

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

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: October 28, 2020 Budget and Finance Committee Meeting

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<p>Item 1 File 20-1133 <i>Continued from October 21, 2020</i></p>	<p>Department: San Francisco International Airport (Airport)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would amend the Administrative Code to require employees covered by the Quality Standards Program (QSP) at the San Francisco International Airport (Airport) to provide family health insurance to such employees, or to make contributions on the employees’ behalf to an account established under the Health Care Security Ordinance (Section 14.2 of the Administrative Code). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Health Care Accountability Ordinance (HCAO) requires employers to offer individual health plan benefits to their covered employees or to make payments to the Department of Public Health (DPH). The HCAO applies to most City contractors and tenants, including those at the Airport. The Health Care Security Ordinance established the Health Access Program, providing for Healthy San Francisco and Medical Reimbursement Accounts • The QSP sets hiring, training, performance management, and compensation standards for airlines, service providers, and catering companies doing business at the Airport. The proposed ordinance would apply to all QSP covered employees, regardless of number of hours worked. • Under the proposed ordinance, QSP employers may offer qualifying health plans covering employees and dependents at no cost to the employee (Option 1) or make a payment of \$9.50 per hour in accordance with the Health Care Security Ordinance (Option 2). <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed ordinance would result in cost increases to the Airport for two Airport security contracts. According to information provided by the Airport, the costs of offering qualifying health plans covering employees and dependents (Option 1) would result in estimated additional costs to the Airport each year ranging from \$805,733 to \$1,409,654, depending on the health plan. The costs of the \$9.50 per hour contribution in accordance with the Health Care Security Ordinance (Option 2) would result in estimated additional costs to the Airport each year of \$1,377,534. • According to information provided by the Airport, the costs of offering qualifying health plans covering employees and dependents (Option 1) would result in estimated additional costs each year to the airlines, service providers, and catering companies ranging from approximately \$8.4 million to \$24 million, depending on the health plan. The costs of the \$9.50 per hour contribution in accordance with the Health Care Security Ordinance (Option 2) would result in estimated additional costs each year to the airlines, service providers, and catering companies of approximately \$33 million. While these costs are not directly passed onto the Airport, they increase the cost of doing business for Airport tenants. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed ordinance is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

According to City Charter Section 2.105, all legislative acts shall be by ordinance and require the affirmative vote of at least a majority of the members of the Board of Supervisors.

BACKGROUND

The Health Care Accountability Ordinance (HCAO), Chapter 12Q of the Administrative Code, requires employers to offer individual health plan benefits to their covered employees or to make payments to the Department of Public Health (DPH). The HCAO applies to most City contractors and tenants, including those at San Francisco International Airport (Airport), but not Airport permittees.

In December 1999, Airport Commission adopted the Quality Standards Program (QSP) to enhance safety and security. The QSP required the implementation of minimum standards for hiring, training, performance management, and compensation and benefits of employees covered by the QSP, as well as enhanced equipment safety and security standards for airlines and service providers whose employees perform services impacting safety and security at SFO.

According to Airport management, the QSP has been successful in recruiting high-quality employees and reducing turnover. Employers have reported that after the QSP was established, they have experienced improved employee performance, reduced disciplinary actions, reduced absenteeism, and fewer employees failing initial training. While the primary goals of the program are the safety and security of airport operations, the QSP has also improved Airport efficiency and customer service.

The Airport Commission has adopted several resolutions expanding or amending the QSP, as shown in Table 1 below.

Table I: Airport Commission Amendments to QSP

Date	Amendment Description
January 2000	Expanded the QSP to cover employees of airlines and service providers who have access to the Airfield Operations Area or otherwise are directly involved in passenger and facility safety and security.
August 2009	Required employers to provide QSP-covered employees with individual health benefits that meet the minimum standards of the HCAO. Temporarily froze the QSP minimum wage rate at \$12.33 per hour until that rate was no more than \$0.50 per hour more than the wage rate required by the Minimum Compensation Ordinance (MCO).
October 2015	Expanded the QSP to cover employees located on or near Airport property who are directly involved in the preparation and/or transportation of food and beverage products delivered directly onto aircraft. Provided that employee wage requirements could not be waived in a collective bargaining agreement (CBA) unless the CBA clearly and unambiguously waived them and provided for wages that at least met the QSP standards. However, a CBA may still waive the QSP health benefit requirements.
January 2016	Adopted additional QSP Airport safety and employee health and safety standards, enhanced QSP training requirements, included Airport custodial workers in the QSP, and increased fines for non-compliance.

Airport management reports that some CBAs at the Airport waive the health benefit requirement, resulting in some QSP employees having only minimal health care coverage.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Administrative Code to require QSP employers at the Airport to provide family health insurance at no cost to employees, or to make contributions on the employees' behalf to an account established under Section 14.2 of the Administrative Code, the Health Care Security Ordinance (HCSO).¹ The contribution would be \$9.50 per hour for each employee, rather than \$5.60 per hour per employee under the HCAO. The payment amount would be adjusted annually based on the Consumer Price Index (CPI). The proposed ordinance would apply to all QSP covered employees, regardless of number of hours worked, while the HCAO only applies to employees working an average of at least 20 hours per week. Employees may opt out of this benefits program if they demonstrate proof of family health insurance coverage. The proposed ordinance specifies that its requirements cannot be waived by a collective bargaining agreement.

FISCAL IMPACT

The proposed ordinance would result in direct cost increases to Airport service contracts, as well as potential indirect costs.

Direct Costs

According to Ms. Emylene Aspilla, Airport Director of Social Responsibility, the Airport currently has two contracts with service providers whose employee health costs are partially covered by the Airport, General Airport Security Services (GASS) and Hallmark Aviation Services (Hallmark). Under the GASS contract, the Airport pays a flat rate of \$624.19 per employee per month for health coverage. Under the Hallmark contract, the Airport pays 22.28 percent of the medical, dental, and life insurance costs for their employees.

QSP employers may offer qualifying health plans covering the employee and dependents at no cost to the employee (Option 1), or make a payment of \$9.50 per hour in accordance with the Health Care Security Ordinance (Option 2). According to information provided by the Airport, under the proposed legislation, the costs of offering qualifying health plans covering employees and dependents (Option 1) would result in estimated additional costs to the Airport each year ranging from \$805,733 to \$1,409,654, depending on the health plan.² Under the proposed

¹ Administrative Code Section 14.2 established the Health Access Program, providing for Healthy San Francisco and Medical Reimbursement Accounts. Healthy San Francisco is a network of providers available to uninsured San Francisco residents, including Department of Public Health, non-profit, and private providers, and is funded by a variety of sources, including payments from employers on behalf of employees. Medical Reimbursement Accounts are a public health benefit administered by DPH, funded in whole or in part by contributions from covered employees to the City under Section 14.3, from which eligible employees may obtain reimbursement for health care services.

² The costs have been estimated using the 10-County Average for two popular qualifying health plans: The Kaiser Permanente HMO and the BlueShield Access+ HMO, based on the San Francisco Health Service System's presentation to the Board of Supervisors on June 17, 2020.

legislation, the costs of the \$9.50 per hour contribution in accordance with the Health Care Security Ordinance (Option 2) would result in estimated additional costs to the Airport each year of \$1,377,534.

Indirect Costs

According to Ms. Aspillá, the proposed ordinance would increase costs for airlines, service providers, and catering companies that operate at the Airport. While these costs are not directly passed onto the Airport, they increase the cost of doing business for Airport tenants.

The Airport estimates that 4,260 employees would be eligible for family healthcare benefits under the proposed ordinance, based on a forecast of approximately 18.4 million passengers in FY 2020-21. According to information provided by the Airport, under the proposed legislation, the costs of offering qualifying health plans covering employees and dependents (Option 1) would result in estimated additional costs each year to the airlines, service providers, and catering companies ranging from approximately \$8.4 million to \$24 million, depending on the health plan. Under the proposed legislation, the costs of the \$9.50 per hour contribution in accordance with the Health Care Security Ordinance (Option 2) would result in estimated additional costs each year to the airlines, service providers, and catering companies of approximately \$33 million.³

If airlines choose to pass the additional costs onto passengers through ticket pricing, Ms. Aspillá estimates that the proposed ordinance may result in a ticket increase of \$1.83 per ticket, based on approximately 18.4 million passengers in FY 2020-21.

RECOMMENDATION

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

³ The estimate assumes that 75 percent of employees work 40 hours per week, or 160 hours per month, and 25 percent of employees work 20 hours per week, or 80 hours per month.

Item 2 File 20-1085	Department: Controller's Office
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would appropriate \$126.9 million in 2016 Public Health & Safety General Obligation Bonds to the Department of Public Health, and \$260 million of 2019 Affordable Housing General Obligation Bonds and \$102.6 million of PASS General Obligation Bonds to the Mayor's Office of Housing & Community Development. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • On October 6, 2020, the Board of Supervisors approved Files 20-1091, 20-1092, 20-1093, and 20-1094, which were four resolutions authorizing actions and approving documents associated with the sale and issuance of General Obligation Bonds. In particular, the resolutions authorized (1) issuance of \$600 million in 2019 Affordable Housing General Obligation Bonds; (2) sale of \$260 million of 2019 Affordable Housing General Obligation Bonds; (3) sale of \$102.6 million of Preservation and Seismic Safety ("PASS") General Obligation Bonds (4) sale of \$126.9 million of 2016 Public Health & Safety General Obligation Bonds. The appropriation ordinance providing the spending authority for these bonds' proceeds was not considered at that time. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed appropriation totals \$489,505,000. The total projected total debt service over the term of the bonds would be \$762,059,000 and the estimated average annual debt service is \$26,670,000. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • 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

On October 6, 2020, the Board of Supervisors approved Files 20-1091, 20-1092, 20-1093, and 20-1094, which were four resolutions authorizing actions and approving documents associated with the sale and issuance of General Obligation Bonds. In particular, the resolutions authorized (1) issuance of \$600 million in 2019 Affordable Housing General Obligation Bonds; (2) sale of \$260 million of 2019 Affordable Housing General Obligation Bonds; (3) sale of \$102.6 million of Preservation and Seismic Safety (“PASS”) General Obligation Bonds (4) sale of \$126.9 million of 2016 Public Health & Safety General Obligation Bonds. The appropriation ordinance providing the spending authority for these bonds’ proceeds was not considered at that time.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate \$126.9 million in 2016 Public Health & Safety General Obligation Bonds to the Department of Public Health, and \$260 million of 2019 Affordable Housing General Obligation Bonds and \$102.6 million of PASS General Obligation Bonds to the Mayor’s Office of Housing & Community Development. The details of the proposed uses for the bond proceeds are shown below.

FISCAL IMPACT

Table 1 below summarizes the uses of PASS, Affordable Housing, and Public Health and Safety bond proceeds.

Table 1: Sources and Uses of Bond Proceeds

	Series 2020D Public Health & Safety	Series 2020C Affordable Housing	Series 2020F PASS
Sources			
Bond Proceeds	\$126,925,000	\$260,000,000	\$102,580,000
Uses			
San Francisco General Hospital Building 5	\$107,764,985		
Southeast Community Health Center	11,608,725		
Community Health Centers	3,713,202		
Neighborhood Fire Stations	2,540,000		
Public Housing		50,620,000	
Low Income Housing		143,700,000	
Preservation - Middle Income Housing		37,100,000	
Senior Housing		21,200,000	
Deferred Below Market Rate Program			5,567,541
Below Market Rate Program			34,012,613
Market Rate Program			61,647,860
Subtotal Projects	\$125,626,912	\$252,620,000	\$101,228,014
City Services Auditor	\$251,254	\$505,240	\$202,456
General Obligation Bond Oversight Committee	126,925	255,555	102,580
Costs of Issuance ^a	602,596	1,151,985	790,500
Underwriters Discount ^b	317,313	1,022,220	256,450
Reserve for Market Uncertainty ^c		4,445,000	
Subtotal Oversight & Financing	\$1,298,088	\$7,380,000	\$1,351,986
Total	\$126,925,000	\$260,000,000	\$102,580,000

Source: Proposed Appropriation Ordinance

^a Costs of issuance include costs to complete the transaction such as legal, rating and municipal advisor fees.

^b Underwriters discount is the difference in the price paid to the issuer and the prices at which the bonds are initially offered to investors.

^c Reserve for market uncertainty accounts for changes in interest rates at time of sale of bonds.

The proposed appropriation totals \$489,505,000. As noted in our October 6, 2020 report to the Budget & Finance Committee on Files 20-1091 – 20-1094, the total debt service on all bond issuances associated with the proposed appropriation would cost \$762,059,000 over the term of the bonds. Estimated average annual debt service is \$26,670,000.

RECOMMENDATION

Approve the proposed ordinance.