

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: September 3, 2014 Budget and Finance Committee Meeting

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| Item 1 File 14-0873 | Department: Controller's Office (Controller) |
| EXECUTIVE SUMMARY | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would establish property tax rates in FY 2014-15 to provide revenues for (a) the City and County of San Francisco, including the rate that is passed on to residential tenants pursuant to Administrative Code Chapter 37, (b) the San Francisco Unified School District, (c) the San Francisco Community College District, (d) the Bay Area Rapid Transit District, and (e) the Bay Area Air Quality Management District. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The FY 2014-15 proposed total combined property tax rate of \$1.1743 per \$100 of assessed home value is a decrease of \$0.0137 or 1.15 percent from the existing FY 2013-14 property tax rate of \$1.1880. • In accordance with California Constitution Article 13A Section 2, individual property assessments increase only by a State authorized inflation factor, unless the property is sold, transferred or improved. For FY 2014-15, the State has authorized a 0.454 percent allowable inflation factor. Therefore, a single-family home with an assessed value of \$700,000 in FY 2013-14 would have an assessed value of \$703,178 in FY 2014-15. • The proposed FY 2014-15 total combined property tax rates would result in a \$57.62 decrease in property taxes, from \$8,232.84 in FY 2013-14 for a single-family residence with an assessed value of \$700,000 to \$8,175.22 in FY 2014-15 for a single-family residence with an assessed value of \$703,178. The decreased property taxes reflect (a) the decreased property tax rate, (b) the 0.454 percent allowable increase in assessed value, and (c) the \$7,000 homeowner's exemption. • The proposed FY 2014-15 property tax pass-through rate of \$0.0880 for residential tenants is unchanged from FY 2013-14. Under the proposed property tax pass-through rate, tenants in a home worth \$703,178 after the 0.454 percent inflation allowance would pay \$2.80 more. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed ordinance. | |

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

California Revenue and Taxation Code Section 2151 requires the Board of Supervisors to “fix the rates of county and district taxes” and to collect the taxes for the City, County, and State.

San Francisco Administrative Code Section 3.3(h) requires the Board of Supervisors to adopt the property tax rate for the City and County of San Francisco before the last working day in September.

City Charter Section 16.107-109 requires that portions of the City’s annual property tax levy be set-aside for specific uses including: \$0.0250 for the Library Preservation Fund; \$0.0300 for the Children’s Fund; and \$0.0250 for the Open Space Acquisition Fund.

San Francisco Administrative Code Section 37.3(a)(6)(A-C), the Residential Rent Stabilization and Arbitration Ordinance, allows landlords to pass through to tenants one-half of property tax increases due to voter-approved General Obligation bonds that are to be used by the City, the San Francisco Unified School District, and San Francisco Community College District.

Background

The Board of Supervisors annually sets the combined property tax rate that provides revenues for: (1) general operations, (2) specific Charter-required activities such as acquiring open space or constructing, maintaining, and operating the public library; and (3) paying debt service on voter-approved General Obligation bonds that were issued by the City, the San Francisco Unified School District, and the San Francisco Community College District.

Under the California Revenue and Taxation Code, the base property tax rate that the City can levy on property owners is one percent and can be used for general purposes. Any amount over the base one percent is used to pay for debt service on voter-approved General Obligation bonds.

DETAILS OF THE PROPOSED RESOLUTION

The proposed ordinance sets the property tax rate for FY 2014-15 for taxing entities¹ within the City and County of San Francisco including (a) the City and County of San Francisco (CCSF); (b) the San Francisco Unified School District (SFUSD); (c) the San Francisco Community College District (SFCCD); (d) the Bay Area Rapid Transit District (BART), and the Bay Area Air Quality Management District (BAAQM).

The proposed ordinance also would set the property tax pass-through rate that landlords can pass-through to tenants in FY 2014-15, as allowed under the City Administrative Code. The allowable tenant pass-through rate is based on the portion of the landlord’s property tax

¹ Taxing entities are agencies or organizations located within the City of San Francisco and that have taxing authority but that may not be a part of the City government. The \$0.8192 General City Operations factor includes \$0.2533 to be shifted to the Educational Revenue Augmentation Fund for the benefit of San Francisco Unified School District, County Office of Education, and the San Francisco Community College District.

liability that comes from General Obligation bond debt service for certain periods, as shown in Table 1 below.

Table 1: Percent of Property Tax Increases Payable by Tenants to Landlords

| Taxing Entity | Timeframe | Pass-Through Tax |
|---|---|------------------|
| City and County of San Francisco | November 1, 1996 – November 14, 1998 | 100% |
| City and County of San Francisco | November 30, 2002 - Present | 50% |
| San Francisco Unified School District San Francisco Community College District | November 1, 2006 - Present | 50% |

FISCAL IMPACTS

Combined Property Tax Rate

The proposed ordinance would set the combined property tax rate (comprised of the property tax rates levied for all of the taxing jurisdictions within the city) for FY 2014-15 at \$1.1743. The FY 2014-15 property tax rate of \$1.1743 is \$0.0137, or 1.15 percent, less than the FY 2013-14 property tax rate of \$1.1880. Table 2 below shows the proposed property tax rates for all taxing jurisdictions within the city, as calculated by the Controller.

Table 2: Current and Proposed Property Tax Rates per \$100 of Assessed Value*

| | FY 2013-14 | FY 2014-15 Proposed | Increase (Decrease) |
|--|-----------------|------------------------|------------------------|
| General City Operations ¹ | \$0.8192 | \$0.8192 | 0.0000 |
| Library Preservation Fund | 0.0250 | 0.0250 | 0.0000 |
| Children's Fund | 0.0300 | 0.0300 | 0.0000 |
| Open Space Acquisition Fund | 0.0250 | 0.0250 | 0.0000 |
| County Superintendent of School | 0.0010 | 0.0010 | 0.0000 |
| General Obligation Bond Fund | 0.1195 | 0.1195 | 0.0000 |
| CCSF Subtotal | 1.0197 | 1.0196 | (0.0001) |
| General Operations | 0.0770 | 0.0770 | 0.0000 |
| General Obligation Bond Debt Service | 0.0429 | 0.0333 | (0.0096) |
| SFUSD Subtotal | 0.1199 | 0.1103 | (0.0096) |
| General Operations | 0.0144 | 0.0144 | 0.0000 |
| General Obligation Bond Debt Service | 0.0181 | 0.0171 | (0.0010) |
| SFCCD Subtotal | 0.0325 | 0.0315 | (0.0010) |
| General Operations | 0.0063 | 0.0063 | 0.0000 |
| General Obligation Bond Debt Service | 0.0075 | 0.0045 | (0.0030) |
| BART Subtotal | 0.0138 | 0.0138 | (0.0030) |
| Bay Area Air Quality Management District Operations | 0.0021 | 0.0021 | 0.0000 |
| Total Property Tax Rate | \$1.1880 | \$1.1743 | (\$0.0137) |

* Totals may not add due to rounding.

The proposed combined property tax rate shown in Table 2 above includes a 0.25 percent administrative allowance charged on the City's voter-approved General Obligation bonds to reimburse the City for the costs of collecting property taxes. This 0.25 percent administrative allowance is charged to the total property tax collection, rather than to the assessed value.

Allowable Tenant Pass-Through Property Tax Rate

The proposed ordinance also would set the allowable property tax rate that landlords can pass through to tenants at \$0.0880 per \$100 of assessed value in FY 2014-15. The allowable tenant pass-through rate is unchanged from FY 2013-14.

Impacts of the Combined Property Tax Rate and Allowable Pass-Through

Under Proposition 13, the City may annually increase the assessed value of a property by a State-determined inflation factor of up to 2.000 percent. In December 2013, the State notified the City that the allowable inflation factor for FY 2014-15 was 0.454 percent. Therefore, a single-family residence in San Francisco with an assessed value of \$700,000 in FY 2013-14 has an assessed value of \$703,178 in FY 2014-15.²

Table 3 below shows the impact of the proposed property taxes payable by owners and tenants. As shown in Table 3 below, the proposed FY 2014-15 property tax rate of \$1.1743 would reduce property taxes by \$57.62 on a single-family residence that has an assessed value of \$703,178 in FY 2014-15.

² The State calculates the allowable inflation factor based on the California Consumer Price Index (CCPI) using a weighted equation that combines the metropolitan areas of San Francisco, Los Angeles, San Diego, and the national average. The FY 2014-15 inflation factor is the smallest inflation factor since before FY 1976-1977 not including a single year of deflation in FY 2010-11.

Table 3: Impact on Property Tax Payments

| Fiscal Year 2013-14 | Single Family Residence | Allowable Tenant Pass-Through |
|--|--------------------------------|--------------------------------------|
| Assessed Value | \$700,000 | \$700,000 |
| Less Homeowners Exemption | (7,000) | 0 |
| Total Taxable Assessed Value | 693,000 | 700,000 |
| Tax Rate per \$100 of Assessed Value | 1.1880 | 0.0880 |
| Property Taxes Payable in 2013-14 | \$8,232.84 | \$616.00 |
| Proposed Fiscal Year 2014-15 | | |
| Prior Year Assessed Value | \$700,000 | \$700,000 |
| Plus Cost of Living Increase (0.454 percent) | 3,178 | 3,178 |
| Subtotal | 703,178 | 703,178 |
| Less Homeowners Exemption | (7,000) | 0 |
| Total Taxable Assessed Value | 696,178 | 703,178 |
| Tax Rate per \$100 of assessed value | 1.1743 | 0.0880 |
| Property Taxes Payable in FY 2014-15 | \$8,175.22 | \$618.80 |
| Total Increase / (Decrease) in Property Taxes Payable in FY 2014-15 as Compared to FY 2013-14 for a Single-Family Residence with a Prior Year Assessed Value of \$700,000 | (\$57.62) | \$2.80 |

RECOMMENDATION

Approve the proposed ordinance.

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| Item 4 File 14-0747 | Department: Department of Public Health |
| EXECUTIVE SUMMARY | |
| <p style="text-align: center;">Legislative Objective</p> <ul style="list-style-type: none"> • The proposed resolution will authorize an amendment to the existing six-month interim contract between DPH and Toyon to continue to provide regulatory reporting, reimbursement, and revenue optimization services for Medicare and Medi-Cal programs for a total contract amount not-to-exceed \$4,996,617 for the four-year period including the six-month interim contract from April 1, 2014 through March 31, 2018. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • DPH previously awarded a contract to Toyon to provide similar services based on a RFP process for the four year period from April 1, 2010 through March 31, 2014. As a result of delays in developing a new contract with Toyon and the need to continue processing payments from Medicare and Medi-Cal without interruption, DPH entered into a six-month interim contract with Toyon from April 1, 2014 through September 30, 2014 for a not-to-exceed amount of \$614,813. • Under its existing six-month interim contract with DPH, Toyon works with San Francisco General Hospital, Laguna Honda Hospital, and Health at Home Agency to review and file required regulatory documents with federal and state agencies in order to maximize revenue reimbursements to the City from Medicare and Medi-Cal programs. In addition, Toyon also files appeals pertaining to Medicare and Medi-Cal report audits on behalf of DPH. <p style="text-align: center;">Fiscal Impacts</p> <ul style="list-style-type: none"> • For the review and filing of regulatory documents, Toyon is paid on a fee-for-service basis and DPH retains 100% of any reimbursed Medicare and Medi-Cal funds. Toyon receives 10-15% of the revenue generated from successful appeals, with DPH receiving 85-90% of recovered revenues. • In DPH's previous contract with Toyon from April 1, 2010 through March 31, 2014, DPH paid Toyon a total of \$1,907,336 for filing revenue reimbursements with Medicare and Medi-Cal and for appealing audits with Medicare and Medi-Cal out of a maximum allowable payment to Toyon of \$3,988,567. In addition, over the course of the previous contract, DPH received \$2,492,045 in Medicare and Medi-Cal revenues based on successful appeals filed by Toyon. • Under the proposed four-year contract, DPH would pay Toyon up to \$4,996,617 for filing revenue reimbursements and appealing audits with Medicare and Medi-Cal. Toyon is expected to provide San Francisco General Hospital with approximately \$4 million in recovered reimbursement funds from successful Medicare and Medi-Cal audits by the end of the contract period of March 30, 2018. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to correctly state that the existing contract expires on March 31, 2018 and not March 30, 2018. • Approve the proposed resolution, as amended. | |

MANDATE STATEMENT

Section 9.118(a) of the City's Charter states that all contracts entered into by a department having anticipated revenue to the City of \$1,000,000 or more are subject to approval by the Board of Supervisors.

BACKGROUND

On September 26, 2013, the Department of Public Health (DPH) issued a new Request for Proposals (RFP) for a four-year contract to optimize the regulatory reporting and revenues under the Medicare and Medi-Cal programs. Two firms, Moss-Adams LLP and Toyon Associates Inc. submitted proposals on November 22, 2013. On December 9, 2013, a DPH selection panel evaluated the two proposals based on their relevant experience, qualifications, background, resume and recommendations, local business designation, and projected budget using a 110 point system. Toyon Associates Inc. (Toyon), the existing contractor to DPH, received a score of 93.16 compared to Moss-Adams LLP's score of 77.

DPH previously awarded a contract to Toyon to provide similar services based on a RFP process for the four year period from April 1, 2010 through March 31, 2014. As a result of delays in developing a new contract with Toyon and the need to continue processing payments from Medicare and Medi-Cal without interruption, DPH entered into a six-month interim contract with Toyon from April 1, 2014 through September 30, 2014 for a not-to-exceed amount of \$614,813. Given the short term and amount of the interim contract, the six-month interim contract was not subject to Board of Supervisors approval.

Under Toyon's existing six-month interim contract with DPH, Toyon works with San Francisco General Hospital, Laguna Honda Hospital, and Health at Home Agency¹ to review and file required regulatory documents with federal and state agencies in order to maximize revenue reimbursements to the City from Medicare and Medi-Cal programs. For the review and filing of regulatory documents, Toyon is paid on a fee-for-service basis.² In addition, Toyon also files appeals pertaining to Medicare and Medi-Cal report audits on behalf of DPH; Toyon receives 10-15% of the revenue generated from successful appeals, with DPH receiving 85-90% of recovered revenues.

In DPH's previous contract with Toyon from April 1, 2010 through March 31, 2014, DPH paid Toyon a total of \$1,907,336 for filing revenue reimbursements with Medicare and Medi-Cal and for appealing audits with Medicare and Medi-Cal out of a maximum allowable payment to Toyon of \$3,988,567, as shown in Table 1 below. In addition, over the course of the previous contract, DPH received \$2,492,045 in Medicare and Medi-Cal revenues based on successful appeals filed by Toyon.

¹ Health at Home is a DPH operated Medicare-certified, state-licensed home health agency, which serves clients who live in San Francisco with access to Medicare, Medi-Cal, as well as uninsured or underinsured clients.

² DPH retains 100% of all reimbursed Medicare and Medi-Cal funds, which are not part of the subject agreements.

Table 1: Actual Payments and Maximum Allowed Payments from DPH to Toyon Under the Previous Contract from April 1, 2010 through March 31, 2014

| Payment Type | San Francisco General Hospital | Laguna Honda Hospital | Health at Home Agency | Total |
|---|--------------------------------|-----------------------|-----------------------|--------------------|
| Actual Payments | | | | |
| - Filing Revenue Reimbursements (Payment based on Fee-For-Service) | \$1,198,938 | \$308,000 | \$19,447 | \$1,526,385 |
| - Appealing Cost Audits (Payment Contingent on Outcome) | 380,951 | 0 | 0 | 380,951 |
| Total Actual Payment Made | \$1,579,889 | \$308,000 | \$19,447 | \$1,907,336 |
| Maximum Allowed Payment | | | | |
| - Filing Revenue Reimbursements (Payment based on Fee-For-Service) | \$1,513,913 | \$384,324 | \$103,053 | \$2,001,290 |
| - Appealing Cost Audits (Payment Contingent on Outcome) | 1,987,277 | 0 | 0 | 1,987,277 |
| Total Maximum Allowed Payment | \$3,501,190 | \$384,324 | \$103,053 | \$3,988,567 |

Source: DPH

DETAILS OF PROPOSED LEGISLATION

The proposed resolution will authorize an amendment to the existing six-month interim contract between DPH and Toyon to continue to provide regulatory reporting, reimbursement, and revenue optimization services for Medicare and Medi-Cal programs for a total contract amount not-to-exceed \$4,996,617 for the four-year period including the six-month interim contract from April 1, 2014 through March 31, 2018.

Although the proposed resolution states that the contract expires on March 30, 2018, the Toyon contract actually expires on March 31, 2018. Therefore, the proposed resolution should be amended to correctly state the expiration date of March 31, 2018.

FISCAL IMPACT

As noted above, the existing six-month contract between DPH and Toyon is for a not-to-exceed amount of \$614,813. Under the proposed first amendment to the contract, DPH would increase this not-to-exceed authorization by \$4,381,804, for a total not-to-exceed authorization of \$4,996,617. In addition, the existing six-month interim contract term from April 1, 2014 through September 30, 2014 would be extended by 3.5 years for a total contract term of four years, or from April 1, 2014 through March 30, 2018.

During the initial three months of the existing interim contract from April 1, 2014 through June 30, 2014, DPH paid Toyon \$38,139 for fee-for-service expenditures out of the total Toyon authorized contract amount of \$614,813, as shown in Table 2 below. During this initial three month contract period, Toyon did not receive any payments for appeal audit and DPH did not receive any Medicare or Medi-Cal revenue based on the work of Toyon.

Table 2: Actual Payments from DPH to Toyon under the Interim Contract from April 1, 2014 through June 30, 2014

| Date | San Francisco General Hospital | Laguna Honda Hospital | Health at Home Agency | TOTAL |
|-----------------|---------------------------------------|------------------------------|------------------------------|-----------------|
| Actual Payment* | \$27,324 | \$10,815 | \$0 | \$38,139 |

* Source: DPH. Actual Payments are from April 1, 2014 through June 30, 2014

Over the total proposed four-year contract term from April 1, 2014 through March 31, 2018, DPH would pay Toyon up to \$4,996,617, as shown in Table 3 below.

Table 3: Maximum DPH Payments to Toyon from April 1, 2014 through March 30, 2018

| Year | San Francisco General Hospital | Laguna Honda Hospital | Health at Home Agency | TOTAL |
|--------------|---------------------------------------|------------------------------|------------------------------|--------------------|
| 2014-15 | \$973,896 | \$226,688 | \$25,962 | \$1,226,546 |
| 2015-16 | 983,265 | 230,132 | 26,712 | 1,240,109 |
| 2016-17 | 994,538 | 234,466 | 27,686 | 1,256,690 |
| 2017-18 | 1,005,810 | 238,801 | 28,661 | 1,273,272 |
| TOTAL | \$3,957,509 | \$930,087 | \$109,021 | \$4,996,617 |

Source: Modified Contract Agreement between DPH and Toyon Associates

Toyon's regulatory review and filing responsibilities will continue to be paid on a fee-for-service basis in the proposed contract depending on the services provided to three DPH providers: (1) San Francisco General Hospital, (2) Laguna Honda Hospital, and (3) Health at Home Agency. Contract terms for DPH to pay Toyon for appeals on Medicare and Medi-Cal report audits and for DPH to recover revenues, will continue to be contingent on the outcome of the appeals. Table 4 below displays the maximum DPH is contractually allowed to pay Toyon for filing revenue reimbursements with Medicare and Medi-Cal and for appealing audits with Medicare and Medi-Cal with San Francisco General Hospital, Laguna Honda Hospital, and Health at Home Agency.

Table 4: Maximum DPH Payments to Toyon from April 1, 2014 through March 30, 2018

| Payment Type | San Francisco General Hospital | Laguna Honda Hospital | Health at Home Agency | Total |
|---|--------------------------------|-----------------------|-----------------------|--------------------|
| Maximum Allowed Payment | | | | |
| - Filing Revenue Reimbursements (Payment based on Fee-For-Service) | \$1,269,509 | \$482,087 | \$109,021 | \$1,661,265 |
| - Appealing Cost Audits (Payment Contingent on Outcome) | 2,688,000 | 448,000 | 0 | 3,335,352 |
| Total | \$3,957,509 | \$930,087 | \$109,021 | \$4,996,617 |

As shown in Table 4 above, the proposed contract between DPH and Toyon limits DPH to pay Toyon \$4,996,617 which is \$1,008,050 greater than DPH's maximum amount of \$3,988,567 (see Table 1 above) payable to Toyon under the previous 2010-2014 contract. This increase in maximum allowed payments is due to DPH anticipating higher payments to Toyon for appealing Medicare and Medi-Cal audits, which DPH only pays contingent on the outcome of the appeal. In the proposed contract, DPH will pay Toyon a maximum of \$3,335,352 for appealing audits from Medicare and Medi-Cal compared to the previous maximum amount of \$1,987,277, as shown in Table 4 and Table 1 respectively.

According to Mr. Matthew Sur, Reimbursement Manager at San Francisco General Hospital, DPH increased the maximum allowable payments for audit appeals because Toyon's appeals work is estimated to result in San Francisco General Hospital receiving an estimated \$4 million in recovered reimbursement funds from Medicare and Medi-Cal audits by the end of the contract period of March 31, 2018. In comparison, over the course of the previous four-year contract, Toyon provided DPH with \$2,492,045 in revenues from appealing cost audits with Medicare and Medi-Cal. Ms. Anne Okubo, DPH Deputy Financial Officer, advises that revenue projections from successful Medicare and Medi-Cal appeals for Laguna Honda Hospital and Health at Home Agency are not available.

RECOMMENDATIONS

1. Amend the proposed resolution to correctly state that the existing contract expires on March 31, 2018 and not March 30, 2018.
2. Approve the proposed resolution, as amended.

| | |
|---|--|
| Item 5 File 14-0595 | Department: Recreation and Park Department |
| EXECUTIVE SUMMARY | |
| <p style="text-align: center;">Legislative Objectives</p> <p>Under the proposed ordinance, the Board of Supervisors would waive the competitive solicitation requirement under San Francisco Administrative Code, Section 6.40 and authorize the Recreation and Park Department to enter into an contract with Leidos, Inc. in an amount not-to-exceed \$2,000,000 to perform environmental consulting services for the East Harbor Renovation Project.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Marina Yacht Harbor’s East Harbor Renovation Project (Project) began in January 2014 and is scheduled for completion in December 2017. The East Harbor is located adjacent to the former site of PG&E’s carbureted manufactured gas plant, which contributed to contamination of the soil in the East Harbor. In 2004 PG&E and the City entered into a cost sharing agreement whereby the City and PG&E agreed to share the costs to determine the nature and the extent of the contamination and the costs for planning and permitting any remediation. • In 2013, the City entered into a contract with SAIC (now Leidos, Inc.), selected through a competitive process, to perform as-needed environmental analysis, environmental permitting and review and project management services for the Project. The Recreation and Park Department seeks to enter into a new contract with Leidos to provide further environmental analysis and related services for the Project. The contract has an estimated cost of \$1,970,000 and would extend from approximately September 2014 through December 2017. • The Recreation and Park Department requests waiver of the competitive solicitation provisions of the Administrative Code because of Leidos’ previous successful performance of the initial environmental services for this Project. Additionally, the Department states that undergoing a competitive procurement process could impact the final timeline for the renovation. <p style="text-align: center;">Fiscal Impacts</p> <ul style="list-style-type: none"> • PG&E will pay up to \$950,000 of the contract under the cost sharing agreement, and the Marina Yacht Harbor Fund will pay up to \$1,000,000 of the contract (\$200,000 appropriated in FY 2013-14 and \$800,000 appropriated in FY 2014-15), totaling \$1,950,000. If additional funds are required during the contract term through December 2017, the Recreation and Park Department will include these funds in future Marina Yacht Harbor budgets. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed ordinance to reduce the not-to-exceed amount by \$30,000, from \$2,000,000 to \$1,970,000. • Approve the proposed ordinance. | |

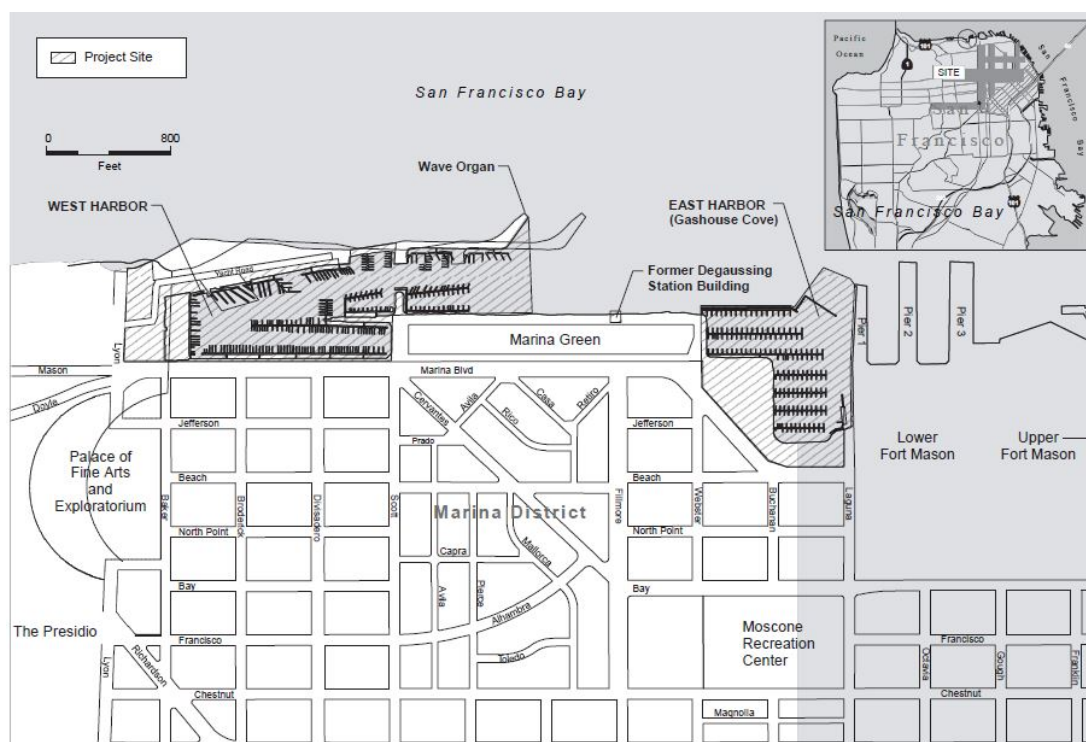
MANDATE STATEMENT

Administrative Code Section 6.40 requires City departments to procure outside professional design or consultant services for public work projects greater than \$100,000 through a competitive process. In order to waive the competitive process for a specific contract for design or consultant services, the Board of Supervisors must adopt an ordinance that waives the provisions of Administrative Code Section 6.40 for that contract.

BACKGROUND

The Marina Yacht Harbor consists of two separate harbors, the East Harbor and the West Harbor, as shown in Figure 1 below.

Figure 1: San Francisco Marina Area Map



The Recreation and Park Department completed renovation of the West Harbor in January 2014. The East Harbor Renovation Project (Project) began in January 2014 and is scheduled for completion in December 2017. The Project consists of infrastructure improvements, including: (1) reconfiguration and replacement of floating docks, (2) replacement of gangways and security gates, (3) upgraded utilities, including renovated electrical and water services to the new floating docks, (4) installation of dockside fire suppression system, and new dockside lights; (5) public access improvements, to be determined; (6) installation of barrier wall and cap, and (7) dredging of an estimated 133,000 cubic yards of sediments and associated remediation. The overall budget for the Project is \$35,400,680 and is detailed in Table 2 below.

Table 2: East Harbor Renovation Project Budget

| | |
|--|---------------------|
| Environmental Analysis, Monitoring and Reporting | \$1,970,000 |
| Renovation Project Engineering, Design and Construction Management | 3,348,000 |
| Construction | 27,347,890 |
| Construction Contingency (10% of construction costs) | 2,734,790 |
| Total Project Cost | \$35,400,680 |

The City is seeking a Boating Infrastructure grant and a loan from the California Department of Boating and Waterways to support the Project, which will be repaid by berthing fees and other Marina Yacht Harbor fund revenues.

Contracts for design and construction management have not yet been awarded, but will be subject to a competitive Request for Proposals (RFP) process. According to Ms. Mary Hobson, Project Manager at the Recreation and Park Department, these contracts will not be subject to Board of Supervisors' approval once they have been awarded because they will not meet the threshold for Board of Supervisors' approval of \$10 million or 10 years. Bids for the construction portion of the Project will be sought after the design is complete and permits have been secured. The Recreation and Park Department estimates that this will occur at the end of 2015 with the award of the contract taking place in March 2016.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would waive the City's competitive solicitation requirement under Administrative Code Section 6.40, and authorize the Recreation and Park Department to enter into a sole-source contract with Leidos, Inc. in an amount not-to-exceed \$2,000,000 over a three year and three month period to perform environmental consulting services for the Marina Yacht Harbor East Harbor Renovation Project. The Department is requesting waiver of the competitive solicitation requirement because Leidos has previously performed similar environmental consulting services for the East Harbor, as described below, based on a prior competitive process.

Maintenance Dredging for East Harbor Renovation

The East Harbor is located adjacent to the former site of a carbureted manufactured gas plant, known as the North Beach MGP, which is currently owned by PG&E. In 2001, the City a filed lawsuit against PG&E to recover costs from removing and disposing of sediments in East Harbor associated with the North Beach MGP. In 2004, the case was dismissed¹ and PG&E and the City subsequently entered into a cost sharing agreement whereby the City and PG&E agreed to

¹ The case was dismissed without prejudice on the grounds that the nature and extent of damages was not defined.

share the costs to determine the nature and the extent of the contamination and the costs for planning and permitting any remediation.

In January 2013, the Department of Public Works (DPW) awarded an as-needed contract through a competitive RFP process, to SAIC (which changed its name to Leidos, Inc.) to perform sediment characterization and coastal engineering consultation services. The term of the contract was from January 13, 2013 until January 16, 2018 for an amount not to exceed \$900,000. In November 2013 Leidos was given approval by DPW to perform work on the Project which included bathymetric and leadline survey analysis², California Environmental Quality Act (CEQA) and permitting review, and project management services. This work was completed in April 2014 at a cost of \$150,166.

Proposed Contract

The Recreation and Park Department now seeks to execute a new contract with Leidos to provide project permitting, design and construction related environmental services for the East Harbor renovation. The scope of work for the proposed contract includes:

- Sediment sampling and analysis;
- Creation of sediment disposal requirements;
- Design of dredging and capping plans;
- Air, odor, and water quality control planning;
- Permit planning and agency consultation;
- Environmental monitoring during the construction phase.

The proposed contract would be from approximately September 2014 through December 2017, a term of approximately three years and three months for an amount not to exceed \$2,000,000.

DPW and the Recreation and Park Department request waiver of the City's required competitive solicitation provisions of Section 6.40 of the Administrative Code to award a sole-source contract to Leidos to provide further environmental consulting services for the East Harbor Project because Leidos has successfully performed the initial environmental consulting services for this Project. According to Ms. Hobson, Leidos is uniquely qualified to complete the environmental services work given their familiarity with the project due to their years of previous work on the project. Ms. Hobson further states that a undergoing a competitive procurement process for these services could impact the final renovation timeline by approximately one year because construction activities must occur during certain times of the year in order to avoid impacting seasonal biological processes.

² Bathymetric and leadline surveys are techniques used to measure the physical features of a water body.

FISCAL IMPACT

The proposed contract amount is for not-to-exceed \$2,000,000 and the proposed contract budget totals \$1,970,000, or \$30,000 less than the not-to-exceed contract amount of \$2,000,000, as shown in Table 3 below.

Table 3: Environmental Consulting Services Budget

| | |
|--|--------------------|
| Project Planning, Bathymetric Survey, Sediment Analysis, CEQA Analysis | \$600,000 |
| Dredge Prism and Disposal Criteria, Capping Study and Final Design | 200,000 |
| Air, Odor, Water Quality Monitoring & Construction Control Studies | 100,000 |
| Upland Source Investigation, Containment Design & Permitting | 450,000 |
| Dredge/CAP in Water Permit Application & Fees, Agency Consultation | 191,000 |
| Construction Phase Environmental Monitoring and Reporting | 100,000 |
| Subtotal | \$1,641,000 |
| Project Contingency (20%) | 329,000 |
| Total | \$1,970,000 |

According to Ms. Hobson, the contingency is necessary for environmental consulting services in order to ensure that the Department has sufficient contracting authority to deliver the full scope of environmental services needed for the project, and is intended to cover any increases in environmental consulting costs that may arise due to factors that cannot be predicted. These factors may include additional studies, reporting or special monitoring requirements placed on the project by the regulatory agencies as a result of contamination or other conditions uncovered as the project develops, additional sediment sampling and laboratory analysis which may be required to determine the extent and composition of sediment contaminants, or special construction phase oversight that may be needed to insure that the public and aquatic environment is sufficiently protected during the implementation of the project.

According to Ms. Hobson, PG&E will pay up to \$950,000 of the contract under the previously-described cost sharing agreement between PG&E and the Recreation and Park Department, and the Marina Yacht Harbor Fund will pay up to \$1,000,000 of the contract (\$200,000 appropriated in FY 2013-14 and \$800,000 appropriated in FY 2014-15), totaling \$1,950,000. Ms. Hobson states that if additional funds of \$20,000 (resulting in \$1,970,000 in total funds) are required during the contract term through December 2017, the Recreation and Park Department will include these funds in future Marina Yacht Harbor budgets.

RECOMMENDATIONS

1. Amend the proposed ordinance to reduce the not-to-exceed amount by \$30,000, from \$2,000,000 to \$1,970,000.
2. Approve the proposed ordinance as amended.

| | |
|--|---|
| Item 8 File 14-0882 | Department: Municipal Transportation Agency (MTA) |
| EXECUTIVE SUMMARY | |
| <p style="text-align: center;">Legislative Objectives</p> <p>The proposed resolution would approve a new contract between the MTA and Siemens, Inc. (Siemens) to procure up to 260 new light-rail vehicles for a not-to-exceed amount of \$1,192,651,577 over a term of 15 years.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The MTA currently operates 151 light-rail vehicles. According to the 2014 Transit Fleet Management Plan, approved by the MTA Board of Directors in March 2014, the MTA requires 151 replacement light-rail vehicles between 2021 and 2028, and up to 109 new light-rail vehicles to meet increased demand due to the new Central Subway and increased ridership overall. • Under the proposed contract, MTA would purchase 175 light-rail vehicles over the 15-year term, with the first 24 vehicles delivered in FY 2016-17 and FY 2017-18. In addition, the MTA has the option to purchase up to 85 additional vehicles, for a total of 260 vehicles. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The MTA has identified funding for \$957,986,995 of the \$1,192,651,577 contract amount. Funding sources include existing Central Subway project funds, Metropolitan Transportation Commission funds, Proposition K Sales Tax Revenues, MTA Revenue Bonds, and State Infrastructure Bonds. These funds are sufficient to purchase 175 light-rail vehicles under the base contract plus an additional 40 light-rail vehicles under the first purchase option. • However, MTA has not yet identified funding of \$234,664,582 to purchase 45 light-rail vehicles under the second purchase option. <p style="text-align: center;">Issues</p> <ul style="list-style-type: none"> • Although the MTA plans to purchase the 85 optional light-rail vehicles under two separate purchase options of 40 and 45 vehicles respectively, the proposed contract only provides for one purchase option of 85 vehicles. • The proposed contract includes a provision that would allow the MTA to finance up to 40 additional light-rail vehicles through direct financing from Siemens. However, MTA does not yet have details on the provisions of such financing, including the term or the interest rate. | |

Recommendations

- Amend the proposed resolution to request the MTA to amend the proposed contract to include two options, option I for 40 additional light-rail vehicles and option II for 45 additional light-rail vehicles respectively at the discretion of the City.
- Amend the proposed resolution to require the MTA to obtain Board of Supervisors approval prior to exercising option II to purchase an additional 45 light-rail vehicles, contingent upon identification of \$234,664,852 in funding sources to pay for the costs of such purchase.
- Amend the proposed resolution to state that any provision to allow the MTA to enter into a direct financing agreement with Siemens be subject to Board of Supervisors approval.
- Approve the proposed resolution as amended.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

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

Background

The San Francisco Municipal Transportation Agency (MTA) currently operates 151¹ light-rail vehicles to provide mass transportation over 71.5 miles of track throughout the City. The current fleet of light-rail vehicles started operating in 1996 with a 25-year operating life through 2021. Ansaldo Breda, Inc. (Breda), a private for-profit company, built and assembled the current fleet of MTA light-rail vehicles.

According to the MTA, the Breda light-rail vehicles are failing regularly. On average, only 114, or approximately 75 percent, of the current fleet operates on a daily basis with the remaining 37 vehicles needing maintenance and repair.

Table 1 below shows the MTA costs of labor and parts expended to maintain and repair the current fleet from January 2014 through June 2014 and includes an annual estimate.

Table 1: Light Rail Vehicle Maintenance and Repair Costs

| | Labor | Materials | Total | Annual Estimate |
|--|------------------------|------------------------|---------------------|------------------------|
| | Jan – June 2014 | Jan - June 2014 | | |
| Propulsion System | \$862,861 | \$3,889,220 | \$4,752,081 | \$9,504,162 |
| Advanced Train Control System | 1,922,752 | 2,598,293 | 4,521,045 | 9,042,090 |
| Door and Steps | 1,145,094 | 871,816 | 2,016,910 | 4,033,820 |
| Lighting | 289,974 | 772,952 | 1,062,926 | 2,125,852 |
| Trucks | 531,986 | 526,312 | 1,058,298 | 2,116,596 |
| Power Supply | 557,521 | 394,154 | 951,675 | 1,903,350 |
| Heating, Ventilation, and Air Conditioning | 589,593 | 220,241 | 809,834 | 1,619,668 |
| Brakes | 339,842 | 371,653 | 711,495 | 1,422,990 |
| Coupler and Draft Gear | 312,506 | 300,073 | 612,579 | 1,225,158 |
| Communications | 133,295 | 296,935 | 430,230 | 860,460 |
| Total | \$6,685,424 | \$10,241,649 | \$16,927,073 | \$33,854,146 |

Source: San Francisco Municipal Transportation Agency, Budget and Legislative Analyst's Office

According to Ms. Trinh Nguyen, MTA Senior Program Manager, the new Siemens light-rail vehicles would have electric doors with fewer parts that are less likely to fail and propulsion

¹ According to the MTA Transit Fleet Management Plan (March 2014), two light-rail vehicles are damaged beyond repair and cannot return to service. There are four additional vehicles that are scheduled to return to service some time in calendar year 2015.

systems that are less likely to get clogged and overheated. Additionally, Ms. Nguyen notes that the new Siemens light-rail vehicles will be designed in such a way that failing parts can be easily removed and swapped for working parts, which would reduce the amount of time that a vehicle would be out of service.

Increasing the Fleet

According to MTA documents, light-rail vehicles provide daily ridership to 173,500 people. However, the MTA estimates that daily ridership will increase when the MTA completes the Central Subway project and as a result of natural population growth in San Francisco. The MTA estimates that, by 2040, ridership during peak times could increase by as much as 95 percent over the current peak time ridership.

According to the MTA's 2014 Transit Fleet Management Plan, adopted by the MTA Board of Directors in March 2014, in order to meet the growing demand for timely transit services over the next 25 years, the MTA will need to (1) replace the current fleet of 151 light-rail vehicles and (2) increase the total number of light-rail vehicles by 109, or 72 percent, from 151 to a 260.

Competitive Request for Proposals (RFP) Process to Acquire New Light-Rail Vehicles

In March 2013, the MTA issued a Request for Qualifications to select a group of manufacturers that would be eligible to provide proposals for a new contract to procure new light rail vehicles. Four vendors submitted statements of qualification and all were deemed qualified².

In September 2013, the MTA issued RFPs to the four qualified vendors, of which only two submitted responsive proposals. Table 2 below shows the scoring categories and scores of the two proposals.

Table 2: Proposal Scores

| | Construcciones y Auxiliar de Ferrocarriles (CAF) | | Siemens, Inc. | |
|----------------------------|--|----------------|---------------|----------------|
| | Points | Weighted Score | Points | Weighted Score |
| Qualitative Responsibility | 35 | 4 | 62 | 6 |
| Technical Evaluation | 45 | 29 | 82 | 53 |
| Price Evaluation | 79 | 20 | 100 | 25 |
| Alternate Approaches | 1 | 1 | 7 | 7 |
| Total Score | | 54 | | 91 |

Source: San Francisco Municipal Transportation Agency

As shown in Table 2 above, Siemens, Inc. (Siemens) received the highest score of 91. Siemens received a higher score in every category including the technical evaluation and price evaluation categories, which were, respectively, the most heavily weighted categories.

In July 2014, the MTA Board of Directors approved a resolution authorizing the MTA Director to enter into contract with Siemens to acquire new light-rail vehicles.

² Breda was initially disqualified as a vendor but was deemed eligible after an appeal.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a 15-year contract between the MTA and Siemens for the manufacture and delivery of up to 260 new light-rail vehicles as well as the associated spare parts, special tools, training and documentation, in an amount not-to-exceed \$1,192,651,577.

The products and services that Siemens will provide under the proposed contract are divided into two phases. During the first phase, Siemens will deliver 24 light-rail vehicles in FY 2016-17 and FY 2018-19 that will allow the MTA to meet the anticipated increase in demand after completing the Central Subway Project.³

During the second phase, Siemens will deliver 151 light-rail vehicles to replace the current fleet of Breda light-rail vehicles beginning in FY 2020-21 through FY 2027-2028, which is when the Breda light-rail vehicles reach the end of their useful life. The two phases, combined, will provide a total of 175 vehicles.

The proposed contract for up to 260 light-rail vehicles includes the base amount of 175 vehicles and an option, which the MTA would like to divide and exercise twice, to purchase up to 85 additional light-rail vehicles. The MTA estimates that it will need to exercise the first option for 40 light-rail vehicles immediately in order to meet service demands in calendar years 2018-2020. The MTA estimates that it will need to exercise the second option, for 45 light-rail vehicles, prior to 2024 in order to meet service demands for 2028-2040.

Table 3 below shows the anticipated purchase plan related to the phases and options for up to 260 new light-rail vehicles.

³ The Central Subway project will extend the City's light-rail lines by 1.7 miles from the South of Market neighborhood to Chinatown. The MTA estimates that average daily ridership, after the project is completed, will increase by 43,500 in 2019 and by 65,000 in 2030.

Table 3: Purchase Plan for Up To 260 New and Replacement Light Rail Vehicles

| Year | Existing Number of Vehicles | Purchase of New Vehicles and Removal of Vehicles at End of Service | | | | | Net Increase |
|--------------|-----------------------------|--|--|---------------------------------|--------------------------------|---|--------------|
| | | Phase I - Increase Fleet by 24 Vehicles | Option I - Increase Fleet by 40 Vehicles | Phase II – Replace 151 Vehicles | Remove End of Service Vehicles | Option II - Increase Fleet by 45 Vehicles | |
| 2014-15 | 151 | | | | | | 151 |
| 2015-16 | 151 | | | | | | 151 |
| 2016-17 | 151 | 6 | | | | | 157 |
| 2017-18 | 157 | 18 | | | | | 175 |
| 2018-19 | 175 | | 18 | | | | 193 |
| 2019-20 | 193 | | 14 | | | | 207 |
| 2020-21 | 207 | | 8 | 5 | (5) | | 215 |
| 2021-22 | 215 | | | 24 | (24) | | 215 |
| 2022-23 | 215 | | | 24 | (24) | | 215 |
| 2023-24 | 215 | | | 24 | (24) | | 215 |
| 2024-25 | 215 | | | 24 | (18) | | 221 |
| 2025-26 | 221 | | | 24 | (24) | | 221 |
| 2026-27 | 221 | | | 24 | (24) | | 221 |
| 2027-28 | 221 | | | 2 | (8) | 22 | 237 |
| 2028-29 | 237 | | | | | 23 | 260 |
| Total | | 24 | 40 | 151 | (151) | 45 | |

Source: San Francisco Municipal Transportation Agency, Budget and Legislative Analyst's Office

As shown in Table 3 above, under the proposed contract, Siemens would deliver the vehicles in phases with the largest number of vehicles coming between 2021 and 2028 to replace the existing fleet of Breda light-rail vehicles.

FISCAL IMPACT

The proposed resolution would authorize a not-to-exceed contract amount of \$1,192,651,577 for the costs to provide up to 260 new light-rail vehicles including 85 optional vehicles and the associated spare parts, training and documentation.

Escalation Allowance

The initial price per light-rail vehicle for the first 24 light-rail vehicles in Phase I is \$3,327,350. The proposed contract between the MTA and Siemens includes an escalation allowance to provide for the costs of inflation on labor and materials that Siemens may apply to: (1) Phase II (151) light-rail vehicles, (2) all option (up to 85) light-rail vehicles, (3) training simulators, and (3) spare parts for the Phase II and optional light-rail vehicles.

For Phase II light-rail vehicles and associated parts and simulators: the MTA will calculate the base index rate using the three-month average of Unit Labor Cost Index and the Producer Price

Index as published by the U.S. Bureau of Labor and Statistics. The escalation costs will then be compared to the three-month period prior to May 15, 2020, which is one-year prior to the delivery of the first Phase II light-rail vehicle.

For the optional light-rail vehicles parts and simulators: the MTA and Siemens will negotiate and set the escalation allowance at the time the City exercises its option.

However, as noted above, the total not-to-exceed contract amount is \$1,192,651,577.

Contract Costs

Table 4 below shows the base and estimated escalation costs that MTA would pay to Siemens under the proposed not-to-exceed contract amount of \$1,192,651,577.

Table 4: Total Estimated Costs for All Phases and Options Including Annual Escalation⁴

| Phase I and Phase II | Initial Cost | Estimated Escalation | Total |
|---|----------------------|-----------------------------|------------------------|
| Phase II Light-Rail Vehicles (151) | \$502,414,750 | \$129,483,215 | \$631,897,965 |
| Phase I Spare Parts | 14,153,840 | 3,647,753 | 17,801,593 |
| Train Simulator | 1,704,650 | 169,221 | 1,873,871 |
| Design, Project Management, and Testing | 37,541,102 | 0 | 37,541,102 |
| Allowance for Regulatory Changes | 10,000,000 | 0 | 10,000,000 |
| Phase I Vehicles (24 – not escalated) | 79,854,000 | 0 | 79,854,000 |
| Manuals | 809,478 | 0 | 809,478 |
| Training | 361,557 | 0 | 361,557 |
| Special Tools and Equipment | 1,792,624 | 0 | 1,792,624 |
| Subtotal, Phase I and Phase II | \$648,632,001 | \$133,300,189 | \$781,932,190 |
| Option I | | | |
| Light-Rail Vehicles (40) | \$133,160,440 | \$12,329,932 | \$145,490,372 |
| Train Simulator | 1,704,650 | 157,841 | 1,862,491 |
| Optional Spare Parts | 15,000,000 | 1,388,918 | 16,388,918 |
| Additional Spare Parts | 11,269,527 | 1,043,497 | 12,313,024 |
| Subtotal, Option I | \$161,134,617 | \$14,920,188 | \$176,054,805 |
| Subtotal, Phases I/II and Option I | \$809,766,618 | \$148,220,377 | \$957,986,995 |
| Option II | | | |
| Light-Rail Vehicles (45) | \$149,805,495 | \$84,859,087 | \$234,664,582 |
| Subtotal, Option II | \$149,805,495 | \$84,859,087 | \$234,664,582 |
| Total | \$959,572,113 | \$233,079,464 | \$1,192,651,577 |

Source: San Francisco Municipal Transportation Agency, Budget and Legislative Analyst's Office

The proposed resolution approves only the contract costs between the MTA and Siemens and does not reflect the costs for sales tax, project support costs, and a five percent project contingency. According to Ms. Nguyen those costs will be included in the MTA biennial capital

⁴ On a budgetary basis, the MTA assumed 4 percent annual inflation for the escalation allowance. Actual escalation costs will vary depending on actual inflation in the Unit Cost Labor Index, the Producer Price Index, and subsequent negotiations between the MTA and the

budgets, through FY 2028-29, that are subject to Board of Supervisors appropriation approval. The MTA estimates these associated costs at a total of \$231,821,650 and is currently planning on paying these costs with the same funding sources used to pay for the light-rail vehicles as explained below

Sources of Funds

MTA has identified funds for \$957,986,995 of the contract not-to-exceed amount of \$1,192,651,577 to fund Phase I, Phase II and Option I, providing for the purchase of 215 of the proposed 260 light-rail vehicles, as shown in Table 5 below. MTA has not yet identified the balance of \$234,664,582 (see Table 4 above) to fund the 45 light-rail vehicles under Option II.

Table 5: Proposed Revenue Sources for Light-Rail Vehicle Contract

| Sources | Total |
|--|----------------------|
| Phase I and Phase II (175 Light-Rail Vehicles) Revenues | |
| Central Subway Project Funding (Combined State and Federal Funds) | \$24,000,000 |
| Metropolitan Transportation Commission Funding | 517,096,972 |
| Proposition K Sales Tax Revenues | 133,866,733 |
| San Francisco Municipal Transportation Agency Revenue Bond Proceeds | 106,968,485 |
| Subtotal, Revenues | \$781,932,190 |
| Option I – 40 Light-Rail Vehicles | |
| State Cap and Trade Revenues from the Metropolitan Transportation Commission | 168,054,805 |
| State Infrastructure Bond Proceeds | 8,000,000 |
| Subtotal, Option I - 40 Light-Rail Vehicles | \$176,054,805 |
| Total Revenues | \$957,986,995 |

Source: San Francisco Municipal Transportation Agency

As shown in Table 5 above, the MTA is proposing to use a combination of funding for the proposed contract including: \$24,000,000 in funds from the State and Federal funds to provide light-rail vehicles when the Central Subway Project is completed, \$517,096,972 in funding from the Metropolitan Transportation Commission that will be available starting in FY 2020-21 and will be used to pay for 151 replacement vehicles, \$133,866,733 in Proposition K sales tax revenue, and \$106,968,485 in MTA revenue bond proceeds.

Revenue Bonds

The MTA's proposed financing plan for the proposed contract base amount includes \$106,968,485 in MTA revenue bond proceeds. Under the City Charter and Administrative Code, MTA revenue bond sales must be approved by the MTA Board of Directors and by the Board of Supervisors. Of that \$106,968,485, \$12,500,000 was issued in FY 2013-14, \$12,500,000 has been authorized and will be issued in FY 2014-15, and \$81,968,485 has not been authorized or issued.

According to Ms. Ariel Espiritu Santo, MTA Principal Financial Analyst, this project is included in the City's Capital Plan, which projects capital expenditures through FY 2022-23 and includes the

anticipated use of revenue bond proceeds for this project. According to Ms. Espiritu Santo, in the event that the MTA revenue bonds were not approved by the MTA Board of Directors or the Board of Supervisors, the MTA would cancel or defer \$81,968,485 in other capital projects to provide funding for the light-rail vehicles.

Cap and Trade Funds

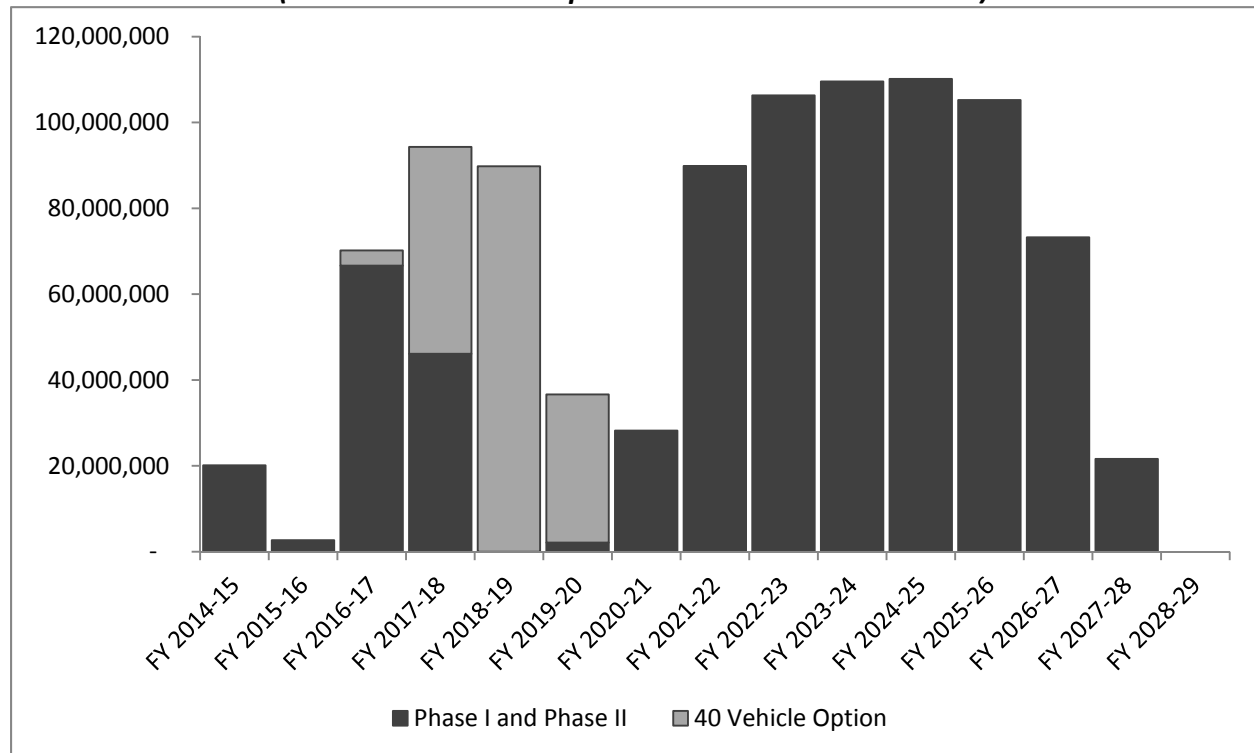
As shown in Table 5 above, the MTA financing plan for the 40 additional vehicles under Option I includes \$168,054,805 in proceeds from the State cap-and-trade program. According to Ms. Espiritu Santo, these cap-and-trade revenues would be allocated directly to the MTA, based, in part, on recommendations by the Metropolitan Transportation Commission, which has prioritized up to \$400 million in these funds to replace and enhance the existing MTA fleet of light-rail vehicles, motor coaches and trolley coaches.

While these funds have been prioritized for this purpose, these funds have not yet been secured by either the MTA or the Metropolitan Transportation Commission. According to Ms. Espiritu Santo, in the event that these funds came in under current estimates, the Metropolitan Transportation Commission would either allocate other funding for this project or the MTA would purchase fewer than anticipated vehicles.

Timing of Contract Payments

As noted above, MTA has not secured all of the funding from the proposed revenue sources shown in Table 5. Under the proposed contract, the MTA pays Siemens at the various points of delivery. As a result, the MTA is responsible for relatively small payments at the beginning and end of the contract term with larger payments owed in the middle, as shown in Chart 1 below.

**Chart 1: Anticipated Contract Payments Over the Full Term
(Includes 40 Vehicle Option and Estimated Escalation)**



Source: San Francisco Municipal Transportation Agency, Budget and Legislative Analyst’s Office

Funding for Vehicles Purchased Under Option II

As noted above, as of the writing of this report, the MTA has not identified a source of funds at an estimated cost of \$234,664,582 for the 45 light-rail vehicles to be purchased under Option II in approximately FY 2027-28 and FY 2028-29 (which MTA would need to order prior to 2024) with the expectation that the MTA would be able to secure financing for the full amount at a later date. Therefore the Budget and Legislative Analyst’s Office recommends amending the proposed resolution to require MTA to obtain Board of Supervisors approval prior to exercising Option II to purchase an additional 45 light-rail vehicles, contingent on the identification of the funding sources to pay for the estimated \$234,664,582.

Options to Purchase Additional Vehicles

Under the terms of the contract, the City may exercise its option for more light-rail vehicles within a seven-year window beginning when the MTA issues the notice to proceed. While the MTA plans to purchase an additional 85 light-rail vehicles by exercising two separate options, the proposed contract only provides for one option to purchase 85 additional light-rail vehicles within a seven-year window beginning when the MTA issues the notice to proceed. According to Ms. Nguyen, while the contract language is not written this way, the MTA and Siemens have been in discussion about this issue and appear to be in agreement.

Therefore, the Budget and Legislative Analyst’s Office recommends amending the proposed resolution to request the MTA to amend the proposed contract to include two options, option I

for 40 and option II for 45 additional light-rail vehicles respectively at the discretion of the City. As noted above, the Budget and Legislative Analyst's Office recommends that exercising option II to purchase 45 additional light-rail vehicles should be subject to future Board of Supervisors approval.

Exercising Option I

According to Ms. Nguyen, subject to the negotiations between the MTA and Siemens, if the MTA exercises the first option for 40 additional light-rail vehicles within one year after the MTA issues the notice-to-proceed, then the MTA could potentially save up to an estimated \$14,920,188 in escalation costs. However, the actual savings from exercising option I within one year after the MTA issues the notice-to-proceed will depend on several factors, including the timing of available funds from the Metropolitan Transportation Commission.

Potential Financing of Vehicle Purchase through Siemens

The proposed contract includes a provision that would allow the MTA to finance up to 40 additional vehicles through direct financing from Siemens at the sole discretion of MTA. However, as of the writing of this report, the MTA does not have details on the provisions of such financing including the term of the financing or the interest rate. Therefore, the Budget and Legislative Analyst's Office recommends amending the proposed resolution to state that any agreement between the MTA and Siemens, that would allow for direct financing of light-rail vehicles through Siemens, be subject to Board of Supervisors approval.

RECOMMENDATIONS

1. Amend the proposed resolution to request the MTA to amend the proposed contract to include two options, option I for 40 additional light-rail vehicles and option II for 45 additional light-rail vehicles respectively at the discretion of the City.
2. Amend the proposed resolution to require the MTA to obtain Board of Supervisors approval prior to exercising option II to purchase an additional 45 light-rail vehicles, contingent upon identification of \$234,664,852 in funding sources to pay for such cost.
3. Amend the proposed resolution to state that any provision, which allows the MTA to enter into a direct financing agreement for the proposed light-rail vehicles with Siemens be subject to Board of Supervisors approval.
4. Approve the proposed resolution as amended.

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| <p>Item 9 File 14-0810</p> | <p>Departments: Real Estate Division Mayor’s Office of Housing and Community Development (MOHCD)</p> |
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EXECUTIVE SUMMARY

Legislative Objectives

- Resolution (a) authorizing the exchange of two City properties near McAllister Street and Ash Alley, under the Mayor’s Office of Housing and Community Development (MOHCD), plus an additional fee of \$2,675,000 for one San Francisco Unified School District (SFUSD) property at 1950 Mission Street; (b) adopting California Environmental Quality Act (CEQA) findings; and (c) adopting City General Plan and Planning Code findings.

Key Points

- On December 17, 2013, the Board of Supervisors approved Resolution 456-13 to transfer the jurisdiction of City property from the Real Estate Division to the Mayor’s Office of Housing and Community Development for \$4,584,000 located at McAllister and Ash Alley in anticipation of additional exchanges of properties with the SFUSD.

Fiscal Impact

- In February 2013, the Real Estate Division retained Clifford Advisory, which appraised the City-owned Parcel E at \$7,500,000 (\$256 per square foot). In April 2013, the SFUSD retained Cushman & Wakefield to apprise the same Parcel E, which determined a market value of \$7,100,000, or \$400,000 less than the City’s appraisal.
- For Lot 53, the City used the same Parcel E City per square foot appraisal rate of \$256 per square foot, to determine this 365 square foot parcel’s value was \$93,000. In exchange for the 365 square foot City-owned Lot 53, the SFUSD will grant an easement right to the City to 414 square feet of Ash Alley, which is part of Parcel E and valued at the same \$93,000, resulting in no fiscal impact from this exchange.
- In February 2013, the Real Estate Division also retained Clifford Advisory to appraise the SFUSD property at 1950 Mission Street. Assuming a mixed use five-story to seven-story retail and residential building, including parking, the appraisal valued this property between \$6,300,000 and \$9,450,000. In March 2013, the SFUSD retained Cushman & Wakefield to appraise the same 36,400 square foot 1950 Mission Street property. This appraisal concluded a market value of \$13,400,000, which is \$3,950,000 to \$7,100,000 more than the City’s appraisal.
- Based on these various property appraisals, City staff and SFUSD staff negotiated the final sale prices and proposed agreement of (a) \$7,100,000 for City Parcel E and Lot 53, including the easement, (b) \$9,775,000 for SFUSD 1950 Mission Street, and (c) \$2,675,000 payment from City to SFUSD for the difference in price.

Recommendation

- Approve the resolution.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

As a result of the damage from the Loma Prieta earthquake, San Francisco voters approved Proposition E in 1998, to remove the Central Freeway north of Market Street. In 1999, San Francisco voters approved Proposition I, requiring the City to use the proceeds from the sale of Central Freeway parcels for the Octavia Boulevard replacement project and related transportation improvements. Section 10-100.369 of the City's Administrative Code contains an Octavia Boulevard Special Fund for such revenues, which are subject to appropriation approval by the Mayor and the Board of Supervisors.

Section 23A of the City's Administrative Code, the Surplus City Property Ordinance, enacted by the Board of Supervisors in November of 2002, provides for the identification and use of surplus or underutilized City properties to be used to address the City's affordable housing priorities. The proposed resolution would transfer surplus City-owned property in exchange for San Francisco Unified School District (SFUSD) property, which would be used to develop affordable housing.

Background**City-owned Parcel E**

On January 16, 2001, the State transferred 26 parcels, formerly occupied by the Central Freeway, at no cost to the City¹. One of these 26 parcels, commonly known as Parcel E, as shown in the attached map is located on the south side of McAllister Street between Franklin and Gough Streets, at Ash Alley. This 29,255 square foot parcel, located immediately behind the San Francisco Unified School District (SFUSD) headquarters at 555 Franklin Street, is leased by the City to the SFUSD for surface employee parking. This lease extends for 50 years from January 1, 1976 through December 31, 2025, with multiple options to extend through December 31, 2074, or a total of 99 years. All of these extension options are at the sole discretion of the SFUSD and the lease has no termination provisions. Under this lease, the SFUSD currently pays the City rent of \$5,521 per month, which is \$66,252 annually, or approximately \$2.26 per square foot per year.

On December 17, 2013, the Board of Supervisors approved a resolution (File 13-1126; Resolution 456-13) to transfer the jurisdiction of this City-owned property at McAllister and Ash Alley from the Real Estate Division to the Mayor's Office of Housing and Community

¹ Pursuant to Section 72.1 of the California Streets and Highways Code and the November 29, 2000 Cooperative Agreement between the California Department of Transportation and the City and County of San Francisco.

Development (MOHCD) for \$4,584,000, making such transfer of jurisdiction effective upon the Board of Supervisors' and Mayor's approval of a subsequent exchange of property agreement with the SFUSD. At the time of the approval of Resolution 456-13, Mr. Kevin Kitchingham, Project Manager in MOHCD, reported that this jurisdictional transfer from the Real Estate Division to MOHCD was the first step of a multiple property exchange with the SFUSD to secure two surplus SFUSD properties that the City could develop for affordable housing. On December 10, 2013, the SFUSD Board of Education approved a motion for SFUSD staff to (a) sell 1950 Mission Street to MOHCD for \$9,775,000, (b) sell 1101 Connecticut Street to MOHCD for \$1,825,000,² (c) purchase the City-owned Parcel E from MOHCD for \$7,100,000, (d) resulting in MOHCD paying a net balance of \$4,500,000 to SFUSD based on the difference in value for these property transfers, and (e) negotiate other terms and conditions with MOHCD regarding these purchase agreements.

City-owned Lot 53

An additional small City-owned parcel, known as Lot 53, located at 380 Fulton Street, is a triangle shaped 365 square foot lot, adjacent to Ash Alley, Parcel E and the SFUSD's 555 Franklin Street building as shown in the attached map. Mr. John Updike, Director of Real Estate advises that when the immediately adjacent Parcel F was approved for sale and mixed use development by the nonprofit Boys and Girls Club, this small Lot 53 parcel was purposefully separated from that transaction with the intent to convey this small City-owned parcel to the SFUSD in a subsequent transaction. Mr. Updike notes that currently SFUSD has heating and cooling equipment on this otherwise vacant parcel.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (a) authorize the exchange and conveyance of two City-owned properties near McAllister Street and Ash Alley (Parcel E and Lot 53), both under the jurisdiction of MOHCD, plus an additional fee of \$2,675,000 payable by MOHCD to the San Francisco Unified School District (SFUSD) for MOHCD to receive one SFUSD property at 1950 Mission Street; (b) adopt California Environmental Quality Act (CEQA) findings; and (c) adopt City General Plan and Planning Code findings.

If the proposed resolution is approved, the City and the SFUSD would enter into an Agreement for the Exchange and Conveyance of Real Estate, which contains the following major provisions:

² The additional SFUSD property at 1101 Connecticut Street, which is currently under CEQA review, may be part of a separate property transaction between MOHCD and SFUSD, which would be subject to future review and approval by the Board of Supervisors.

- The City owns Parcel E and Lot 53, which together have a fair market value of \$7,100,000;
- The SFUSD owns 1950 Mission Street which has a fair market value of \$9,775,000;
- The City wishes to acquire the SFUSD property at 1950 Mission Street and the SFUSD wishes to acquire the two City-owned properties named Parcel E and Lot 53 through an exchange and additional payment by the MOHCD to SFUSD of \$2,675,000 (\$9,775,000 less \$7,100,000) to cover the difference in fair market values of the exchanged properties; and
- The City reserves a nonexclusive irrevocable easement for construction, installation, operation and other maintenance purposes for equipment, fixtures, street lights, power lines and related facilities on Parcel E for future surface or underground public utility purposes.

The proposed resolution would also (a) authorize the Director of Property and the Director of MOHCD to execute the final Exchange Agreement on behalf of the City; (b) authorize the Mayor, Clerk of the Board of Supervisors, Director of Property and Director of MOHCD to enter into any other documents necessary or advisable to complete the transactions contemplated in the proposed Exchange Agreement that are determined to be in the best interest of the City, do not materially increase the obligations and/or materially decrease the benefits to the City; and (c) prospectively approve all such actions by the Board of Supervisors.

If the proposed resolution is approved, Mr. Updike estimates that all the exchanges of properties would occur before the end of calendar year 2014. Mr. Updike advises that SFUSD currently plans to retain Parcel E for parking and Lot 53 for storage of equipment for SFUSD's headquarters at 555 Franklin Street with potential for long-range development plans, which have not yet been detailed. Mr. Kitchingham advises that MOHCD plans to develop the subject 1950 Mission Street parcel for 100% affordable multi-family housing, with an anticipated developer Request for Proposal (RFP) issued by the end of calendar year 2014. Predevelopment funds of approximately \$2,000,000 are available in the recently approved MOHCD FY 2014-15 budget.

The proposed resolution would adopt the CEQA findings contained in the Department of City Planning documents dated July 8, 2013, which found that the proposed exchange of properties is categorically exempt from environmental review. In addition, the proposed resolution would find that the proposed exchange of properties is consistent with the City's General Plan and the eight priority policies of Planning Code Section 101.1 as determined by the Department of City Planning letter dated January 28, 2014.

FISCAL IMPACT

City-owned Parcel E

In February 2013, the Real Estate Division retained Clifford Advisory, a private real estate valuation firm, which appraised the 29,255 square foot Parcel E at \$7,500,000 (\$256 per square foot), assuming an approximate 5-story mixed use residential structure could be developed, consistent with the City's current zoning.

In April 2013, the SFUSD retained Cushman & Wakefield, a private real estate valuation firm, to appraise the same 29,255 square feet Parcel E. This appraisal concluded a market value of \$7,100,000 for Parcel E, or \$400,000 less than the City's appraisal.

City-owned Lot 53

Mr. Updike reports that using the same Parcel E City per square foot appraisal rate of \$256 per square foot, this 365 square foot parcel's value was appraised at \$93,000. Mr. Updike notes that, although the City currently owns this Lot 53 small parcel, the SFUSD currently leases this property, under an assignment of a previous long-term lease with the State Bar of California. Therefore, according to Mr. Updike, transferring title and conveying ownership of this small Lot 53 to the SFUSD will relieve the City of any ongoing liabilities on this property.

In exchange for the 365 square foot City-owned Lot 53, the SFUSD will grant an easement right to the City to 414 square feet of Ash Alley, highlighted in the attached map, which is part of Parcel E. Mr. Updike advises that the value of the 414 square foot easement is approximately the same \$93,000. Mr. Updike therefore reports that the transfer of the 365 square foot Lot 53 from the City to SFUSD and the transfer of the easement rights to the 414 square foot parcel by the SFUSD to the City result in no fiscal impact from this exchange.

Mr. Updike explains that this public service easement is needed for the adjacent Parcel F, to assist the Boys & Girls Club during construction of this Parcel F site. Mr. Updike reports that this easement will save significant construction costs on Parcel F by allowing PG&E to locate a transformer to bring power to this site.

SFUSD-owned 1950 Mission Street

In February 2013, the Real Estate Division also retained Clifford Advisory to appraise the value of the SFUSD-owned property at 1950 Mission Street, between 15th and 16th Streets. This .84 acre (36,400 square foot) parcel was the former Phoenix High School, which currently has 12 obsolete temporary classroom structures on the perimeter with an asphalt playground in the center. The SFUSD has declared the 1950 Mission Street property surplus and therefore is

available for market rate sale for other public agencies use. Assuming a mixed use five-story to seven-story retail and residential building, including parking, the appraisal valued this property between \$6,300,000 and \$9,450,000.

In March 2013, the SFUSD retained Cushman & Wakefield to appraise the same 36,400 square foot 1950 Mission Street property. This appraisal concluded a market value of \$13,400,000, which is \$3,950,000 to \$7,100,000 more than the City’s appraisal.

Based on these various property appraisals, Mr. Updike advises that City staff and SFUSD staff negotiated the final sale prices and proposed agreement of

- (a) \$7,100,000 for City-owned Parcel E and Lot 53, including the easement on Ash Alley,
- (b) \$9,775,000 for SFUSD-owned 1950 Mission Street,
- (c) \$2,675,000 payment from City (MOHCD) to SFUSD.

The Table below summarizes the various appraisals and the final negotiated proposed agreement.

| Property | Clifford Advisory Appraisal | Cushman & Wakefield Appraisal | Negotiated Amount |
|---|------------------------------------|--|--------------------------|
| City Parcel E | \$7,500,000 | \$7,100,000 | 7,100,000 |
| City-owned Lot 53/ Rights to Easement | 93,000 | NA | 0 |
| SFUSD 1950 Mission Street | \$6,300,000-\$9,450,000 | 13,400,000 | 9,775,000 |
| Payment to SFUSD by City (MOHCD) of Difference | | | \$2,675,000 |

Mr. Kitchingham confirms that Federal Community Development Block Grant funds are included in the MOHCD’s FY 2014-15 off-budget grant approvals to fund this transaction. The proposed Exchange and Conveyance Agreement would be subject to certification by the City’s Controller that the required \$2,675,000 funding is available to complete this transaction.

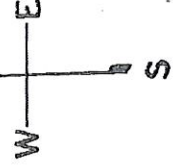
POLICY CONSIDERATION

As discussed above, although the Parcel E City appraisal was \$7,500,000, given the SFUSD's long-term parking lease agreement on Parcel E, the development potential of the property would need to be deferred 62 years if a party other than the SFUSD were to purchase the parcel, minimizing Parcel E's present value to \$4,584,000³. As noted above, on December 17, 2013, the Board of Supervisors approved Resolution 456-13 to transfer Parcel E from the Real Estate Division to the MOHCD for this present value of \$4,584,000, making such transfer effective upon this subsequent exchange and conveyance property agreement. Upon approval of the subject resolution, MOHCD will pay the Real Estate Division \$4,584,000 for the jurisdictional transfer of Parcel E. MOHCD will use General Fund monies previously appropriated by the Board of Supervisors for Low Income Housing-Affordable Family Rental Housing in the MOHCD FY 2013-14 and FY 2014-15 budgets to pay for the subject Parcel E. The \$4,584,000 to be paid by the MOHCD to the Real Estate Division for Parcel E would be deposited into the Octavia Boulevard Special Fund.

RECOMMENDATION

Approve the resolution.

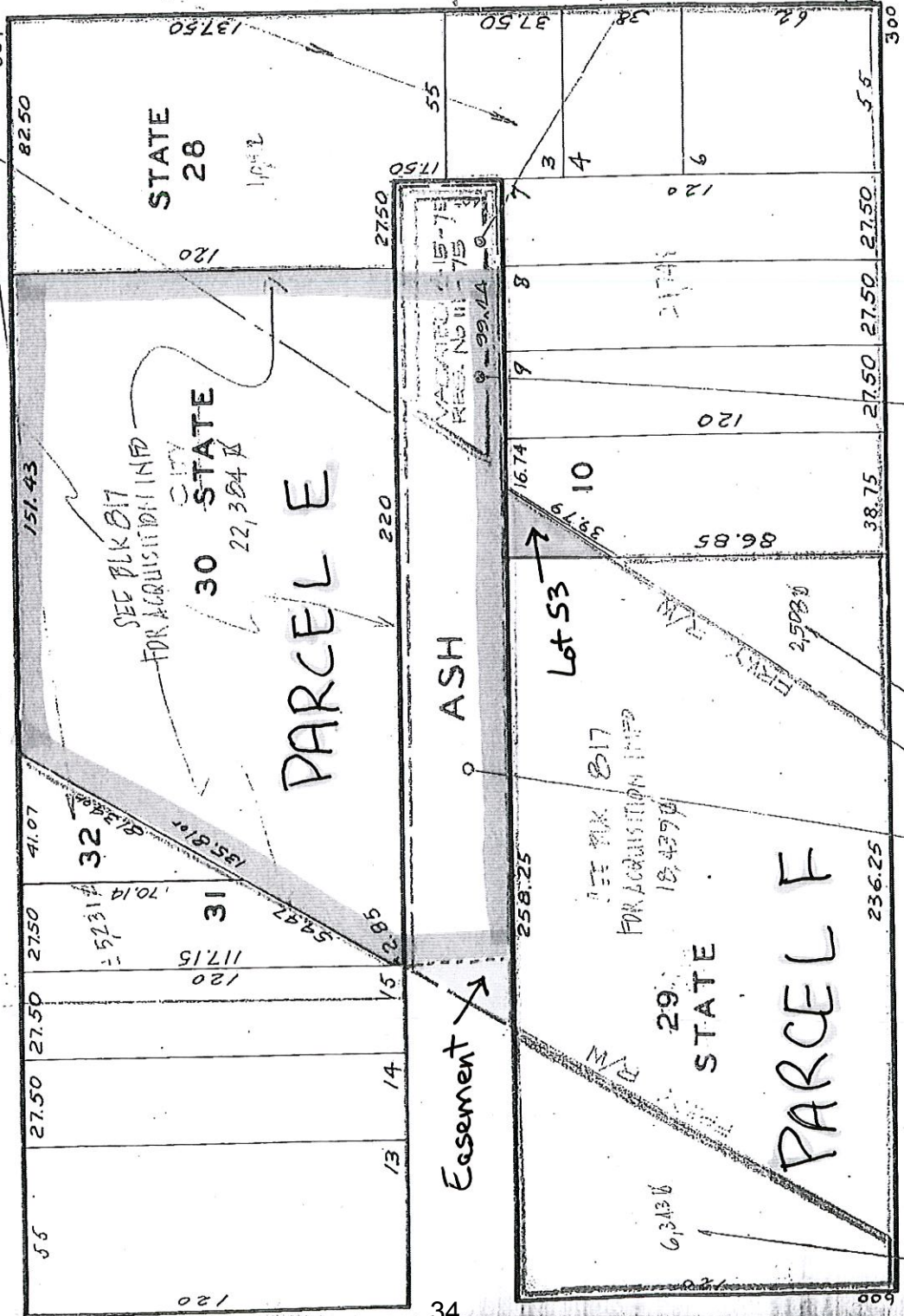
³ The \$2,916,000 difference between the \$7,500,000 market value without the long-term lease and the \$4,584,000 present value with the long-term lease represents the leasehold interest value held by the SFUSD under the terms of the existing Parcel E parking lease.



FROM: STATE OF CALIF. 10-10-75
BY: RES. 10-10-75
REG. 12-22-98 REEL H 286 W. 58
AREA = 37,841 P. 10,750

FROM: STATE OF CALIF.
(CONV. 12-15-75)
REG. 12-22-98 REEL H 286 W. 58
AREA = 37,841 P. 10,750

MCALLISTER



FRANKLIN

STATE 28

CITY STATE 30

PARCEL E

ASH

Lot 53

STATE 29

PARCEL F

FULTON

QUILICANA FROM: STATE OF CALIF. 10-10-75
BY: RES. 10-10-75
REG. 12-22-98 REEL H 286 W. 58
AREA = 6,343 + 2,508 = 8,851 P.

VACATED: 10-10-75
TO: STATE OF CALIF.
BY: ORD. 443-75

TO: SFRA
BY: RES. 11-75
G.O.D. REC. 1-15-76

Item 10
File 14-0742

Department:
San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- Proposed resolution would amend an existing contract between the Airport and the Bombardier Transportation (Holdings) USA Inc. (Bombardier) to increase contract not-to-exceed amount by \$1,848,174 from \$98,700,000 to \$100,548,174 in order to replace 128 display signs, replace the uninterrupted power supply system, replace flooring on 38 train cars, and to provide a \$300,000 contingency for any additional needed equipment repair or replacement costs that may occur through February 2017.

Key Points

- In March 1998, based on a competitive Request for Proposals process, the Airport entered into a contract with Bombardier to design, build, operate, and maintain the AirTrain system at the Airport. In December 2004, the Airport filed a lawsuit against Bombardier for contract delays and property damages, which was settled in April 2008. Under the settlement, the Airport approved a five-year contract that would begin in March 2009 through February 2014, including one option to extend the term of the contract by three years through February 2017, which was mandatory if Bombardier met performance benchmarks.
- Under the existing contract between the Airport and Bombardier, Bombardier operates and maintains the AirTrain system, including 128 light-emitting diode (LED) display signs that direct passengers and the uninterrupted power supply system that provides power to the AirTrain system and the train cars. Bombardier is also responsible for maintaining the AirTrain vehicles including the flooring. Bombardier notified the Airport in 2013 that it would no longer be able to maintain the display signs or the uninterrupted power supply system. Additionally, the flooring on the AirTrain vehicles is beginning to fail and needs to be replaced.

Fiscal Impact

- The proposed resolution would increase the existing not-to-exceed contract amount by \$1,848,174 from \$98,700,000 to \$100,548,174 in order to: (1) replace 128 display signs; (2) replace the uninterrupted power supply systems; (3) replace the flooring on 38 AirTrain vehicles; and (4) provide a contingency for any additional needed equipment repair or replacement costs that may occur through February 2017.
- Based on the analysis by the Budget and Legislative Analyst's Office, the Airport decreased its requested costs for sales tax and project management costs by \$4,340.

Recommendations

- Amend the proposed resolution to reduce the proposed contract not-to-exceed amount by \$4,340 from a not-to-exceed amount of \$100,548,174 to a not-to-exceed amount of \$100,543,834.
- Approve the proposed resolution as amended.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

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

Background

In March 1998, based on a competitive Request for Proposals process, the Airport entered into a two-phase contract with Bombardier Transportation (Holdings) USA Inc. (Bombardier), to (Phase I) design, construct, and install the light rail air train system (AirTrain) and (Phase II) operate and maintain the AirTrain system through February 2009.

In December 2004, the Airport filed a lawsuit against Bombardier for contract delays and property damages. Parties to the lawsuit settled their dispute in April 2008. The settlement included a provision that allowed the Airport to recover costs through performance incentives in the service contract for operations and maintenance with Bombardier. Per the settlement, the Airport would approve a five-year contract that would begin in March 2009 through February 2014.

In November 2008, the Board of Supervisors approved an ordinance (File 08-0942) that approved a five-year contract, from March 2009 through February 2014, for Bombardier to operate and maintain the AirTrain system. The Board of Supervisors also exempted the contract from competitive request for proposal provisions since the contract was awarded as a result of a legal settlement and since the original contract between the Airport and Bombardier had been awarded under a competitive Request for Proposals process.

The approved contract included one option to extend the term of the contract by three years through February 2017, which was mandatory if Bombardier met performance benchmarks, and two additional one-year options to extend the term of the contract through February 2019 at the sole discretion of the Airport.

In December 2013, the Board of Supervisors approved a resolution (File 13-0879) that approved the first amendment to the contract to exercise the option to extend the term of the contract by three years, from March 2014 through February 2017 and increasing the total not-to-exceed contract amount by \$42.2 million from \$56.5 million to \$98.7 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment to the existing contract between the Airport and Bombardier to increase the total not-to-exceed contract amount by \$1,848,174 from \$98,700,000 to \$100,548,174 in order to replace outdated equipment and to provide a contingency for any additional needed equipment repair or replacement costs that may occur through February 2017.

Under the existing contract between the Airport and Bombardier, Bombardier operates and maintains the AirTrain system, including 128 light-emitting diode (LED) display signs that direct passengers and the uninterrupted power supply (UPS) system that provides power to the AirTrain system and the train cars.

FISCAL IMPACT

The proposed resolution would increase the existing not-to-exceed contract amount by \$1,848,174 from \$98,700,000 to \$100,548,174 in order to: (1) replace 128 display signs; (2) replace the uninterrupted power supply systems; (3) replace the flooring on 38 AirTrain vehicles; and (4) provide a contingency for any additional needed equipment repair or replacement costs that may occur through February 2017.

Display Signs

The Airport would pay \$655,805 to replace 128 light-emitting diode (LED) display signs. Bombardier installed the signs in calendar year 2000 during phase 1 of the initial contract and manufacturers are no longer making spare parts. In December 2013, Bombardier notified the Airport that it would not be able to repair and maintain the existing display signs.

The \$655,805 will pay to replace the LED display signs with new liquid crystal display (LCD) signs including the cost of the signs, components, and software as well as the costs of removing the old signs and installing the new signs, as shown in Table 1 below.

Table 1: Costs of Replacing AirTrain Display Signs

| | |
|---|------------------|
| Materials and Supplies Including Shipping and Sales Tax | \$404,765 |
| Project Soft Costs Including Project Management | 141,040 |
| Labor | 70,000 |
| Sign Content | 25,000 |
| Training, Testing, and Demonstration | 15,000 |
| Total | \$655,805 |

Backup Power Replacement

The Airport would pay \$550,172 to replace the aging uninterrupted power supply system that guarantees that the AirTrain system continues operating in the event of a power interruption.

Bombardier installed the existing uninterrupted power supply system in calendar year 2000 during phase I of the initial contract and notified the Airport in July 2013 that the system is approaching the end of its useful life and needs to be replaced. Table 2 below summarizes the costs of replacing the uninterrupted power supply system.

Table 2: Costs of Replacing AirTrain Uninterrupted Power Supply System

| | |
|--------------------------------------|------------------|
| Materials and Shipping and sales tax | \$441,983 |
| Labor | 36,427 |
| Project Management | 71,762 |
| Total | \$550,172 |

AirTrain Vehicle Flooring and Contingency

The Airport would pay \$342,197 to pay for new flooring in the AirTrain vehicles including \$311,088 to install the flooring on 38 AirTrain vehicles and \$31,109 for project management costs. According to Airport staff, the glue on the AirTrain vehicle flooring tiles has deteriorated and the glue is separating from the carpeting.

In addition to the anticipated costs for the display signs, the uninterrupted power supply system, and for the vehicle flooring, the proposed contract includes \$300,000 as a contingency for any additional needed equipment repair or replacement costs that may occur through February 2017.

Based on the analysis by the Budget and Legislative Analyst’s Office, the Airport revised its estimated costs for sales tax and project management costs, as shown in Table 3 below.

Table 3: Contract Amount After Revised Sales Tax and Project Management Fee Calculations

| | Requested Contract Amount | Budget And Legislative Analyst’s Office Recommended Contract Amount | Increase / (Decrease) |
|------------------------|--------------------------------------|--|----------------------------------|
| Display Screens | \$655,805 | \$658,043 | \$2,238 |
| Backup Power Supply | 550,172 | 544,007 | (6,165) |
| Flooring | 342,197 | 341,784 | (413) |
| Contingency | 300,000 | 300,000 | - |
| Total | \$1,848,174 | \$1,843,834 | (\$4,340) |

Therefore, the Budget and Legislative Analyst’s Office recommends reducing the total not-to-exceed contract amount by \$4,340 from a not-to-exceed amount of \$100,548,174 to a not-to-exceed amount of \$100,543,834.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the proposed contract not-to-exceed amount by \$4,340 from a not-to-exceed amount of \$100,548,174 to a not-to-exceed amount of \$100,543,834.
2. Approve the proposed resolution as amended.