policy, amend the proposed resolution to specify that all revenues generated from the proposed Master License Agreements between SFPUC and ExteNet, AT&T and Verizon Wireless for the use of concrete poles will be appropriated to the SFPUC Streetlight Program in the Annual Appropriation Ordinance, subject to Board of Supervisors approval.
2. Approve the proposed resolution, as amended.

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| Item 13 File 16-1242 | Department: Office of Community Investment and Infrastructure (OCII) |
| EXECUTIVE SUMMARY | |
| Legislative Objectives | |
| <p>The proposed resolution would provide the Board of Supervisors' consent, under the Tax Allocation Agreement for Candlestick Point-Hunters Point Shipyard, to permit the use of tax increment generated in other former redevelopment areas, and deposited in the Redevelopment Property Tax Trust Fund, to finance remaining affordable housing enforceable obligations in the Candlestick Point-Hunters Point Shipyard former redevelopment area.</p> | |
| Key Points | |
| <ul style="list-style-type: none"> • The Office of Community Investment and Infrastructure (OCII) is the Successor Agency to the Redevelopment Agency of the City and County of San Francisco, which was dissolved by State law in February 2012. OCII is responsible for implementing the enforceable obligations committed to by the former Redevelopment Agency. • The Redevelopment Dissolution Law permitted all tax increment financing generated in any of the former redevelopment areas in the City to be aggregated and deposited into the Redevelopment Property Tax Trust Fund, which can now be used to fund any remaining affordable housing enforceable obligations. California Senate Bill 107 (SB 107), passed in September 2015, authorized OCII to issue new bonds secured by property tax increment in the City's Redevelopment Property Tax Trust Fund to finance remaining affordable housing enforceable obligations. • The Candlestick Point-Hunters Point Shipyard Tax Allocation Agreement specifically prohibits the use of tax increment from other redevelopment areas to fund projects within the Candlestick Point-Hunters Point Shipyard former redevelopment area. Therefore, none of the pooled tax increment funds currently in the Redevelopment Property Tax Trust Fund, except for the small amount generated in the Candlestick Point-Hunters Point Shipyard, can be used in this project area, which is inconsistent with Redevelopment Dissolution Law. | |
| Fiscal Impact | |
| <ul style="list-style-type: none"> • OCII plans to issue \$185 million in tax allocation bonds secured by monies in the Redevelopment Property Tax Trust Fund to finance affordable housing and infrastructure enforceable obligations. \$112 million of these bonds will be used for affordable housing enforceable obligations in the Candlestick Point-Hunters Point Shipyard former redevelopment area. | |
| Recommendations | |
| <ul style="list-style-type: none"> • Amend Page 1, Lines 3-12, of the proposed resolution to state, "Resolution consenting to the use of outside increment deposited in the Redevelopment Property Tax Trust Fund for the exclusive purpose of funding affordable housing development that the Office of Community Investment and Infrastructure is required to build under its Enforceable Obligations." • Approve the proposed resolution, as amended. | |

MANDATE STATEMENT

City Charter Section 9.118(b) states that any 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 more than \$500,000 is subject to Board of Supervisors approval.

In addition, state law governs the activities of the Office of Community Investment and Infrastructure, operating as the Successor Agency to the Redevelopment Agency of the City and County of San Francisco, which is a separate public entity from the City and County of San Francisco under the Community Redevelopment Law, as amended by the Redevelopment Dissolution Law, Cal. Health & Safety Code §§ 34170 et seq.

BACKGROUND

The Office of Community Investment and Infrastructure (OCII) is the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (Redevelopment Agency), which was dissolved by State law in February 2012.¹

Former Redevelopment Agency Enforceable Obligations

OCII is responsible for implementing the enforceable obligations committed to by the former Redevelopment Agency. These enforceable obligations include the development of affordable housing and infrastructure projects in the following former redevelopment areas: (1) Candlestick Point-Hunters Point Shipyard; (2) Mission Bay North and South; and (3) Transbay Project Area. The California Department of Finance has authorized the funding and completion of these enforceable obligations; and the Board of Supervisors has delegated this state authority to OCII (Ordinance No. 215-12).

OCII develops a Recognized Obligation Payment Schedule each fiscal year which identifies specific expenditures to complete the enforceable obligations. OCII requests funds from the Redevelopment Property Tax Trust Fund, which maintains property tax increment pooled from all eleven former redevelopment areas, to fund these expenditures. The City allocates property tax increment from the Fund to OCII for approved expenditures.

The Board of Supervisors approved OCII's FY 2016-17 and FY 2017-18 two-year budget on July 19, 2016, which included \$185 million to finance OCII's enforceable obligations for affordable housing and infrastructure in the former redevelopment areas.

Senate Bill 107 – Expansion of OCII Bond Issuance Authority

Prior to the Redevelopment Agency's dissolution, state law required that tax increment generated in a redevelopment project area had to be spent on activities within the same project area. In addition, the City and the former Redevelopment Agency entered into a Tax

¹ Rules related to OCII as the Successor Agency are codified in California Health & Safety Code Sections 34170 et seq.

Increment Allocation Pledge Agreement (Tax Allocation Agreement) for some redevelopment projects, namely Mission Bay North and South and Candlestick Point-Hunters Point Shipyard that contractually committed tax increment to be spent in a specific project area for particular purposes including infrastructure and affordable housing.

The Redevelopment Dissolution Law² preserved, with state approval, these Tax Allocation Agreements, but otherwise permitted all tax increment financing generated in any of the eleven former redevelopment areas in the City to be aggregated and deposited into the Redevelopment Property Tax Trust Fund, which can now be used to fund any remaining affordable housing enforceable obligations in the City.

Additionally, California Senate Bill 107 (SB 107)³, passed in September 2015, authorizes OCII to issue new bonds secured by property tax increment in the City's Redevelopment Property Tax Trust Fund, to finance the construction of remaining affordable housing and certain Transbay infrastructure obligations as required by redevelopment agreements prior to the dissolution of the Redevelopment Agency. Since the dissolution of the former Redevelopment Agency, OCII has not issued new bonds secured by property tax increment for affordable housing. SB 107 now authorizes this bond financing for affordable housing development.

In OCII's FY 2016-17 budget, the Board of Supervisors approved OCII's use of the Redevelopment Property Tax Trust Fund to secure \$185,000,000 in bonds, authorized under state law, for enforceable affordable housing and infrastructure obligations for the Candlestick Point-Hunters Point Shipyard, Mission Bay North, Mission Bay South and Transbay projects.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would provide the Board of Supervisors' consent, under the Tax Allocation Agreement for Candlestick Point-Hunters Point Shipyard, to permit the use of tax increment generated in other former redevelopment areas, and deposited in the Redevelopment Property Tax Trust Fund, to finance remaining affordable housing enforceable obligations in the Candlestick Point-Hunters Point Shipyard former redevelopment area.

The proposed resolution should be amended on Page 1, Lines 3-12 to read: "Resolution consenting to the use of outside increment deposited in the Redevelopment Property Tax Trust Fund for the exclusive purpose of funding affordable housing development that the Office of Community Investment and Infrastructure is required to build under its Enforceable Obligations" to clarify the intent of the legislation.

As discussed above, the Redevelopment Dissolution Law permits all tax increment generated in any of the former San Francisco redevelopment areas, except for increment that may be subject to a Tax Allocation Agreement, to be aggregated and deposited into the Redevelopment Property Tax Trust Fund, to be used to fund any remaining City affordable housing enforceable obligations. However, the Candlestick Point-Hunters Point Shipyard Tax Allocation Agreement

² California Health & Safety Code, Sections 34170 et seq.

³ Codified in Cal. Health & Safety Code § 34177.7

specifically prohibits the use of tax increment from other redevelopment areas to fund projects within the Candlestick Point-Hunters Point Shipyard former redevelopment area (“Outside Increment”). Therefore, none of the pooled tax increment funds currently in the Redevelopment Property Tax Trust Fund, except for the small amount generated in the Candlestick Point-Hunters Point Shipyard, can be used in this project area.

According to Ms. Bree Mawhorter, Deputy Director of Finance and Administration at OCII, this provision is inconsistent with Redevelopment Dissolution Law, SB 107, as well as with other Tax Allocation Agreements that allow OCII to use other project areas’ tax increment to fund affordable housing.

FISCAL IMPACT

As previously discussed, SB 107 authorizes OCII to issue new debt secured by the property tax increment revenue available in the Redevelopment Property Tax Trust Fund. OCII plans to issue \$185,000,000 in tax allocation bonds secured by monies in the Redevelopment Property Tax Trust Fund to finance affordable housing and infrastructure, as shown in Table 1 below. This would be OCII’s first issuance of new debt under the new SB 107 guidelines.

Table 1: Budget for \$185M Tax Allocation Bonds

| Former Redevelopment Area | Enforceable Obligation | Amount |
|---|---------------------------------|----------------------|
| Candlestick Point – Hunters Point Shipyard | 536 units of affordable housing | \$112,000,000 |
| Transbay | Infrastructure | \$50,000,000 |
| Mission Bay | 316 units of affordable housing | \$23,000,000* |
| Total | | \$185,000,000 |

Source: OCII

*In addition to issuing \$23 million in new bonds, OCII plans to refund \$32 million in previously issued bonds, plus financing costs, for a total issuance of \$55 million for the Mission Bay former redevelopment area.

Given that the Transbay and Mission Bay former redevelopment areas are not subject to Tax Allocation Agreements restricting the use of Outside Increment, the proposed resolution only applies to the \$112 million bond issuance for current and future affordable housing enforceable obligations in the Candlestick Point-Hunters Point Shipyard former redevelopment area.

Bond Financing Terms and Debt Service for Candlestick Point-Hunters Point Shipyard

OCII plans to issue an initial \$112 million in tax allocation bonds (Series 2017A) to finance 536 units of affordable housing enforceable obligations, as shown in Table 1 above. According to Ms. Mawhorter, OCII estimates annual interest rates for the Series 2017A affordable housing bonds of to be 8 percent, with a 28-year term. The estimated interest rate is “true interest cost” which includes the cost of financing, and is therefore higher than market interest rates. Ms. Mawhorter notes that this is a conservative estimate, given current market volatility, and the

final interest rate will be subject to market conditions at the time of issuance. The bonds are expected to be issued in February 2017.

Based on a conservative 8 percent interest rate for 28 years, OCII estimates the total debt service for the \$112 million bonds to be \$235,199,389 over the 28-year term, including \$139,529,389 in interest payments. Annual debt service is estimated to be \$8,399,978 per year, as shown in Table 2 below.

Table 2: Debt Service Terms for \$112M in Affordable Housing Bonds for Candlestick Point-Hunters Point Shipyard

| Series | Par Amount* | Term | Total Interest | Total Debt Service | Average Annual Debt Service |
|----------------------------------|---------------|----------|----------------|--------------------|-----------------------------|
| 2017A Taxable Affordable Housing | \$112,000,000 | 28 years | \$139,529,389 | \$235,199,389 | \$8,399,978 |

Source: OCII

*Includes cost of issuance, reserve fund, and project fund

In FY 2015-16, property tax increment from the City's former redevelopment areas generated \$206,143,505 for the Redevelopment Property Tax Trust Fund. OCII drew down \$122,312,283 in FY 15-16. OCII anticipates there will be sufficient funding in the Fund to pay the additional financing costs over the next 28 years.

Any unused funds in the Redevelopment Property Tax Trust Fund will be distributed to the taxing entities, of which the City and County of San Francisco is the largest.

RECOMMENDATIONS

1. Amend Page 1, Lines 3-12, of the proposed resolution to state, "Resolution consenting to the use of outside increment deposited in the Redevelopment Property Tax Trust Fund for the exclusive purpose of funding affordable housing development that the Office of Community Investment and Infrastructure is required to build under its Enforceable Obligations."
2. Approve the proposed resolution, as amended.

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| Item 14 File 16-1094 | Department: Department of Elections (DOE) |
| EXECUTIVE SUMMARY | |
| Legislative Objectives | |
| <ul style="list-style-type: none"> The proposed ordinance would authorize the Department of Elections to enter into a fourth amendment to the existing agreement with Dominion Voting Systems to (a) extend the term of the agreement for two years through December 31, 2018, (b) increase the agreement by \$2,289,758, for a total not-to-exceed \$21,980,691, and (c) waive the requirement of Administrative Code Section 21.9 that all City contracts for commodities or services be limited to the initial terms and period of extensions in the solicitation. | |
| Key Points | |
| <ul style="list-style-type: none"> In November 2013, the Board of Supervisors approved a third amendment to the agreement with Dominion for an additional \$3,645,900, or a total not-to-exceed \$19,690,933, and to extend the term for three years through December 10, 2016. | |
| Fiscal Impact | |
| <ul style="list-style-type: none"> The proposed costs would increase from \$497,400 to \$662,004 for election services for each election and from \$386,300 to \$482,875 for annual license and maintenance fees. | |
| Policy Considerations | |
| <ul style="list-style-type: none"> The proposed ordinance to approve the extension of the existing agreement for an additional two years or through December 31, 2018 would be beyond the terms of the original RFP, such that the proposed ordinance requires the Board of Supervisors to waive the Administrative Code Section 21.9 requirement. | |
| Recommendations | |
| <ul style="list-style-type: none"> Amend the proposed ordinance to request the Director of Elections to provide a written update and presentation to the Board of Supervisors during the FY 2017-18 and FY 2018-19 budget process on the status of implementing the open source voting system and alternatives if the open source voting system is not completed by December 2018. Amend the proposed ordinance to revise the language on page 2, lines 13-15 from "Under this extension, Dominion would continue to provide voting services at the rates in effect for 2007-2016, and City would not be required to purchase new voting machines" to "Under this extension, Dominion would continue to provide voting services at increased rates in effect for 2017-2018, and City would not be required to purchase new voting machines." Approve the proposed resolution, as amended. | |

MANDATE STATEMENT

City Charter Section 9.118(b) states that any 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 more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

The Board of Supervisors approved an agreement between the Department of Elections and Sequoia Voting Systems, Inc. (Sequoia) in December 2007, following a competitive Request for Proposals (RFP) process, for the purchase of a new voting system and the provision of associated voting services. The agreement was for an amount not-to-exceed \$12,650,233 for the four-year period from December 11, 2007 through December 10, 2011, with two one-year options to extend the agreement, through December 10, 2013 (File 07-0040).

As part of the \$12,650,233 agreement with Sequoia the City was to receive a \$1,130,000 credit by trading in the City's previous voting equipment. However, the Board of Supervisors approved a settlement of a lawsuit in February 2008 (File 08-0123) between the City and Election Systems and Software, Inc. (ES&S), the City's previous voting equipment contractor prior to Sequoia, for ES&S to pay the City a net amount of \$3,457,865, in exchange for the City returning all of the previous voting equipment to ES&S.

As a result of that settlement, the Board of Supervisors approved a first amendment to the agreement with Sequoia in January 2008 to pay Sequoia an additional \$1,130,000 from the lawsuit settlement proceeds received from ES&S, instead of transferring the City's old voting machines to Sequoia (Resolution No. 65-08). This additional \$1,130,000 together with the original not to exceed \$12,650,233 resulted in a total four-year agreement with Sequoia for a not to exceed \$13,780,233.

Sequoia was acquired by Dominion Voting Systems, Inc. (Dominion) in June 2010. Dominion assumed the existing agreement with the Department of Elections and has continued to provide voting services for the City.

The Board of Supervisors approved a second amendment to the agreement with Dominion in December 2011 (File 11-1153) to exercise the two one-year options to extend the term of the agreement through December 10, 2013 for an additional \$2,264,800, or a total not to exceed \$16,045,033.

The Board of Supervisors approved a third amendment to the agreement with Dominion in November 2013 (File 13-0797) to (a) extend the term of the agreement for three years through December 10, 2016, (b) increase the agreement by \$3,645,900 for a total not-to-exceed \$19,690,933, and (c) waive the requirement of Administration Code Section 21.9 that all City contracts for commodities or services be limited to the initial terms and period of extensions included in the solicitation.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve a fourth amendment to the existing agreement between the Department of Elections and Dominion, for Dominion to continue to provide elections services. This fourth amendment would (a) extend the term of the existing agreement for two years, from December 11, 2016 through December 31, 2018 for a total term of eleven years, (b) increase the agreement by \$2,289,758, from \$19,690,033 to a total not-to-exceed \$21,980,691, and (c) waive the requirement of Administrative Code Section 21.9 that all City contracts for commodities or services be limited to the initial terms and period of extensions included in the solicitation (see Policy Considerations section below).

FISCAL IMPACT

Mr. John Arntz, the Director of the Department of Elections advises that under the proposed fourth amendment term from December 11, 2016 through December 31, 2018, the following elections are currently scheduled to occur:

- Consolidated Statewide Primary Election on June 5, 2018; and
- Consolidated General Election on November 6, 2018.

Based on the above-noted two elections in 2018 or a total of two scheduled elections over the next two years, the following costs are anticipated to be incurred by the Department of Elections.

Table 1: Expenditures to be Incurred by the Department of Elections Under the Proposed Fourth Amendment to the Dominion Voting Systems Agreement

| | 2017 (no elections) | 2018 (two elections) | Total |
|------------------------------------|---------------------------|----------------------------|--------------------|
| June 5, 2018 Election Services | | \$662,004 | \$662,004 |
| November 6, 2018 Election Services | | <u>662,004</u> | <u>662,004</u> |
| Subtotal, Election Services | | 1,324,008 | 1,324,008 |
| Maintenance and License Fees | 482,875 | 482,875 | 965,750 |
| Total | \$482,875 | \$1,806,883 | \$2,289,758 |

Increased Costs and Services

Under the existing agreement with Dominion, the City pays Dominion \$497,400 for election services for each election. Under the proposed fourth amendment, the City will pay Dominion \$662,004 for election services for each election, as shown in Table 1 above, an increase of \$164,604 or 33 percent. Also, under the existing agreement with Dominion, the City pays Dominion \$386,300 for annual license and maintenance fees, and under the proposed fourth

amendment, the City will pay Dominion \$482,875 for annual license and maintenance fees, an increase of \$96,575 or 25 percent.

According to Mr. Arntz, the increase is a result of a number of factors including, but not limited to, staffing and personnel costs that have risen since 2008. This includes tasks such as staging technical support in the field on Election Day, repairing and maintaining voting equipment, as well as delivery and retrieval of equipment. Additional support requirements have also resulted in higher operating costs, such as the addition of Tagalog as the fourth language utilized in San Francisco.

Election services include equipment testing, ballot layouts, system configuration with election-specific information, logistical support such as delivery and retrieval of the voting equipment to and from polling places, project management fees and election-day technical support. Maintenance and license fees include annual comprehensive reviews, repairs and replacement of equipment and parts and annual licensing fees for the Ranked Choice Voting and other system software. Over the two-year extended period, as shown in Table 1 above, the total costs would be \$2,289,758.

According to Mr. Arntz, the extension is limited to two years because the system is becoming obsolete, and Dominion does not want to extend past this timeframe. All of the costs under the proposed two-year extension period would be paid with General Fund revenues, subject to appropriation approval by the Board of Supervisors in the Department of Elections FY 2017-18 and 2018-19 budgets.

Proposed Amendment

The proposed ordinance states on page 2, lines 13-15 that “Under this extension, Dominion would continue to provide voting services at the rates in effect for 2007-2016, and City would not be required to purchase new voting machines”. However, as discussed above, the costs to the City will increase under the proposed two year extension with Dominion. Therefore, the proposed ordinance should be amended on page 2, lines 13-15 to state “Under this extension, Dominion would continue to provide voting services at increased rates in effect for 2017-2018, and City would not be required to purchase new voting machines.”

POLICY CONSIDERATION

Contract Extension without a Competitive Process

The Board of Supervisors previously approved the extension of the agreement between the Department of Elections and Dominion under the third amendment for a three-year term from December 2013 to December 2016 without a new competitive process, as noted above. The proposed ordinance would extend the existing agreement by an additional two years, or through December 31, 2018, for an additional cost of \$2,289,758, or a total not-to-exceed amount of \$21,980,691. This additional two-year term would be beyond the terms of the original RFP, without undergoing a new competitive RFP process. Therefore, approval of the proposed fourth amendment is being requested with an ordinance, rather than a resolution, because the proposed ordinance also requires that the Board of Supervisors find that it is reasonable and in the public interest to waive, and therefore do waive, the requirement in the

City's Administrative Code Section 21.9 that all City contracts for commodities and/or services be limited to the initial terms and period of extensions included in the previous solicitation.

Mr. Arntz advises that he is requesting approval of the proposed amendment to extend this agreement with Dominion for two years, without undergoing a new competitive RFP process, because Dominion is currently the only contractor that has been certified by the California Secretary of State that can accommodate elections using Ranked-Choice Voting. Furthermore, Mr. Arntz states that Dominion Voting Systems has provided satisfactory services to the Department of Elections.

Open Source Voting System

In the FY2016-17 Department of Elections budget, the Board of Supervisors approved \$300,000 to develop specifications for a new open source voting system for San Francisco. According to Mr. Arntz, this system will not be ready for at least two years given the complexity of the project, as well as the time needed to receive approval by the California Secretary of State. In terms of the current status of the project, Mr. Arntz states that the Department of Technology is currently preparing specifications for hiring a consultant, who will scope out the project requirements and plan for developing an open source voting system.

If the new open source voting system is not ready in two years, Mr. Arntz advises that the Department of Elections plans to conduct a competitive process to lease a new voting system, removing the need for a large expenditure to purchase voting equipment. The lease will be structured so that the City could adopt newer technologies and software that the vendor makes available. In addition, the term of the lease will reflect the time needed to implement the open source voting system that the City is developing.

The Budget and Legislative Analyst recommends that the Department of Elections provide a written update and presentation to the Board of Supervisors during the FY 2017-18 and FY 2018-19 budget process on the status of implementing the open source voting system and alternatives if the open source voting system is not completed by December 2018.

Types of Voting Equipment

According to Mr. Arntz, three types of equipment are used for voting in San Francisco. High-speed tabulators are used at City Hall for counting votes cast on vote-by-mail ballots. At polling places, two types of equipment are used: (1) an optical scan tabulator that optically scans the marks made on paper ballots and counts the votes electronically when the ballot is inserted, and (2) a touch screen unit that presents a digital interface for voters to use to cast ballots. Mr. Arntz states that the Dominion system – or any voting system in California – is never connected to an open network or the internet, thus removing the opportunity for accessing the system from off-site.

RECOMMENDATIONS

1. Amend the proposed ordinance to request the Director of Elections to provide a written update and presentation to the Board of Supervisors during the FY 2017-18 and FY 2018-19 budget process on the status of implementing the open source voting system and alternatives if the open source voting system is not completed by December 2018.
2. Amend the proposed ordinance to revise the language on page 2, lines 13-15 from “Under this extension, Dominion would continue to provide voting services at the rates in effect for 2007-2016, and City would not be required to purchase new voting machines” to “Under this extension, Dominion would continue to provide voting services at increased rates in effect for 2017-2018, and City would not be required to purchase new voting machines.”
3. Approve the proposed resolution, as amended.

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| Item 15 File 16-1180 | Department: San Francisco International Airport (Airport) |
| EXECUTIVE SUMMARY | |
| Legislative Objectives | |
| <ul style="list-style-type: none"> The proposed resolution would approve the Terminal 3 Retail Marketplace Lease between MRG San Francisco, LLC, and the Airport for a seven year term to commence following Board approval and extending to approximately January 2024, with two one-year options to extend to approximately January 2026, for a total nine year lease term. | |
| Key Points | |
| <ul style="list-style-type: none"> On February 2, 2016, the Airport Commission authorized staff to commence the competitive selection process and issue a Request for Proposals (RFP) for the Terminal 3 Retail Marketplace lease. The Terminal 3 Retail Marketplace is a 5,200 square foot area post-security that is the combination of four previous retail spaces. On August 19, 2016, the Airport staff received six proposals for the Lease, which were evaluated by a three-member scoring panel. The panel determined MRG San Francisco, LLC be the highest-ranking, responsive, and responsible proposer, and awarded the applicant a lease of seven years with two, one-year options to extend and a Minimum Annual Guarantee by the lease to the Airport Commission of \$1,350,000. | |
| Fiscal Impact | |
| <ul style="list-style-type: none"> The proposed resolution would require Books, Inc. to pay the Airport a rent amount that is the greater of: (1) the Minimum Annual Guarantee of \$1,350,000 per year (adjusted annually to reflect inflation as calculation by the Consumer Price Index) or (2) the percentage rent based on annual gross revenues (see Table 2). Under conservative predictions of changes to the Consumer Price Index, the proposed resolution will generate revenues by MRG San Francisco, LLC to the Airport of \$9,886,042 over the next seven years. The actual rent paid by MRG San Francisco, LLC may be higher based on revenue projections. | |
| Recommendation | |
| <ul style="list-style-type: none"> Approve the proposed resolution. | |

MANDATE STATEMENT

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

BACKGROUND

On February 2, 2016, the Airport Commission authorized staff to commence the competitive selection process and issue a Request for Proposals (RFP) for the Terminal 3 Retail Marketplace lease. The Terminal 3 Retail Marketplace is a 5,200 square foot area post-security that is the combination of four previous retail spaces. The leases ended on three of the spaces, and one retail concession was relocated to another space. The Airport decided to combine the space upon expiration of previous leases in order to expand service to passengers and offer a new shopping experience, according to Mr. Scott Blood, Principal Property Manager at the Airport. On August 19, 2016, the Airport staff received six proposals for the Lease, as shown in Table 1 below.

Table 1: Vendor Proposals and Final Scores

| No. | Proposer | Concept Name | MAG Offer | Final Score |
|-----|----------------------------------|-------------------------|-------------|-------------|
| 1 | MRG San Francisco, LLC | District Market | \$1,350,000 | 82.92 |
| 2 | Paradies Lagardere @ SFO | 43 Hills Marketplace | 1,450,000 | 80.77 |
| 3 | HG SFO Retailers JV | The City Market | 1,800,000 | 75.90 |
| 4 | Pacific Gateway Concessions, LLC | Gather | 1,950,000 | 75.67 |
| 5 | Newslink of SF | The Shoppes by the Bay | 1,365,000 | 67.00 |
| 6 | Sapia CI SAS | EI Market San Francisco | 1,350,000 | 48.92 |

The RFP gave a Minimum Annual Guarantee (MAG) of \$1,350,000, which calculated by the Airport based on the average level of income per square foot of other retail spaces. The proposals were evaluated based on five criteria: (1) proposed concept, (2) design intention and capital investment, (3) customer service quality and control, (4) business plan and (5) MAG. A three-member panel evaluated the proposals and determined MRG San Francisco, LLC (MRG) a partnership with a retail firm, a local gift and chocolate company, and a small business airport-concessionnaire, submitted the highest-ranking proposal. According to Mr. Blood, the Airport selected MRG based on the evaluation panel recommendation, even though the MRG's MAG proposal was less than four other proposals, based on MRG's higher scores for proposed concept and design intention and capital investment. According to Mr. John Reeb, Senior Principal Property Manager at the Airport, weighting the proposed concept and design intention and capital investment scores more heavily than the MAG scores is practiced for assessing similar leases at the Airport.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Terminal 3 Retail Marketplace Lease between MRG San Francisco, LLC, and the Airport for a seven year term to commence following Board approval and extending to approximately January 2024, with two one-year options to extend to

approximately January 2026, for a total nine year lease term. The MAG is \$1,350,000. Table 2 below summarizes the provisions of the subject lease.

| Table 2: Summary of Lease Provisions | |
|---|--|
| Term | Seven years to approximately January 2024 |
| Options to Extend | Two (2) one-year options to extend exercisable at the sole discretion of the Airport to approximately January 2026 |
| Premises | Approximately 5,200 square feet of post-security space in Boarding Area F of Terminal 3 |
| Minimum Annual Guarantee (MAG) | \$1,350,000 per year |
| MAG Adjustment | Adjusted annually based on the Consumer Price Index (CPI) |
| Revenue Percentage Rent | 12% of Gross Revenues up to and including \$2,000,000,000 |
| | 14% of Gross Revenues from \$2,000,000.01 up to and including \$4,000,000,000 |
| | 16% of Gross Revenues over \$4,000,000,000 |
| Promotional Fee | \$1 per square foot - \$52,000 per year |
| Deposit Amount | Equal to one-half of the initial MAG (subject to mid-term adjustment) |
| Minimum Initial Investment | \$450 per square foot – equal to \$2,340,000 |

The lease is for seven years. Mr. Blood explained that terms of 5 to 7 years are typical for retail opportunities through the Airport and similar airports. The Airport has two one-year options to extend the contract.

Rent Structure

Rent is the greater of the MAG or percentage rent shown in Table 2 above. According to Mr. Blood, these percentages are Consistent with provisions of other Airport concession leases, which typically set percentage rent in 12, 14, and 16 percent increments with different dollar thresholds dependent upon the retail space and location.

FISCAL IMPACT

Under the subject lease, MRG is required to pay the Airport the greater of the initial MAG amount of \$1,350,000 or percentage rent as shown in Table 2 above¹. The Airport cannot negotiate with businesses on increasing the MAG from the one submitted in the proposal. The subject lease will generate MAG revenues payable by MRG to the Airport of at minimum \$9,886,042 over the next seven years, including a conservative estimate of 1.5 percent increased on annual CPI adjustments (see Table 3 below).

¹ As noted above, MRG's MAG proposal was less than the MAG proposal of four other proposers. According to Mr. Reeb, the Airport cannot negotiate with businesses on increasing the MAG from the one submitted in the proposal.

Table 3: Estimated MAG to be Paid in Seven-Year Base Term^a

| Fiscal Year | MAG |
|--------------|--------------------|
| FY 2016-17 | \$1,350,000 |
| FY 2017-18 | 1,370,250 |
| FY 2018-19 | 1,390,804 |
| FY 2019-20 | 1,411,666 |
| FY 2020-21 | 1,432,841 |
| FY 2021-22 | 1,454,333 |
| FY 2022-23 | 1,476,148 |
| Total | \$9,886,042 |

^a Assumes annual increase of 1.5 percent to the MAG based on the Consumer Price Index

According to Mr. Blood, the Airport expects MRG to pay percentage rent rather than the MAG based on projections by MRG; actual estimated percentage rent paid to the Airport by MRG in the first lease year, based on estimated Gross Revenue of \$10,150,000 for the first year, is \$1,504,000.

In addition to rent, the contract stipulates two additional expenditures: minimum initial investment in the property and promotional charge. The investment by MRG San Francisco, LLC in the premises is \$450 per square foot, or \$2,340,000. The promotional charge is \$5,200 per annum, which is equal to \$36,400 over the seven year life of the initial lease.

RECOMMENDATION

Approve the proposed resolution.

| | |
|--|---|
| Item 16 File 16-1181 | Department: San Francisco International Airport (Airport) |
| EXECUTIVE SUMMARY | |
| Legislative Objectives | |
| <ul style="list-style-type: none"> The proposed resolution would approve the contract between the Airport and Hallmark to provide Airport Information and Guest Assistance Services, in an amount not to exceed \$11,550,000 for an initial 18-month term to commence January 1, 2017 through June 30, 2018, and with three two-year options to extend the contract through June 30, 2024. | |
| Key Points | |
| <ul style="list-style-type: none"> The Airport currently has three separate contracts for various customer-related services: (a) the Airport Information Desk, (b) customer service assistance and automated passport control self-service kiosks, and (c) Lost and Found. In March, 2016, the Airport Commission approved combining these three customer-related services into one contract and issued a request for proposals. The Airport determined that Hallmark Aviation Services, L.P. was the highest-ranking responsive and responsible proposer and negotiated a contract. Hallmark will be subcontracting with Polaris Research and Development, Inc. (Polaris), who is a Local Business Enterprise (LBE). Polaris is currently providing information services, and would expand their services under this contract. | |
| Fiscal Impact | |
| <ul style="list-style-type: none"> The proposed resolution would approve expenditures of \$11,550,000 over the initial 18-month term from January 1, 2017 to June 30, 2018. The proposed resolution would increase the amount the Airport spends on Airport Information and Guest Services from approximately \$5,320,000 per year to \$7,700,000 per year. The cost increase is primarily due to the expansion of assistance services for the Automated Passport Control self-service kiosks and the information desk staffing and hours, designed to meet the current flight schedule. The contract will be paid for with Airport Operating budget monies. There will be no impact to the overall budget as the Airport already budgeted \$3,850,000 in FY 2016-17 and \$7,700,000 in FY 2017-18 for the services, totaling \$11,550,000. | |
| Recommendation | |
| <ul style="list-style-type: none"> Approve the proposed resolution. | |

MANDATE STATEMENT

City Charter Section 9.118(b) states that any 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 more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

The Airport currently has three separate contracts for various customer-related services: (a) the Airport Information Desk, (b) Customer service assistance and automated passport control self-service kiosks, and (c) Lost and Found.

- The Airport Information Desk Program serves more than 1.5 million guests annually. The work is currently performed by Polaris Research and Development under contract with the Airport. The contract is scheduled to expire December 31, 2016.
- Customer service assistance and automated passport control self-service kiosks are currently operated by PrimeFlight Aviation through a contract between PrimeFlight Aviation and SFO Terminal Equipment Company, LLC ('SFOTEC')¹, which will expire on December 31, 2016.
- The Lost and Found services are currently provided by the San Francisco Police Department daily between 8 am until 10 pm.

In March 2016, the Airport Commission approved combining these three customer-related services into one contract, and authorized the Airport to commence a Request for Proposals (RFP) process to select a contractor. The Airport received two proposals in response to the RFP. The proposals were evaluated and scored by a three-person panel familiar with airport operations, Customs & Border Protection processes, and customer service principles. The selection criteria included: project approach focus on guest experiences, assigned project staff and management structure, relevant work experience, and answers to questions about project transition planning during oral interviews. The Airport determined that Hallmark Aviation Services, L.P. (Hallmark) was the highest-ranking responsive and responsible proposer. The results of the RFP are shown in Table 1 below.

Table 1: Vendor Proposals and Final Scores

| No. | Proposer | Management Fee | Final Score (out of 300) |
|-----|----------------------------------|----------------|--------------------------|
| 1 | Hallmark Aviation Services, L.P. | \$2,970,336 | 256 |
| 2 | PrimeFlight Aviation Services | \$3,640,848 | 209.2 |

¹ The Board of Supervisors approved the International Terminal Equipment Maintenance Agreement between SFOTEC and the Airport in 2012 (File 12-0452) for not-to-exceed \$18 million and a term through June 30, 2021. In April 2015, the Board of Supervisors approved a modification to the agreement (File 15-0213) to increase the not-to-exceed amount by \$3 million, from \$18 million to \$21 million to add queue management and automated passport control self-service kiosks to the agreement through December 2016.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the contract between the Airport and Hallmark to provide Airport Information and Guest Assistance Services, in an amount not to exceed \$11,550,000 for an initial 18-month term to commence January 1, 2017 through June 30, 2018, and with three two-year options to extend the contract through June 30, 2024. The Airport Information and Guest Assistance Services contract is comprised of three distinct services:

- (a) Airport Information Desk Program, providing information to the public on airport services, transportation, visitor attractions, and other services at 11 information desks in Airport Terminals 1, 2, and 3 and the International Terminal;
- (b) Guest Assistance in the International Terminal, consisting primarily of queue management and assistance with Automated Passport Control kiosks, and
- (c) Airport's Lost and Found program.

Hallmark will be subcontracting with Polaris Research and Development, Inc. (Polaris), who is a Local Business Enterprise (LBE). Polaris is currently providing information services, and would expand their services under this contract.

Table 2. Key Points in Terms of Agreement

| | |
|---|---|
| Contract Term | 18 months from January 1 st , 2017 to June 30 th , 2018 |
| Optional Contract Extensions | 3 two-year options to extend through June 30, 2024 |
| Maximum Total Compensation over 18 Months | \$11,550,000 |
| Local Business Enterprise (LBE) Requirement | 5 percent |

FISCAL IMPACT

Table 3 below shows contract expenditures of \$11,550,000 over the initial 18-month term from January 1, 2017 to June 30, 2018.

Table 3: Summary of Budget FY2017-2018

| | January 1, 2017 to June 30, 2017 (6 months) | July 1, 2017 to June 30, 2018 | Total |
|-------------------------------|--|----------------------------------|--------------------------|
| Management Fee | \$742,824 | \$1,485,648 | \$2,228,472 ² |
| Hallmark Salaries & Benefits | 1,733,961 | 3,568,322 | 5,302,283 |
| Polaris Salaries and Benefits | 1,204,527 | 2,457,143 | 3,661,892 |
| Other Operating Expenses | 168,688 | 188,887 | 357,574 |
| Total | \$3,850,000 | \$7,700,000 | \$11,550,000 |

Source: Proposed Contract between Airport and Hallmark

The proposed resolution would increase the amount the Airport spends on Airport Information and Guest Services from approximately \$5,320,000 per year to \$7,700,000 per year. Currently, the Airport spends approximately \$2,070,000 per year on the information desks, \$3,000,000 per year on the passenger assistance in the International Terminal, including the Automated Passport Control self-service kiosks, and \$250,000 on Lost and Found services provided by the San Francisco Police Department. According to Ms. Cathy Widener, the Government Affairs Manager at the Airport, the cost increase is primarily due to the expansion of assistance services for the Automated Passport Control self-service kiosks and the information desk staffing and hours, designed to meet the current flight schedule. Information desk hours and positions have been expanded to address the needs of customers late into the evening, and assistance services for the Automated Passport Control self-service kiosks hours have been extended to match the core operating hours of the customs facility and providing staffing for additional Automated Passport Control self-service kiosks. The extension of Lost and Found services from 16 hours to 24 hours per day represents only a modest proportion of total costs.

Ms. Widener states that the contract will be paid for with Airport Operating budget monies. There will be no impact to the overall budget as the Airport already budgeted \$3,850,000 in FY 2016-17 and \$7,700,000 in FY 2017-18 for the services, totaling \$11,550,000.

RECOMMENDATION

Approve the proposed resolution.

² The management fee in the proposal from Hallmark, totaling \$2,970,336, was for a two-year contract. After negotiations with the Airport, the contract that would be approved in the proposed resolution is an 18-month contract.