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: January 25, 2017 Budget and Finance Committee Meeting

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Item 6 **File 17-0016**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would approve the SFPUC's emergency declaration to temporarily replace and repair the dewatering equipment at the Oceanside Wastewater Treatment Plant and approve actions taken by the SFPUC to secure the needed emergency contract in the amount of $435,450.

Key Points

- On December 6, 2016, the SFPUC staff at the Oceanside Wastewater Treatment Plant received alarm signals at the plant's main control indicating a dewatering system failure. Staff determined that the failure was due to a significant volume of grit caused by excessive rainfall that hit the dewatering screw press, requiring the immediate temporary replacement of the dewatering equipment and several sludge pumps while the existing, damaged screw press equipment is repaired. On December 9, 2016, the SFPUC General Manager declared an emergency, approved by the President of the SFPUC, for the temporary replacement and repair of the dewatering equipment at the Oceanside Wastewater Treatment Plant.
- Synagro was the only contractor who was available to respond the same day. After receiving a verbal quote from Synagro, which was later followed by a written confirmation, SFPUC entered into six-month equipment lease agreement with Synagro for emergency biosolids processing from December 9, 2016 to June 9, 2017. The total estimated emergency contract cost with Synagro was a not-to-exceed amount of $500,000.

Fiscal Impact

- The total estimated emergency contract cost for the temporary replacement and repair of the dewatering equipment at the Oceanside Wastewater Treatment Plant is $435,450. Funds to pay for the emergency work will come from the Wastewater Enterprise's Repair and Replacement Program, which has a current available balance of $11,900,000, as previously appropriated by the Board of Supervisors.

Policy Consideration

- The equipment lease agreement between SFPUC and Synagro is for the temporary processing of biosolids at the Oceanside Wastewater Treatment Plant pending the permanent replacement of the dewatering equipment. SFPUC is currently working on finalizing a job order contract (JOC) with Power Engineering to permanently replace the dewatering screw presses at a cost of approximately $250,000.

Recommendations

- Amend the proposed resolution to correctly state that the emergency work will cost approximately $435,450, not $500,000.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

Administrative Code Section 21.15(c) authorizes department heads responsible for operations for which commodities or services are needed to declare an emergency to make repairs to maintain public health or welfare as a result of the breakdown of any plant equipment, structure, street or public work; and requires that the department head seek Board of Supervisors approval of the declaration of emergency for commodities or services with an estimated cost in excess of $100,000.

BACKGROUND

The San Francisco Public Utilities Commission (SFPUC) operates the Oceanside Wastewater Treatment Plant near Lake Merced in San Francisco. The Oceanside Wastewater Treatment Plant is one of three plants that collects, treats, and disposes the City's sewage. The Oceanside Wastewater Treatment Plant processes biosolids by dewatering, which removes water content from treated solids in order to enable the solids to be sent to authorized disposal sites.

On December 6, 2016, the SFPUC staff at the Oceanside Wastewater Treatment Plant received alarm signals at the plant's main control indicating a dewatering system failure. Staff determined that the failure was due to a significant volume of grit caused by excessive rainfall that hit the dewatering screw press, requiring the immediate temporary replacement of the dewatering equipment and several sludge pumps while the existing, damaged screw press equipment is repaired. Although there is an extra screw press built into the system in case of failure, both screw presses were damaged by the grit.

On December 9, 2016, the SFPUC General Manager declared an emergency, approved by the President of the SFPUC, for the temporary replacement and repair of the dewatering equipment at the Oceanside Wastewater Treatment Plant. On the same day, SFPUC contacted five companies: Denali, Veolia, Plant and Pipe Solutions, Centrisys and Synagro. According to Mr. Ravi Krishnaiah, Senior Project Manager at SFPUC, these five companies were contacted due to their previous work with SFPUC. Synagro was the only contractor who was available to respond the same day. After receiving a verbal quote from Synagro, which was later followed by a written confirmation, SFPUC entered into six-month equipment lease agreement with Synagro for emergency biosolids processing from December 9, 2016 to June 9, 2017. The total estimated emergency contract cost with Synagro was a not-to-exceed amount of $500,000.

The equipment lease agreement provided for SFPUC and Synagro to negotiate a new price per shift for daily operations after two weeks.[1] After Synagro began work on December 9, 2016, SFPUC received a second quote from Plant and Pipe Solutions on December 27, 2016 that had a lower price per shift than the price per shift in the equipment lease agreement between SFPUC and Synagro. Therefore, Synagro agreed to reduce the price per shift for daily operations, including reducing from two to one operator per shift, to below that of Plant and Pipe Solutions.

[1] The agreement provided for two operators to work 12-hour shifts up to seven days per week.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the SFPUC's emergency declaration to temporarily replace and repair the dewatering equipment at the Oceanside Wastewater Treatment Plant and approve actions taken by the SFPUC to secure the needed emergency contract in the amount of $435,450.

In accordance with the City Administrative Code, because the project was declared an emergency, the SFPUC awarded the emergency contract to Synagro without undergoing a formal competitive bidding process. According to Mr. Krishnaiah, the Oceanside Wastewater Treatment Plant continued to accumulate untreated sand and grit in the treatment tanks from December 6 to December 9, 2016. After these three days, untreated solids started backing up in the treatment trains. Mr. Krishnaiah estimated that the untreated solids could only be stored for one to two more days before discharging untreated water into the bay. The competitive bidding process, in contrast, takes on average one to three months.

Although the equipment lease agreement between SFPUC and Synagro extends to June 9, 2017, according to SFPUC estimates, the emergency biosolids processing provided by Synagro is not planned to continue beyond January 21, 2017.

FISCAL IMPACT

The total estimated emergency contract cost for the temporary replacement and repair of the dewatering equipment at the Oceanside Wastewater Treatment Plant is $435,450, as seen in Table 1 below.

Table 1: Estimated Expenditures for Temporary Replacement and Repair to Screw Presses

Purpose	Estimated Cost
Operational (includes equipment and labor costs)	$239,770
Polymer costs [a]	34,000
Hauling and disposal costs [b]	35,875
Mobilization and de-mobilization [c]	30,000
Standby costs [d]	38,805
Contingency (15%) (see Policy Section below)	57,000
Total	**$435,450**

[a] Polymer is added to the wastewater in the final stages of processing to cause precipitation of the solids suspended in the wastewater.

[b] The equipment lease agreement provides for Synagro to haul and dispose of the biosolids to authorized disposal sites.

[c] The equipment lease agreement provides for Synagro to provide, set up and take down various equipment, including a belt filter press with discharge conveyor and associated polymer make-up system, mix tanks, portable generator, hydraulic and filtrate return pumps, staged trailers, and associated pipes, hose, fittings and other equipment.

[d] The scope of work includes standby shifts during non-operating hours.

Funds to pay for the emergency work will come from the Wastewater Enterprise's Repair and Replacement Program, which has a current available balance of $11,900,000, as previously appropriated by the Board of Supervisors.

The estimated cost of $435,450 is a revised estimate of the original amount of $500,000 in the proposed resolution. According to Mr. Scarpulla, the $500,000 was based on engineer estimates using the original, non-negotiated Synagro rates. Due to negotiation, these rates have come down. As the proposed resolution states that the emergency contract work will cost approximately $500,000, the resolution should be amended to correctly state that the emergency work will cost approximately $435,450.

POLICY CONSIDERATION

The equipment lease agreement between SFPUC and Synagro is for the temporary processing of biosolids at the Oceanside Wastewater Treatment Plant pending the permanent replacement of the dewatering equipment. According to Mr. Krishnaiah, SFPUC is currently working on finalizing a job order contract (JOC) with Power Engineering to permanently replace the dewatering screw presses at a cost of approximately $250,000.[2] According to Mr. Krishnaiah, the contingency of $57,000 (Table 1 above) in the equipment lease agreement with Synagro is needed in case SFPUC needs to extend Synagro's services due to delays in the job order contract with Power Engineering.

SFPUC is also planning on a project to make upstream process improvements to prevent sand and grit from overwhelming the dewatering system. According to Mr. Krishnaiah, the project will cost approximately $2,000,000-$3,000,000. Funds to pay for the project will come from the Water Enterprise's Repair and Replacement Program. However, there is currently no system to prevent a large amount of grit or sand from causing further damage.

RECOMMENDATIONS

1. Amend the proposed resolution to correctly state that the emergency work will cost approximately $435,450, not $500,000.

2. Approve the proposed resolution as amended.

[2] A Job Order Contract is a competitively bid, fixed-price, multiple Task Order contract, awarded before any projects are identified. Each issued Task Order is a lump sum, firm-fixed-price and includes a specific, Detailed Scope of Work and Price Proposal, utilizing the Construction Task Catalog (CTC) line items, (aka unit prices). Three to five pre-approved businesses then bid for the project, and the agency must choose whichever business has the lowest bid. According to Mr. Scarpulla, JOCs are more expedited than open bidding, but forces the agency to accept bids based on cost alone.

Item 7 File 16-1311	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would exempt the Recommended Airport Development Plan from Administrative Code, Chapter 29, including the requirements to prepare a fiscal feasibility study and for the Board of Supervisors to make a fiscal feasibility determination prior to initiating environmental review. The proposed ordinance would retain the fiscal feasibility requirements of Chapter 29 for possible future individual projects under the Recommended Airport Development Plan, which would otherwise have been subject to Administrative Code Chapter 29. Under this ordinance, the requirements of Chapter 29 would be applied prior to the individual project proceeding with detailed design work rather than environmental review, as currently required.

Key Points

- From late 2014 to 2016, Airport staff prepared an Airport Development Plan for future passenger operations and growth for up to 71.1 million annual passengers over the next 20 years. The Recommended Airport Development Plan serves as a roadmap to guide the long-term landside Airport development, in conjunction with the Airport's Capital Plan, up to the estimated maximum capacity of the existing runway system. There are no airfield capacity increasing projects identified in the Recommended Airport Development Plan.
- Unlike the Capital Plan, the Recommended Airport Development Plan projects are not scheduled for a date and time, but rather will be implemented if and when they become necessary based on passenger demand.
- The Airport is requesting to waive the provisions of Chapter 29 prior to conducting environmental review of the Recommended Airport Development Plan because the criteria to determine fiscal feasibility cannot be accurately evaluated by the Airport at this time for projects that may be constructed over 20 years.
- The proposed ordinance would retain the fiscal feasibility requirements of Chapter 29 of the Administrative Code for future individual projects under the Recommended Airport Development Plan.
- If the proposed ordinance is approved, the Airport would proceed to an environmental review for the entire Recommended Airport Development Plan, as required under CEQA and Chapter 31 of the Administrative Code.

Fiscal Impact

- The Recommended Airport Development Plan does not contain project costs or a financing plan. According to the Recommended Airport Development Plan, development of specific projects within the Plan will depend on the source of project financing and future need for the project.
- All approved Recommended Airport Development Plan projects will be evaluated together with other Airport projects during the capital planning process. The Airport's capital plan is subject to fiscal review and approval by the Board of Supervisors.

Recommendation

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

MANDATE STATEMENT

Chapter 29 of the Administrative Code requires that prior to requesting an environmental review from the Planning Department, as is required under the California Environmental Quality Act (CEQA), City departments proposing to implement a project that is estimated to have construction costs greater than $25,000,000, and that will use more than $1,000,000 in public monies, must prepare a fiscal feasibility study and submit such study to the Board of Supervisors for a finding that the proposed project is fiscally feasible and responsible.

BACKGROUND

In 1992, the San Francisco Planning Commission certified the Airport's Master Plan Environmental Impact Report ("EIR"). Subsequent to the EIR, the Master Plan was adopted by the Airport Commission, which provided a long-term strategy for the Airport's growth up to approximately 51 million annual passengers in 2006. This number of annual passengers was reached in 2016. Many significant capital projects were completed or are ongoing under the Master Plan, including the International Terminal Building, the AirTrain system, Terminal 2 renovation, Terminal 1 redevelopment, hotel development, and administrative office development.

From late 2014 to 2016, Airport staff prepared an Airport Development Plan for future passenger operations and growth for up to 71.1 million annual passengers over the next 20 years. Beginning with a forecast of future passenger and operations activity levels, the Airport inventoried Airport facilities, analyzed facility requirements, developed and evaluated planning alternatives to meet requirements, selected a recommended long-range plan ("Recommended Airport Development Plan"), and developed an implementation plan. The Recommended Airport Development Plan serves as a roadmap to guide the long-term Airport development, in conjunction with the Airport's Capital Plan, up to the estimated maximum capacity of the existing runway system.[1] Unlike the Capital Plan, the Recommended Airport Development Plan projects are not scheduled for a date and time, but rather will be implemented if and when they become necessary based on passenger demand.

The Draft Final Airport Development Plan was completed in September 2016.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would exempt the Recommended Airport Development Plan from Administrative Code, Chapter 29, including the requirements to prepare a fiscal feasibility study and for the Board of Supervisors to make a fiscal feasibility determination prior to initiating environmental review. The Airport plans to conduct environmental review of the Recommended Airport Development Plan in accordance with the California Environmental Quality Act (CEQA) and Chapter 31 of the Administrative Code. Individual projects within the Recommended Airport Development Plan may require additional environmental review,

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[1] According to Ms. Cathy Widener, the Airport's Government Affairs Manager, none of the Projects would increase the existing airfield capacity.

depending upon further determinations to be made by the Planning Department at the time an individual recommended project is proposed to go forward.

The proposed ordinance would retain the fiscal feasibility requirements of Chapter 29 of the Administrative Code for possible future individual projects under the Recommended Airport Development Plan, which would otherwise have been subject to Administrative Code Chapter 29. Under this ordinance, the requirements of Chapter 29 would be applied prior to the individual project proceeding with detailed design work rather than environmental review, as currently required.

If the proposed ordinance is approved, the Airport would proceed to an environmental review for the entire Recommended Airport Development Plan, as required under CEQA.

Airport Development Plan

The Airport Development Plan (a) maximizes airfield, gate, and shared use (such as baggage claim) capacity, (b) maximizes terminal connections to facilitate passenger transfers, and (c) increases lobby and security access, including use of technology. The Recommended Airport Development Plan projects, which would be implemented over 20 years, consist of:

- Realigning taxiways A and B near Boarding Areas F and G;
- Adding a boarding area to the International Terminal (including extending existing boarding areas to accommodate wide body aircraft), and extending boarding areas in Terminal 3;
- Reconfiguring the lobby and security checkpoints in the International Terminal;
- Improving waiting and concession locations;
- Installing technology and other improvements to the baggage handling area;
- Improving the Rental Car Center, long term parking and ground transportation facilities and curbside access;
- Expanding of the AirTrain System;
- Improving the North Field, East Field, and West Field maintenance and support facilities; and
- Implementing various utility projects.

There are currently no scheduled Recommended Airport Development Plan projects before July 2019. According to Ms. Widener, following the completion of the environmental review, the Airport will include the Recommended Airport Development Plan projects in the Airport's overall capital planning process. This capital planning process would rank the Airport's future capital needs, including Recommended Airport Development Plan projects and other ongoing and future Airport capital projects, and set priorities for project financing.

Requested Waiver of Chapter 29 Requirements

According to Ms. Cathy Widener, the Airport is requesting to waive the provisions of Chapter 29 prior to conducting environmental review of the Recommended Airport Development Plan because the criteria[2] to determine fiscal feasibility cannot be accurately evaluated at this time for projects that would be constructed over 20 years. According to Ms. Widener, environmental review of the Recommended Airport Development Plan may result in revisions to the Recommended Airport Development Plan projects. The environmental review would assess the aggregate impacts that the land uses and development proposed under the Recommended Airport Development Plan would have on the environment, and could lead to early disclosure of potential environmental impacts and implementation of mitigation measures to lessen impacts on the environment.

According to Mr. John Bergener of the Airport's Bureau of Planning and Environmental Affairs, because the Recommended Airport Development Plan is based on Federal Aviation Administration-approved aviation forecast increases in Airport passengers and cargo, changes to these projections will result in changes to Recommended Airport Development Plan project priorities, scope, and timelines.

FISCAL IMPACT

The Recommended Airport Development Plan does not contain project costs or a financing plan. According to the Recommended Airport Development Plan, development of specific projects within the Plan will depend on the source of project financing and future need for the project. According to Ms. Widener, all approved Recommended Airport Development Plan projects will be evaluated together with other Airport projects during the capital planning process. The Airport's capital plan is subject to fiscal review and approval by the Board of Supervisors.

RECOMMENDATION

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

[2] Chapter 29 project fiscal feasibility criteria consist of: (a) direct and indirect financial benefits of the project to the City, including cost savings and new revenues; (b) construction costs; (c) available funding; (d) long term operating and maintenance costs; and (e) debt load.

Item 9 **File 16-1343**	**Department:** Department of Emergency Management (DEM)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would (i) appropriate $34,184,136 of lease financing funds to the Department of Emergency Management (DEM) for the City's Radio Replacement Project in FY 2016-2017, and (ii) place the total appropriation of $34,184,136 on Controller's Reserve pending receipt of proceeds from the lease financing.

Key Points

- The City currently owns and maintains two primary Motorola radio systems for daily push-to-talk communications, with over 10,000 radios currently in use by City employees. The Five-Year Information and Communications Technology (ICT) Plan for FY 2013-14 to FY 2017-18, previously approved by the Board of Supervisors, recommended replacement of the existing Citywide 800 MHz radio communications system.
- The Board of Supervisors approved a resolution in October 2016 (File 16-0967) to authorize the (i) Department of Emergency Management's (DEM) Executive Director to execute a Purchase and Installation Agreement for the City's new radio system with Motorola for a maximum guaranteed cost of $48,000,000 for approximately five years from late 2016 through June 30, 2021; (ii) Department of Technology's (DT) Executive Director to execute a Maintenance and Support Agreement with Motorola for a maximum guaranteed cost of $28,000,000 for approximately 18 years from July 1, 2017 through November 1, 2035; and (iii) Office of Public Finance's Director, in consultation with the City Attorney, to negotiate terms and obtain lease financing on a competitive basis for a not to exceed $35,000,000 through the State of California's Department of General Services Golden State Financial Marketplace Program (GS $mart).

Fiscal Impact

- The requested appropriation would be used to fund $34,134,136 of the total $45,134,136 purchase price for the City's new radio system with Motorola, including infrastructure costs and radio purchases. Over the 10-year term of the lease financing from Bank of America, principal payment will equal $34,184,136 and interest payment will equal $3,104,585, totaling $37,288,721. The average annual lease rent payments are $3,728,872.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

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

BACKGROUND

The City currently owns and maintains two primary Motorola radio systems for daily push-to-talk communications, with over 10,000 radios currently in use by City employees. The Five-Year Information and Communications Technology (ICT) Plan for FY 2013-14 to FY 2017-18, previously approved by the Board of Supervisors, recommended replacement of the existing Citywide 800 MHz radio communications system. On April 21, 2015, the Board of Supervisors approved the City's Five-Year Information and Communication Technology Plan for FYs 2016-2020, which includes a Public Safety and Public Service Radio Replacement Project. The Radio Replacement Project will combine the existing public safety and public service radio systems into one comprehensive network, including San Francisco International Airport. The City conducted a competitive Request for Proposals (RFP) process in 2014 and selected Motorola Solutions in 2015 as the highest qualified respondent.

The Board of Supervisors approved a resolution in October 2016 (File 16-0967) to authorize the (i) Department of Emergency Management's (DEM) Executive Director to execute a Purchase and Installation Agreement for the City's new radio system with Motorola for a maximum guaranteed cost of $48,000,000 for approximately five years from late 2016 through June 30, 2021; (ii) Department of Technology's (DT) Executive Director to execute a Maintenance and Support Agreement with Motorola for a maximum guaranteed cost of $28,000,000 for approximately 18 years from July 1, 2017 through November 1, 2035; and (iii) Office of Public Finance's Director, in consultation with the City Attorney, to negotiate terms and obtain lease financing[1] on a competitive basis for a not to exceed $35,000,000 through the State of California's Department of General Services Golden State Financial Marketplace Program (GS $mart).

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (i) appropriate $34,184,136 of lease financing funds to the Department of Emergency Management (DEM) for the City's Radio Replacement Project in FY 2016-2017, and (ii) place the total appropriation of $34,184,136 on Controller's Reserve pending receipt of proceeds from the lease financing.

In November 2016, the Office of Public Finance secured lease financing from the State's Department of General Services' GS $mart program. Through the State program, Bank of

[1] Under a lease financing agreement, the lender (in this case the Bank of America) would own the asset (i.e. the public safety radios), which would be leased back to the City (as borrower); the City would pay periodic lease rent to the lender through the term of the lease financing agreement.

America won the final bid with an interest rate of 1.699 percent over a ten-year term with no prepayment penalties. Table 1 below shows the terms and parameters of the lease financing.

Table 1: Terms of Lease Financing from Bank of America

Total Lease Financing Amount	$34,184,136
Total Interest Costs Over Term	3,104,585
Total Principal and Interest	$37,288,721
Average Annual Lease Rent Payments over 10 Years	$3,728,872
Term of Financing	10 Years
Interest Rate	1.699%

Ms. Jamie Querubin of the Controller's Office of Public Finance advises that bond counsel fees in an amount of $50,000 is included in the $34,184,136 of project lease financing.

FISCAL IMPACT

According to Ms. Querubin, the requested appropriation would provide $34,134,136 in lease financing funds to partially pay the total $45,134,136 purchase price[2] for the City's new radio system with Motorola, including infrastructure costs and radio purchases. The estimated balance of $11,000,000 is General Fund monies, previously appropriated by the Board of Supervisors. A summary of proposed sources and uses of the lease financing funds is shown in Table 2 below.

Table 2: Proposed Sources and Uses – FY2016-17

Source of Funds	**Amount**
Lease Financing Proceeds	$34,184,136
Total Sources	$34,184,136
Uses of Funds	
Radio Infrastructure and Radios (Approximately 4,908 New Radios and Software Upgrades)	$34,134,136
Cost of Issuance (Bond Counsel Fees)	50,000
Total Uses	$34,184,136

[2] The Purchase and Installation Agreement between the City and Motorola, approved by the Board of Supervisors in October 2016 (File 16-0967) was for an amount up to $48,000,000, which included $45,134,136 in City purchases and $2,865,864 in purchases by non-City agencies.

Over the 10-year term of the lease financing, principal payment will equal $34,184,136 and interest payment will equal $3,104,585, totaling $37,288,721. The average annual lease rent payments are $3,728,872.

Average annual lease rent payments up to $3,728,872 will be appropriated in the annual Department of Emergency Management budget and allocated to the respective funds (General Fund, Airport, Port, SFPUC, Building Inspection, etc.) based on the department's actual purchase of radio equipment.

RECOMMENDATION

Approve the proposed ordinance.

Item 10 **File 16-1225** (*Continued from January 11, 2017)*	**Department:** Office of the Treasurer-Tax Collector (OTTC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend the City's Business and Tax Regulations Code to delete (i) the $100 minimum penalty from one of the penalties for failing to register with the Tax Collector and (ii) the $25 fee for obtaining a duplicate Business Registration Certificate.

Key Points

- San Francisco's Business and Tax Regulations Code requires that every person engaging in business within the City, regardless of whether such person is subject to taxation, must register within 15 days after commencing business within the City and obtain a Business Registration Certificate.
- Currently, a business that fails to register must pay a penalty equal to either $100 or the penalty assessed pursuant to Code Section 6.17-1 (starting at 5 percent of the tax), whichever is greater. Smaller businesses that fail to register are assessed a $100 minimum penalty, while larger businesses are assessed a percentage penalty. The proposed ordinance would delete the $100 minimum penalty but continue to require the percentage penalty for all businesses.
- The majority of businesses subject to the $100 minimum penalty are small businesses that renew their registration late.

Fiscal Impact

- If the proposed business registration penalty structure were implemented in 2015 and taxpayers paid on the same schedule, the Office of the Treasurer and Tax Collector would have collected approximately $1.5 million less in penalties each year, with most of the reduction in penalties benefitting the smallest businesses that come into compliance quickly after missing a business registration deadline.
- The $25 fee to obtain a duplicate Business Registration Certificate has not been enforced and therefore had not generated revenue to the City because the Office of the Treasurer and Tax Collector has determined that the cost of printing a duplicate certificate is minimal as a result of technological upgrades. Given that California law requires counties to collect a fee of not more than 100 percent of the cost of the service, the Office of the Treasurer and Tax Collector opted to forego the fee entirely.

Recommendation

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

MANDATE STATEMENT

Charter Section 2.105 requires that legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

BACKGROUND

San Francisco's Business and Tax Regulations Code requires that every person engaging in business within the City, regardless of whether such person is subject to taxation, must register within 15 days after commencing business within the City and obtain a Business Registration Certificate. The Business Registration Certificate must be conspicuously displayed at the place of business. The fees for obtaining a Business Registration Certificate range from $75 to $35,000, based on the type of business activities and the annual gross receipts. Such fees were set as part of Proposition E, which was approved by San Francisco's voters on November 6, 2012, and resulted in the establishment of a Gross Receipts Tax and changes to the Payroll Expense Tax, the Business Registration Fee, and the Common Administrative Provisions of the Business and Tax Regulations Code. Business Registration Certificates must be renewed each year by May 31st. Table 1 below outlines the Business Registration Certificate fees based on gross receipts for the calendar year and business activity type.

Table 1: Business Registration Fees

Gross Receipts for Calendar Year	Schedule A	Schedule B[1]	State Fee
$0 to $100,000	$90	$75	$1
$100,001 to $250,000	$150	$125	$1
$250,001 to $500,000	$250	$200	$1
$500,001 to $750,000	$500	$400	$1
$750,001 to $1,000,000	$700	$600	$1
$1,000,001 to $2,500,000	$300	$200	$1
$2,500,001 to $7,500,000	$500	$400	$1
$7,500,001 to $15,000,000	$1,500	$1,125	$1
$15,000,001 to $25,000,000	$5,000	$3,750	$1
$25,000,001 to $50,000,000	$12,500	$7,500	$1
$50,000,001 to $100,000,000	$22,500	$15,000	$1
$100,000,001 to $200,000,000	$30,000	$20,000	$1
$200,000,001 and over	$35,000	$30,000	$1

The City's existing Business and Tax Regulations Code imposes a penalty for failure to obtain a Business Registration Certificate under Section 6.17-3. That penalty is in addition to any other liability imposed under Article 6 of the Code (including administrative penalties), and is either

[1] Schedule B consists solely of the business activities of Certain Services (e.g., Repair/Maintenance, Personal/Laundry, Civic Organizations), Retail Trade, and/or Wholesale Trade. Schedule A includes all other business activities that do not fall under Schedule B.

$100, or a percentage of the amount owed per Code Section 6.17-1[2], whichever is greater. Thus, a person that failed to obtain a Business Registration Certificate but was not subject to a penalty under Code Section 6.17-1 (because, for example, the person was not required to pay the Business Registration fee), could still be liable for the $100 administrative penalty under Code Section 6.19-3. The existing Code also provides procedures and a $25 fee to obtain a duplicate Business Registration Certificate.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the City's Business and Tax Regulations Code to delete (i) the $100 minimum penalty from one of the penalties for failing to register with the Tax Collector and (ii) the $25 fee for obtaining a duplicate business registration certificate.

Currently, a business that fails to register must pay a penalty equal to either $100 or the penalty assessed pursuant to Section 6.17-1 (starting at 5 percent of the tax), whichever is greater. Smaller businesses that fail to register are assessed a $100 minimum penalty, while larger businesses are assessed a percentage penalty.[3] The proposed ordinance would delete the $100 minimum penalty but continue to require the percentage penalty for all businesses.

According to Ms. Amanda Fried, Policy and Legislative Manager at the Office of the Treasurer and Tax Collector, 8,253 businesses were penalized for failing to renew their business registration in 2015, with penalties ranging from $100 to $1750. The majority of businesses subject to the $100 minimum penalty are small businesses that renew their registration late. 84 percent of businesses that registered late in 2015 had gross receipts of less than $250,000 annually, while almost 9 percent of businesses had gross receipts of less than $100,000 annually. According to Ms. Fried, the proposed ordinance aims to facilitate the overall tax compliance for small businesses. Under the proposed ordinance, businesses of all sizes would be subject to the same penalty structure, which starts at 5 percent of the tax amount due per month late, and caps out at 40 percent of the tax amount due, as shown in Table 2 below.

[2] Section 6.17-1 states that any person who fails to pay any tax to the City, or any operator or other person who fails to collect and remit any third-party taxes shall pay a penalty of 5 percent of the tax, if the failure is for not more than 1 month after the tax became delinquent, plus an additional 5 percent for each following month or fraction of a month during which such failure continues, up to 20 percent in the aggregate, until the date of payment. Any taxes remaining unpaid for a period of 90 days after notification that the tax is delinquent shall be subject to an additional penalty of 20 percent of the tax or amount of the tax. Therefore, the total penalty is up to 40 percent of the business registration fee. Unpaid taxes and penalties shall also accrue interest at the rate of 1 percent per month, or fraction of a month, from the date the taxes become delinquent through the date the taxpayer or operator pays the delinquent taxes, penalties, interest and fees accrued to the date of payment in full.

[3] For example, a business that was required to pay a business registration fee of $200 (see Table 1 above) and failed to register would pay the $100 minimum penalty which is greater than the percentage penalty of 5 percent or $10 per month up to 40 percent or $80. A larger business that was required to pay a business registration fee of $3,750 and failed to register would be assessed the percentage penalty of 5 percent or $187 per month up to 40 percent or $1500.

Table 2: Business Registration Penalty Structure under the Proposed Ordinance

	1 month	2 months	3 months	4 months	5 months	6 months
Penalty	5%	10%	15%	40%	40%	40%
Interest	1%	2%	3%	4%	5%	6%
Administrative Fee	$55.00	$55.00	$55.00	$55.00	$55.00	$55.00

FISCAL IMPACT

Removal of $100 Minimum Business Registration Certificate Penalty for Failing to Register a Business with the Tax Collector

According to Ms. Fried, if the proposed business registration penalty structure were implemented in 2015 and taxpayers paid on the same schedule, the Office of the Treasurer and Tax Collector would have collected approximately $1.5 million less annually in penalties, with most of the reduction in penalties benefitting the smallest businesses that come into compliance quickly after missing a business registration deadline.

Removal of $25 Fee for Not Obtaining a Duplicate Business Registration Certificate

According to Ms. Fried, the $25 fee to obtain a duplicate Business Registration Certificate has not been enforced and therefore had not generated revenue to the City because the Office of the Treasurer and Tax Collector has determined that the cost of printing a duplicate certificate is minimal as a result of technological upgrades. Given that California law requires counties to collect a fee of not more than 100 percent of the cost of the service, the Office of the Treasurer and Tax Collector opted to forego the fee entirely.

RECOMMENDATION

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

Item 12 File 16-1345	Department: Department of Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would (i) authorize a Lease Disposition and Development Agreement and 75 year Ground Lease (with option to extend to 99 years) between UCSF and the City for a new research building at the San Francisco General Hospital (ZSFG) campus, with an initial base rent to be paid by UCSF of $180,000 per year; (ii) authorize the DPH to accept a $10,000,000 parking reimbursement contribution from UCSF upon delivery of the ground lease to UCSF; (iii) make findings under the California Environmental Quality Act (CEQA), findings of conformity with the City's General Plan, and with the eight priority policies of Planning Code, Section 101.1(b); and (iv) waive certain provisions of the Administrative Code and Environment Code; and ratify certain actions already taken

Key Points

- UCSF plans to build a new Research Facility at the site of a surface parking lot on the ZSFG campus. Under the Lease Disposition and Development Agreement, as well as the long-term Ground Lease, UCSF will develop and operate the Research Facility so that UCSF can consolidate existing ZSFG campus research centers and laboratories in one location, and move staff from older buildings at the ZSFG campus. UCSF is self-financing the construction costs, which are projected to be $187 million.

Fiscal Impact

- UCSF will pay rent to DPH of $180,000 per month, increasing by 1.75 percent per year. Rent will be adjusted to market rate in the 20th, 45th, and 60th years of the lease, subject to a 5 percent per year cap.
- UCSF will make an upfront contribution to DPH of $10 million for expansion of the parking garage, which UCSF and DPH agreed is the approximate cost of replacing the 130 parking spaces lost by development of the Research Facility.

Policy Consideration

- As a non-private entity, UCSF is exempt from property taxes estimated to be $1.87 million annually, using a tax rate of 1 percent of the estimated construction value of $187 million for the new Research Facility. In addition, UCSF is exempt from paying development fees. Total estimated development impact fees for a similar construction by a private entity would range from $6,398,000 to $7,769,751.
- Benefits of the project include (a) development of the Research Facility at a location that would otherwise remain a surface parking lot and (b) vacation of UCSF's existing space on the ZSFG campus upon completion of the Research Facility, which will become available for other uses.

Recommendation

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

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten or more years, or having anticipated revenue to the City and County of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

The Department of Public Health (DPH) and the Regents of the University of California (UCSF) have a long standing affiliation through which UCSF provides physicians and other professional services at the Priscilla Chan and Mark Zuckerberg San Francisco General Hospital (ZSFG). ZSFG is home to more than 20 UCSF research centers and major laboratories, and over 150 principal UCSF investigators for conducting research at the ZSFG campus. In order to comply with University of California seismic requirements[1], UCSF intends to enter into a long term ground lease with the City to lease a surface parking lot on the ZSFG campus to develop and operate a modem research facility. The proposed UCSF research building would meet UC seismic safety requirements and centralize the research efforts that are currently spread throughout nine buildings leased by UCSF at ZSFG.

In February 2013, the Mayor and City Administrator established a working task force co-chaired by the Director of the Department of Public Health and the UCSF Chancellor to explore the proposal that UCSF construct a modern academic research building (the "Research Facility") on the B/C Parking Lot on the ZSFG campus, which would allow UCSF to consolidate existing campus research centers and laboratories at ZSFG. DPH and UCSF prepared a non-binding term sheet for the Research Facility, which the Health Commission endorsed on May 5, 2015 (Resolution No. 15-7) and the Board of Supervisors endorsed on July 21, 2015 (Resolution 289-15).

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (i) authorize a Lease Disposition and Development Agreement and 75 year Ground Lease (with option to extend to 99 years) between UCSF and the City for a new research building at ZSFG, with an initial base rent to be paid by UCSF of $180,000 per year; (ii) authorize the DPH to accept a $10,000,000 parking reimbursement contribution from UCSF upon delivery of the ground lease to UCSF; (iii) make findings under the California Environmental Quality Act (CEQA), findings of conformity with the City's General Plan, and with the eight priority policies of Planning Code, Section 101.1(b)[2]; and (iv) waive certain provisions of the Administrative Code and Environment Code; and ratify certain actions already taken.

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[1] Buildings that currently house UCSF staff were found to be seismically vulnerable per the University of California's Seismic Safety Policy.

[2] The Eight Priorities of City Planning Code Section 101.1 include: (1) existing neighborhood-serving retail uses be preserved and enhanced, and future opportunities for resident employment in and ownership of such businesses enhanced; (2) existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods; (3) the City's supply of affordable housing be preserved and

Under the Lease Disposition and Development Agreement, as well as the long-term ground lease, UCSF will develop and operate the Research Facility so that UCSF can consolidate existing ZSFG campus research centers and laboratories in one location, and move staff from older buildings at the ZSFG campus.

UCSF is self-financing the construction costs, which is projected to be $187 million and includes construction, fixtures, furniture, and equipment. If the proposed ordinance is approved, building construction is anticipated to begin in 2019 and end in 2021 (early end date) or in 2022 (late end date).

Ground Lease Terms

The existing agreement governing the affiliation between ZSFG and UCSF requires DPH to provide UCSF with 85,000 square feet of faculty research space on the ZSFG campus rent-free in exchange for UCSF to pay for certain administrative costs, such as medical liability insurance, incurred by UCSF in providing physicians to ZSFG. Under the proposed ground lease, UCSF will lease 51,475 square feet of land, currently used as the B/C Parking Lot, from the City in order to construct the Research Facility. Upon completion of the Research Facility, UCSF will vacate and surrender to the City much of the space presently occupied by UCSF faculty and staff on the ZSFG campus, including all of the 85,000 square feet of rent-free faculty research space provided by DPH pursuant to the affiliation agreement, and relocate from such space into the Research Facility.

Table 1 below summarizes the major provisions of the proposed ground lease, which are consistent with the term sheet previously endorsed by the Board of Supervisors.

enhanced; (4) commuter traffic not impede Muni transit service or overburden our streets or neighborhood parking; (5) a diverse economic base be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced; (6) the City achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake; (7) landmarks and historic buildings be preserved; and (8) parks and open space and their access to sunlight and vistas be protected from development.

Table 1: Summary of Major Terms and Conditions of Ground Lease Between UCSF and the City

Location	51,475 square feet, currently used as surface parking (B/C Parking Lot), located at 1001 Potrero Avenue
Ground Lease Term	75 years from 2017 to 2042.
Option to Extend	24 years, from 2042 to 2066, for a total ground lease term of 99 years
Annual Base Rent Payable by UCSF to DPH	$180,000
Annual Rent Increases	Annual increases of 1.75%
Rent Reset to Prevailing Market Rate	Years 20, 45, 60
Cap on Rent Reset to Prevailing Market Rate[3]	5% per year, non-cumulative
Rent on Exercise of Option to Extend	Prevailing Market Rate
Parking Impact	Development of the B/C Parking Lot will displace 130 existing parking spaces. UCSF will make a $10 million contribution to DPH to fund replacement parking spaces in the proposed parking garage expansion.
Utilities & Services	UCSF will pay for all utilities, permits, installations, repair, and maintenance.
Sidewalk Maintenance	Following completion of the ZSFG Campus Improvements, UCSF will be responsible for ongoing maintenance of certain sidewalks included in such improvements.

According to Mr. Mark Primeau, Capital Integration Advisor to the DPH Director, UCSF requested the lease term duration to be 99 years in order to qualify for tax-exempt financing at a lower rate of interest than non-tax exempt financing. Consequently, UCSF and DPH negotiated the 75-year base lease term with a 24 year option to extend in order to meet UCSF's tax-exempt financing requirement for the project.

Current Site and Development Agreement

Under the proposed Lease Disposition and Development Agreement, UCSF will develop a 175,000 gross square foot (GSF) Research Facility located at 1001 Potrero Ave. Table 2 below summarizes the description of the proposed Research Facility under the Lease Disposition and Development Agreement:

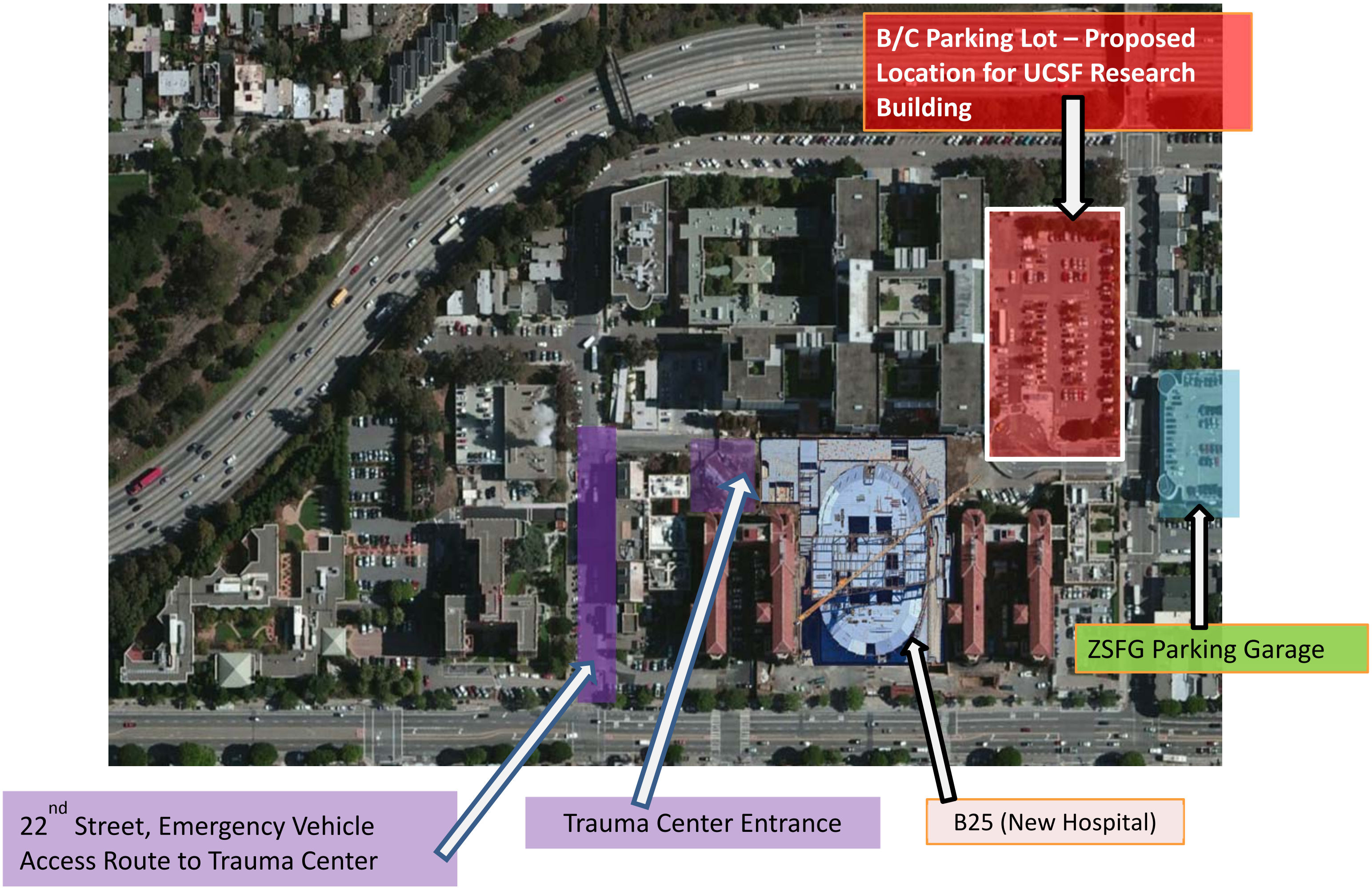
[3] Rent in the 20th year would be increased up to 200 percent of base rent; rent in the 45th year would be increased up to 225 percent of the rent in the 20th year; and rent in the 60th year would be increased up to 175 percent of rent in the 45th year.

Table 2: Summary Description of Proposed UCSF Research Facility

Purpose	Provide contemporary research and support space at ZSFG for UCSF faculty and staff. Replace and vacate existing space at ZSFG, in order to comply with UC Seismic Policy
Wet Labs **Dry Labs** **Total Area**	75,000 Gross Square Feet 100,000 Gross Square Feet 175,000 Gross Square Feet
Height and Massing	5 story building, approximately 80' tall and mechanical equipment penthouse
Building Population	Approximately 800 people
Buildings to be Vacated	Buildings 1, 9, 10, 20, 30, 40, 100 vacated by UCSF
Buildings to be Relocated	Buildings 80/90 UCSF occupants relocate to Building 5 after City retrofit
Buildings to Remain	Building 3 UCSF occupants to remain

In connection with the construction of the Research Facility, UCSF will perform certain other improvements that will benefit the ZSFG campus and its users, including a campus street adjacent to Building 5 of the main hospital on the north side of the new research facility with circulation space, landscaping, a one-way eastbound driveway, surface parking spaces that will be incorporated into the hospital's parking program, relocation of a historic fountain from the site, and landscaping and public sidewalks around the perimeter of the Research Facility building. The exhibit below illustrates the proposed location for the new UCSF Research Facility building.

Exhibit: Proposed Location for UCSF Research Facility



California Environmental Quality Act (CEQA) Findings and City's General Plan

The Health Commission has approved the final Environmental Impact Report and adopted CEQA findings. The proposed ordinance would find that the Lease Disposition and Development Agreement are within the scope of the new UCSF Research Facility Project analyzed in the CEQA findings and the Planning Commission's findings that the Project is consistent with the City's General Plan, and with the eight priority policies of Planning Code, Section 101.1(b), as previously approved by the Board of Supervisors.

Waiver of Certain Provisions of the Administrative Code and Environment Code

The California Constitution generally exempts UCSF from compliance with local planning, zoning, redevelopment, and land use regulations. However, UCSF has agreed to comply with City requirements for exterior improvements, including a campus street adjacent to Building 5 on the north side of the Research Facility with circulation space, landscaping, a one-way eastbound driveway, surface parking spaces that will be incorporated into ZSFG's parking program, relocation of a historic fountain from the site, and landscaping and public sidewalks around the perimeter of the Research Facility. In addition, UCSF has agreed to limitations on permitted use and design review, as well as permitting requirements for campus improvements.

The proposed ordinance would waive Administrative Code Sections 6.22(g) and 23.62 on local hiring. However, UCSF has agreed to local hiring goals of 30 percent of total construction hours to be performed by qualified San Francisco residents. Table 3 below summarizes the other Administrative and Environment Code provisions that would be waived and the equivalent University of California policies that will serve as guidelines for UCSF under its Constitutional requirements.

Table 3: Summary of Waived City Codes and Comparable University of California Policies

Waived City Code	Comparable University of California Policy
Environment Code Sections 700 to 713, the Green Building Ordinance	Policy Sustainable Practices; includes Green Building Design, Minimum of USGBC LEED Silver, climate protection, sustainable transportation.
Environment Code Chapter 16, the Food Service Waste Reduction Ordinance	Policy of Sustainable Practices; Sustainable Food Services, Sustainable Water Systems, Environmental Preferable purchasing practices and Recycling and Waste Management policies.
Administrative Code Chapter 12T, the Criminal History in Hiring and Employment Decisions Ordinance	The University has no strong equivalent to this Ordinance, but has clearly established hiring guidelines and opportunities to dispute decisions in the hiring process.
Administrative Code Chapter 12B and 12C, the Nondiscrimination and Equal Benefits Ordinance	Policy Nondiscrimination and Affirmative Action Policy regarding academic and staff employment.

FISCAL IMPACT

The Board of Supervisors endorsed a non-binding term sheet on July 21, 2015 (Resolution 289-15) for the Ground Lease agreement between UCSF and the City on the B/C Parking Lot at the ZSFG campus. The proposed ground lease provides for annual rent for the lease of $180,000 or $15,000 per month payable by UCSF to DPH, increasing by 1.75 percent each subsequent year, which is consistent with the term sheet previously endorsed by the Board of Supervisors.

Fair Market Value of Rent

According to Mr. John Updike, Director of Real Estate, two appraisals were conducted by UCSF and the City in 2013 in order to determine the fair market value of rent for the lease. UCSF's and the City's property appraisals identified a comparable site in San Francisco, located at 329/333 Brannan Street which sold in December 2012, for purposes of establishing an initial value for the ZSGH B/C Parking Lot. The Brannan Street site (35,700 square foot lot) had a planned build out of similar size (175,000 square feet) to the planned UCSF Research Facility and was priced at $105 square feet. The City Real Estate Director and DPH staff applied adjustments to the $105 square feet to account for site demolition and hazardous materials to arrive at a cost of $93 per square feet, which resulted in an annual base rent of $1,017,187[4].

As previously stated, the existing affiliation agreement between the City and UCSF requires that the City provide to UCSF approximately 85,000 square feet of space within the San Francisco General Hospital Campus at no rent, which would be vacated by UCSF when the Research Facility is completed. The value of the rent for the 85,000 square feet was established at $765,000 annually and when deducted from the $1,017,187 appraised value of rent for the B/C Parking Lot. This results in a net base rent of $252,187. The Director of Real Estate and DPH then made further adjustments of $72,187 to account for site conditions and improvements that would benefit the City to arrive at the annual base rent of $180,000 payable by UCSF to DPH for the B/C Parking Lot. According to Mr. Updike, the opportunity value of recapturing approximately 85,000 square feet of space within the ZSFG campus that can be repurposed for other functions was taken into account, such as the current negotiations to locate the Blood Centers of the Pacific and Blood System Research Institute to the ZSFG campus.

The 1.75 percent annual rent increases and 5 percent cap on market resets were negotiated by UCSF and the City with input from independent appraisers hired by each party, and were approved by the Board of Supervisors when the term sheet was endorsed by the Board on July 21, 2015 (Resolution 289-15).

Parking Garage Expansion

The San Francisco Municipal Transportation Agency (SFMTA) and DPH have evaluated expansion of the 807 space parking garage on the ZSFG campus, located at 2500 24th Street between Utah and San Bruno Avenue, to add up to 362 new parking spaces totaling 1,169 spaces, which was presented to the SFTMA's Board of Directors Policy and Governance Committee on February 20, 2015. UCSF will make an upfront contribution to DPH of $10 million for expansion of the parking garage, which UCSF and DPH agreed is the approximate cost of replacing the 130 parking spaces lost by development of the Research Facility. According to a valuation analysis conducted by the Controller's Office, the cost of building each parking space in a proposed expansion of the existing ZSFG Parking Garage is approximately $78,000 per stall. The proposed Research Facility would displace approximately 130 existing parking places on the B/C Parking Lot. UCSF and DPH negotiated the $10 million amount, which is approximately equal to $78,000 per space for 130 displaced parking spaces.

According to Mr. Primeau, ongoing discussions are being held between DPH and SFMTA on determining sources of funds and financial modeling to support a future revenue bond that would provide funding for the design and construction of the garage expansion.

As a condition to the City's agreement to lease a portion of the surface parking lot to UCSF for the development and operation of the new Research Facility, UCSF will continue to cooperate with DPH to identify and implement temporary strategies to minimize the adverse impact on patients and visitors through the date replacement parking is secured for the ZSFG campus.

[4] $1,017,187 equals 175,000 square feet x $93/square feet x 6.25% (estimated interest rate)

UCSF and DPH will be developing a Parking Relief Plan that is required as part of the close of escrow of the development agreement. The plan will address temporary parking relief strategies during construction on the ZSFG campus, shuttle service, as well as the preservation of a number of existing Americans with Disabilities Act (ADA) and patient parking spaces on the B/C Parking Lot during construction.

POLICY CONSIDERATION

Exemption from Property Taxes and Development Fees

As a non-private entity, UCSF is exempt from property taxes estimated to be $1.87 million annually, using a tax rate of one percent of the estimated construction value of $187 million for the new Research Facility.[5] In addition, UCSF is exempt from paying development fees. According to Dan Sider, Special Advisor for Special Projects at the Planning Department, total estimated development impact fees for a similar construction by a private entity would range from $6,398,000 (low end) to $7,769,751 (high end).

According to Mr. Primeau, based on discussions between UCSF, DPH and the Assessor's Office, the proposed Ground Lease provides for payment of possessory interest taxes by any non-tax exempt entity that may sublease Research Facility space from UCSF.

Benefits of Proposed Research Facility to the City

Upon completion of the Research Facility, UCSF will vacate and surrender to the City much of the space presently occupied by UCSF faculty and staff on the ZSFG campus, including all of the 85,000 square feet of rent-free faculty research space provided by DPH pursuant to the affiliation agreement, and relocate from such space into the Research Facility. DPH would renovate and seismically upgrade the vacated buildings as funds become available. DPH is also exploring possible long-term leases with third parties that could be co-located on the ZSFG campus, such as medical support services, Blood Centers of the Pacific and Blood System Research Institute, and other research entities.

In addition, Mr. Primeau advises that the availability of modern research space for faculty on the hospital campus aids in the recruitment and retention of top ZSFG clinicians and supports ZSFG's mission to provide quality healthcare and trauma care. ZSFG is staffed by UCSF faculty physicians who also teach and conduct research at ZSFG. According to Mr. Primeau, ZSFG must maintain robust, bench-to-bedside research and teaching programs in order to earn and retain the Level 1 Trauma Center designation, a rank reserved by the American College of Surgeons for the highest-quality, most comprehensive trauma treatment centers. ZSFG is the only Level 1 Trauma Center in the San Francisco Bay Area region, serving over 4,000 trauma patients per year. Level 1 Trauma Centers are able to cover mass casualties resulting from earthquakes or other similar disasters.

According to Mr. Primeau, if the proposed Research Facility is not built, the site would remain a surface parking lot for patients, staff and visitors to the ZSFG campus.

[5] The one percent tax rate does not include increases to the property tax rate due to bonded indebtedness.

Summary

In summary, the proposed ordinance (1) approves the Lease Disposition and Development Agreement between UCSF and the City, in which UCSF fully funds the estimated $187 million development of the Research Facility; (2) approves the Ground Lease between UCSF and the City; (3) authorizes the City to accept $10 million from UCSF to fund 130 replacement parking spaces as part of the ZSFG parking garage expansion; (4) waives certain provisions of the City's Administrative and Environment Codes; and (5) makes findings under CEQA, findings of conformity with the City's General Plan and the eight priority policies of the Planning Code. As noted above, the terms of the proposed Ground Lease between the City and UCSF are consistent with the term sheet previously endorsed by the Board of Supervisors. However, although UCSF agrees to implement practices that are similar to City municipal code requirements, the Budget and Legislative Analyst considers approval of the proposed ordinance to be a policy matter for the Board of Supervisors because the Ground Lease waives provisions of the City's Environment and Administrative Codes.

RECOMMENDATION

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

Item 13 File 16-1182	Department: Civil Service Commission (CSC) Office of Labor Standards Enforcement (OLSE)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would fix prevailing wage rates for employees of businesses having City contracts that (1) perform public works and improvement projects, (2) perform janitorial services and clean windows, (3) work in public off-street parking lots, garages, or storage facilities for vehicles on property owned or leased by the City, (4) engage in theatrical or technical services related to the presentation of shows on property owned or leased by the City, (5) haul solid waste, (6) perform moving services at facilities owned or leased by the City, and (7) perform exhibit, display or trade show work at special events in the City, and (8) work in broadcast services on City property.

Key Points

- Each year, the Board of Supervisors is required to establish the prevailing wage rates that specified businesses having City contracts are required to pay their employees. The Civil Service Commission assists the Board of Supervisors by furnishing relevant prevailing wage data collected by the Office of Labor Standards Enforcement; however, the Board of Supervisors is not bound to consider only the Civil Service Commission's data.
- The proposed resolution would establish the following prevailing wage rates: (1) construction employees would receive wage rates that vary by classification, from a decrease of $4.85 an hour to an increase of $3.09; (2) janitorial employees would not receive an hourly wage rate change and window cleaners would receive a wage rate increase of $0.60 per hour; (3) garage and parking lot employees would not receive an hourly wage rate change; (4) theatrical employees would not receive an hourly wage rate change; (5) solid waste haulers would receive a wage rate increase depending on classification ranging from $1.08 per hour to $1.35 per hour; (6) employees performing moving services would receive a wage rate increase of $0.50 per hour; and (7) employees performing trade show work would receive a wage rate increase depending on classification ranging from $0.60 to $2.44 per hour. This is the first time the Board of Supervisors is setting a rate for broadcast employees.

Fiscal Impact

- The proposed resolution increasing the prevailing wage rates could result in increased costs to the City under future City contracts for the subject services. However, such costs are dependent on future City contractor bids and the extent to which City contractors increase the bids submitted to the City to pay for the costs of the increased prevailing wages rates. Therefore, such potential increased costs to the City cannot be estimated at this time.

Recommendation

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

MANDATE STATEMENT

Charter Section A7.204 requires contractors that have public works or construction contracts with the City to pay employees the highest general prevailing rate of wages for similar work in private employment. The Charter allows the Board of Supervisors to exempt payment of the prevailing wage for wages paid under public works or construction contracts between the City and non-profit organizations that provide workforce development services.

Administrative Code Section 22(E)(3) requires the Board of Supervisors to annually set prevailing wage rates for employees of businesses having City contracts. Table 1 below identifies the (a) specific Administrative Code Sections, (b) the dates each Administrative Code Section was last amended by the Board of Supervisors, and (c) the types of City contracts, leases, and/or operating agreements in which the businesses are required to pay prevailing wages.

Table 1: List of City Contractors Required to pay the Annual Prevailing Wage

Administrative Code	Date of Most Recent Amendment	Type of Contract
Section 6.22 (E)	May 19, 2011	Public works or construction
Section 21C.2	February 2, 2012	Janitorial and window cleaning services
Section 21C.3	February 2, 2012	Public off-street parking lots, garages and vehicle storage facilities
Section 21C.4	February 2, 2012	Theatrical performances
Section 21C.5	February 2, 2012	Solid waste hauling services
Section 21C.6	February 2, 2012	Moving services
Section 21C.8	June 29, 2014	Trade show and special event work
Section 21C.9	February 10, 2016	Broadcast service workers on City property
Section 21C.10	October 14, 2016	Loading, unloading and driving commercial vehicles on City property
Section 21C.11	October 18, 2016	Security guard services in City contracts and for events on City property

BACKGROUND

Each year, the Board of Supervisors is required to establish the prevailing wage rates that businesses having contracts with the City are required to pay their construction, janitorial, parking, theatrical, motor bus service[1], solid waste hauling service, moving, and trade show employees, broadcast service workers on City property, loading, unloading and driving commercial vehicles on City property, and security guard services.

[1] Under Administrative Code, Section 21C.1, the Board of Supervisors is required to set the annual prevailing wage rates for motor bus service; however, because the City does not have an existing motor bus services contract, the proposed ordinance does not set the prevailing wage rates for such classifications at this time.

To assist the Board of Supervisors in determining the prevailing wage rates, the Civil Service Commission is required to furnish the Board of Supervisors, on or before the first Monday of November of each year, relevant prevailing wage rate data. The Civil Service Commission submitted the report to the Board of Supervisors on October 18, 2016.

Administrative Code Section 6.22(E) states that the Board of Supervisors is not limited to the data submitted by the Civil Service Commission to determine the prevailing wage rates for public works construction, but may consider other information on the subject as the Board of Supervisors deems appropriate. If the Board of Supervisors does not adopt the prevailing wage rates, the wage rates established by the California Department of Industrial Relations for the year will be adopted.

The Civil Service Commission's relevant prevailing wage rate data provided to the Board of Supervisors is based on a survey by the City's Office of Labor Standards Enforcement and includes collective bargaining agreements that have recently been negotiated.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would fix prevailing wage rates for employees of private businesses having the following contracts, leases, or operating agreements with the City:[2]

- Public works and improvement project contracts,
- Janitorial services contracts,
- Public off-street parking lots, garages, or storage facilities for vehicles on property owned or leased by the City,
- Theatrical or technical services related for shows on property owned or leased by the City,
- Hauling of solid waste generated by the City in the course of City operations,
- Moving services under City contracts at facilities owned or leased by the City,
- Exhibit, display or trade work show services at a special event on City-owned property, and
- Broadcast services on City property[3]

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[2] According to Mr. Benjamin Weber, Senior Administrative Analyst at the Office of Labor Standards and Enforcement, the office is currently working on setting the prevailing wages required by section 21C.10 (loading, unloading and driving commercial vehicles on City property) and 21C.11 (security guard services). When recommendations for prevailing wages are completed and subsequently approved by the Civil Service Commission, the Civil Service Commission will submit the data to the Board of Supervisors. According to Section 21C.10 and Section 21C.11, the Civil Service Commission shall submit to the Board of Supervisors data as to the Prevailing Rate of Wages no later than 120 days after the effective date of the Sections. The Civil Service Commission has 120 days from November 13, 2016 and November 27, 2016, respectively.

[3] This is the first time the Board of Supervisors will be setting a prevailing wage rate for broadcast service employees. The Civil Service Commission initially made a recommendation regarding the rates in April 2016.

The Administrative Code requires that the Civil Service Commission provide prevailing wage data to the Board of Supervisors that includes both the basic hourly wage rate and the hourly rate of each fringe benefit, including medical and retirement benefits.

- Prevailing wage rates for various crafts and labor classifications under public works projects are established by the California Department of Industrial Relations, usually based on collective bargaining agreements that cover the employees performing the relevant craft or type of work in San Francisco.
- Prevailing wage rates for contracts for other services and classifications covered by the Administrative Code, as recommended by the Civil Service Commission, are based on the collective bargaining agreements that cover work performed in San Francisco between employers and the respective labor unions.

Attachment I to this report provides an alphabetical list of all crafts covered by the City's prevailing wage rate requirements.

FISCAL IMPACT

Attachment II to this report, prepared by the Budget and Legislative Analyst, summarizes (a) the types of contracts, leases, or operating agreements required to pay prevailing wages, (b) the respective collective bargaining agreements and labor unions, (c) the amount of the hourly wage rate increases in 2016 as compared to 2015, (d) the amount of the hourly fringe benefit rate increases in 2016 as compared to 2015, and (e) the proposed prevailing hourly wage rates.

Potential impact on the costs of future contractor bids

Under the proposed resolution, private businesses that have contracts with the City, and perform public works construction, janitorial services, parking, theatrical, moving, solid waste hauling services, and trade show work in San Francisco, would be required to pay their employees at least the prevailing wage rates as shown in Attachment II of the report. Increases in the prevailing wage rates could result in increased costs of future City contracts. However, any increased contract costs to the City as a result of the proposed prevailing wage rates are dependent on future City contractors' bids, and the extent to which such higher wage rates result in higher bids submitted by City contractors. Therefore, such potential increased costs to the City cannot be estimated at this time.

RECOMMENDATION

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

List of the Crafts Covered by Prevailing Wage Requirements

Asbestos Removal Worker (Laborer)
Asbestos Worker, Heat and Frost Insulator
Boilermaker-Blacksmith
Broadcast Services Workers
Brick Tender
Bricklayer, Blocklayer
Building/Construction Inspector
Carpenter and Related Trades
Carpet, Linoleum
Cement Mason
Dredger (Operating Engineer)
Drywall Installer (Carpenter)
Electrical Utility Lineman
Electrician
Elevator Constructor
Field Surveyor
Furniture Movers and Related Classifications
Glazier
Iron Worker
Janitorial Services Worker
Janitorial Window Cleaner Workers
Laborer
Landscape Maintenance Laborer
Light Fixture Maintenance
Marble Finisher
Marble Mason
Metal Roofing Systems Installer
Modular Furniture Installer (Carpenter)
Operating Engineer
Operating Engineer (Building Construction)
Operating Engineer (Heavy and Highway Work)
Painter
Parking and Highway Improvement Painter (Painter)
Parking Lot and Garage Workers
Pile Driver (Carpenter)
Pile Driver (Operating Engineer - Building Construction)
Pile Driver (Operating Engineer - Heavy and Highway Work)
Plaster Tender
Plasterer
Plumber
Roofer
Sheet Metal Worker (HVAC)
Slurry Seal Worker
Solid Waste Hauling Workers
Stator Rewinder
Steel Erector and Fabricator (Operating Engineer - Heavy & Highway Work)
Steel Erector and Fabricator (Operating Engineer - Building Construction)
Teamster
Telecommunications Technician
Telephone Installation Worker
Terrazzo Finisher
Terrazzo Worker
Theatrical Workers
Tile Finisher
Tile Setter
Trade Show and Special Event Workers
Traffic Control/Lane Closure (Laborer)
Tree Maintenance (Laborer)
Tree Trimmer (High Voltage Line Clearance)
Tree Trimmer (Line Clearance)
Tunnel Worker (Laborer)
Tunnel/Underground (Operating Engineer)
Water Well Driller

Type of Contract, Lease, or Operating Agreement	Collective Bargaining Agreement and/or Labor Union	Hourly Wage Rate Increase/ Decrease in 2017 compared to 2016	Hourly Fringe Benefits Rate Increase/ Decrease in 2017 compared to 2016	Proposed Prevailing Wage Rates (Hourly Wage Rate + Hourly Fringe Benefit Rate)
Public Works and Construction	California Department of Industrial Relations	Varies by classification, ranging from a decrease of $4.85 an hour for certain roofers to an increase of $ 3.09 per hour for cable splicers.	Varies by classification, ranging from a decrease of $1.57 for cable splicers to an increase of $7.10 for certain roofers.	Varies by classification: · The low wage rate is unchanged at $14.88 per hour for water well driller helpers. · The high wage increases from $110.44 to $113.94 per hour for air conditioning and refrigeration/HVAC service work.
Janitorial Services Contract	Collective bargaining agreement between the San Francisco Maintenance Contractors Association and the Service Employees International Union, Building Services Employees Union, Local 1877, Division 87.	No changes from 2016 to 2017.[1]	No changes from 2016 to 2017.	No changes from 2016 to 2017.
Window Services Contract	Collective bargaining agreement between the San Francisco Window Cleaning Contractors Association and Window Cleaners Union – Service Employees International Union Local 1877, AFL-CIO	An increase of $0.60 per hour.	Increase of $0.49 per hour.	An increase of $1.09 per hour.
Public Off-Street Garage Attendants	Agreement between the Parking and Garage Industry San Francisco and San Mateo Counties and Teamsters Automotive and Allied Workers, Local 665.	No changes from 2016 to 2017.[2]	No changes from 2016 to 2017.	No changes from 2016 to 2017.

[1] The Collective Bargaining Agreement for Janitorial Services expired. At the time of the Office and Labor Standards report to the Civil Service Commission, no new contract had been signed.

[2] The Teamsters did not provide the Office of Labor Standards Enforcement with a new contract. Therefore the prior contract remains in effect, and there is no change in hourly wages or benefits at this time.

Type of Contract, Lease, or Operating Agreement	Collective Bargaining Agreement and/or Labor Union	Hourly Wage Rate Increase/ Decrease in 2017 compared to 2016	Hourly Fringe Benefits Rate Increase/ Decrease in 2017 compared to 2016	Proposed Prevailing Wage Rates (Hourly Wage Rate + Hourly Fringe Benefit Rate)
Theatrical Services	2011 Project Agreement - International Alliance of Theatrical Stage Employees, Local 16, and Moving Picture Technicians, Artists and Allied Crafts, and Canada Local 16	No changes from 2016 to 2017.[3]	No changes from 2016 to 2017.	No changes from 2016 to 2017.
Solid Waste Hauling	Collective Bargaining Agreement between Recology Sunset & Recology Golden Gate and Sanitary Truck Drivers and Helpers Union Local 350, IBT	Varies by classification from an increase of $1.08 to an increase of $1.35.	Varies by classification from an increase of $1.82 to $1.83 per hour. (Does not include vacation benefits which vary based on length of employment)	Varies by classification: · The low wage rate increases from $60.92 to $63.83 per hour. - The high wage rate increases from $72.94 to $ 76.19 per hour.
Moving Services	Agreement between the Northern California employers and the Northern California Regional Council of Carpenters and the Carpenters 46 Northern California Counties Conference Board.	An increase of $0.50 per hour	An Increase of $0.17 per hour.	Varies by classification: · The low wage rate increases from $31.90 to $32.57 per hour. · The high wage rate increases from $32.17 to $32.94 per hour
Trade Shows	Agreement, between the Convention Services Employer and Allied Trades District Council 36 on behalf of Sign Display and Allied Crafts Local Union 510	Varies by classification from an increase of $0.60 per hour to an increase of $2.44 per hour.	Varies by classification from an increase of $0.68 per hour to an increase of $0.69 per hour.	Varies by classification: · The low wage increases from $33.77 to $34.47 per hour. · The high wage increases from $104.96 to $108.00
Broadcast service workers	Agreement between MIRA Mobile Television Inc. and KELLEYCORE d/b/a SAMMCO, and the International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists, and Allied Crafts, AFL-CIO, CLC, and Local 119/ Bay Area Freelance Association	No change, as it is the first time the wage rate is set.	No change, as it is the first time the wage rate is set.	No change, as it is the first time the wage rate is set.

[3] The union did not provide an agreement that covers the second half of this year, so the Office of Labor Standards and Enforcement used the most recent rates available.