

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS


BUDGET AND LEGISLATIVE ANALYST

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April 12, 2024

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: April 17, 2024 Budget and Finance Committee Meeting

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Item 4 File 24-0223	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> The proposed resolution would approve Modification No. 5 the San Francisco International Airport's (Airport) escalator and electric walk maintenance, repair, and on-call services contract with KONE Inc., increasing the not-to-exceed amount by \$8,314,641, for a total not to exceed \$42,780,241, with no change to the contract term. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> In 2019, the Airport entered into an escalator and electric walk maintenance, repair, and on-call services contract with KONE, which has since been modified four times. In 2023, after submitting Modification No. 5 to the Board of Supervisors for approval and inquiries from our office, Airport staff noticed errors in the contract budget and past invoices from KONE, including a 12 percent preventative maintenance cost reduction that KONE had not implemented. KONE has agreed to provide the Airport a billing credit for this overpayment. Airport staff and KONE are continuing to review past invoices to ensure that the Airport has been billed properly. The proposed Modification No. 5 provides expenditure authority for the Airport to pay outstanding invoices and continue work through June 2024. The Airport would seek credit for any other overpayments, if found. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> The proposed Modification No. 5 would increase the not-to-exceed amount of the KONE contract by \$8,314,641, for a total not to exceed \$42,780,241. This includes a credit of \$1,356,668 provided to the Airport to account for past overbilling. Preventative maintenance and minor repairs are funded by the Airport's operating budget. System overhaul and major repairs are primarily funded by the Airport's capital budget. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> Approve the proposed resolution. 	

MANDATE STATEMENT

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

BACKGROUND

In February 2019, the San Francisco International Airport (Airport) issued a Request for Proposals (RFP) for escalator and electric walk maintenance, repair, and on-call services. KONE, Inc. was determined to be the best value proposer and was awarded a contract for a term of two years, from July 2019 through June 2021, and an amount not to exceed \$9,765,600. The RFP for the contract allowed for a single three-year option to extend the contract term.

The contract has been amended four times. In October 2019, the Airport executed Modification No. 1 to the contract, increasing the allowance for as-needed service from \$300,000 to \$5,000,000, with no change to the contract term or not-to-exceed amount. In July 2020, the Airport executed Modification No. 2 to the contract, which reduced the monthly unit price for preventative maintenance and regular work hours from seven to five days per week, with no change to the contract term or not-to-exceed amount. In February 2021, the Board of Supervisors approved Modification No. 3 to the contract, which increased the contract amount by \$8,500,000, for a total not to exceed \$18,265,600, with no change to the contract term (File 20-1349). Modification No. 3 provided funding to facilitate completion of major equipment overhaul and repairs, as Airport staff had determined that the reduction in passenger traffic due to the COVID-19 pandemic was an opportune time to complete the project. In June 2021, the Board of Supervisors approved Modification No. 4 to the contract, which increased the contract amount by \$16,200,000, for a total not to exceed \$34,465,600, and extended the contract term by three years through June 2024 (File 21-0525).

The KONE contract needs additional expenditure authority to fund services through June 2024. In April 2023, the Airport Commission approved Modification No. 5 to the contract, which increased the not-to-exceed amount of the contract by \$14,000,000, for a total not to exceed \$48,465,600. According to Sung Kim, Airport Contracts Administration Manager, after submitting a resolution to the Board of Supervisors for approval (File 23-0500) and inquiries from our office, Airport staff noticed errors in the contract budget and past invoices from KONE. Modification No. 4 had reduced billing rates for preventative maintenance by 12 percent, which KONE had not implemented. KONE has agreed to provide the Airport a billing credit for this overpayment. In March 2024, the Airport Commission approved a revised Modification No. 5 to the contract.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 5 to the Airport's escalator and electric walk maintenance, repair, and on-call services contract with KONE, increasing the not-to-exceed

amount by \$8,314,641, for a total not to exceed \$42,780,241, with no change to the contract term, which ends on June 30, 2024.

The proposed contract increase is intended to provide funding to pay outstanding invoices and to support contract services through June 2024. It includes a credit to the Airport to account for past overbilling of preventive maintenance services.

According to Contracts Administration Manager Kim, Airport staff monitors contract performance by reviewing daily “Out-of-Service” reports provided by KONE, which tracks the number of units out of service for at least one day. These reports are used to calculate a monthly “In-Service” rate. Since September 2021, the average monthly In-Service rate is 97 percent.

The KONE contract expires on June 30, 2024 and cannot be extended further, per the terms of the RFP. According to Contracts Administration Manager Kim, the Airport plans to release a new Request for Qualifications (RFQ) in April 2024 to prequalify firms for escalator and electric walk maintenance and repair services. Consistent with the Administrative Code, the Airport will obtain preventative maintenance and minor repairs through ongoing contracts to companies based on a work plan appropriate for the services required. Major repairs would be bid out individually to prequalified firms. The Airport plans to have a new contract in place by July 1, 2024.

According to Contracts Administration Manager Kim, Airport staff and KONE are continuing to review past invoices to ensure that the Airport has been billed properly. The proposed Modification No. 5 provides expenditure authority for the Airport to pay outstanding invoices and continue work through June 2024. The Airport would seek credit for any other overpayments, if found.

FISCAL IMPACT

The proposed Modification No. 5 would increase the not-to-exceed amount of the KONE contract by \$8,314,641, for a total not to exceed \$42,780,241. Actual and projected contract expenditures are shown in Exhibit 1 below.

Exhibit 1: Actual and Projected Contract Expenditures

	Preventative Maintenance	As-Needed Services	Total
Actual Expenditures (through February/May 2023) ¹	\$17,113,600	\$17,161,658	\$34,275,258
Billing Rate Adjustment	(1,356,668)	-	(1,356,668)
<i>Adjusted Actual Expenditures</i>	<i>\$15,756,932</i>	<i>\$17,161,658</i>	<i>\$32,918,590</i>
Outstanding Invoices (through 4/8/2024)	3,715,138	3,477,624	7,192,762
Projected Expenditures (through June 2024)	1,711,590	957,299	2,668,889
<i>Outstanding and Projected Expenditures</i>	<i>\$5,426,728</i>	<i>\$4,434,923</i>	<i>\$9,861,651</i>
Total Not-to-Exceed	\$21,183,660	\$21,596,581	\$42,780,241

¹ Preventative maintenance expenditures shown are through February 2023, and as-needed services expenditures shown are through May 2023.

Source: Airport

Preventative maintenance and minor repairs are funded by the Airport's operating budget. System overhaul and major repairs are primarily funded by the Airport's capital budget.

RECOMMENDATION

Approve the proposed resolution.