

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

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February 27, 2015

TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst



SUBJECT: March 4, 2015 Budget and Finance Sub-Committee Meeting

TABLE OF CONTENTS

Item	File		Page
2	15-0067	Emergency Contracts – Design Space Modular Buildings, Inc., McGuire and Hester, and Albert Electric – Interim Fire Station 48 – Not to Exceed \$2,700,000	1
7	15-0110	Contract Approval – United States Department of Energy – Lawrence Livermore National Laboratory – Estimated Revenue of \$29,865,584	7
8	15-0016	Reserved Funds – Department of Environment - \$550,688	11
9	15-0027	Building Code – Temporary Fee Reduction	16
10	15-0044	Waiving Competitive Bidding Requirement – Construction Contract – Pneumatic Tube Products Company – San Francisco General Hospital – Not to Exceed \$951,887	19
11	15-0152	License and Services Agreement – Airport Research and Development Foundation, a Not-For-Profit Corporation - Application-Based Commercial Ground Transportation Trip Fee Collection Services	26

<p>Item 2 File 15-0067 <i>(Continued from February 25, 2015)</i></p>	<p>Department: Department of Public Works (DPW)</p>
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EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would approve four emergency public works contracts under Administrative Code, Section 6.60 to construct a temporary modular fire station on Treasure Island for a total amount not to exceed \$2,700,000 for the four contracts collectively.

Key Points

- During an inspection on March 2014, mold was discovered in Fire Station 48 on Treasure Island. In consultation with a mold consultant, the Department of Public Works (DPW) declared the facility unusable, and temporarily moved the fire operations to the nearby San Francisco Fire Department (SFFD) training facility on Treasure Island.
- Construction of a new permanent fire station is planned as part of the Treasure Island redevelopment. However, it will not be constructed for approximately eight years, or until 2023. Therefore, SFFD needs a temporary fire station in the interim.
- In October 2014, the DPW Director declared an emergency situation and awarded four construction contracts to build a temporary fire station. The construction is currently underway, and SFFD expects to move into the temporary fire station by April 2015.

Fiscal Impact

- The total project cost for the temporary fire station on Treasure Island is \$3,000,000, of which \$2,700,000 is for the four contracts, and \$300,000 is for DPW costs and reserves. Of the \$3,000,000, \$1,500,000 was previously appropriated in SFFD’s FY 2014-15 budget, and the \$1,500,000 comes from Earthquake Safety and Emergency Response (ESER) bonds.

Policy Consideration

- The Budget and Legislative Analyst does not consider the construction of a temporary fire station on Treasure Island to be an emergency as defined by Administrative Code Section 6.60. Mold was discovered in Treasure Island Fire Station 48 in March of 2014, which is almost one year ago.
- ESER General Obligation Bonds are intended for long-term seismic and safety improvements to neighborhood fire stations, and DPW is now recommending use of ESER bond proceeds to fund a temporary, modular fire station on Treasure Island.

Recommendations

- Members of the Board of Supervisors should consider proposing an ordinance amending the Administrative Code to limit the ability of departments to award emergency contracts and waive the competitive bidding process, and should confer with the City Attorney about options.
- Approval of the proposed resolution is a policy matter because (1) the resolution waives the competitive bid process for four contracts under Administrative Code Section 6.60 although these contracts could have been awarded through the City’s normally required competitive bid procedures; and (2) the construction of the temporary modular fire station on Treasure Island will be partially funded by ESER bond proceeds, which are intended for long-term seismic and safety improvements to the neighborhood fire stations.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

Administrative Code Section 6.60(D) states that contracts entered into for emergency work in the amount of \$250,000 or more are subject to Board of Supervisors approval. Section 6.60(D) also states that if the emergency work must be accomplished prior to obtaining Board of Supervisors approval, department heads may enter into the necessary contract, notify the Controller and Board of Supervisors, and seek Board of Supervisors approval as soon as conditions permit.

The Administrative Code defines an “actual emergency” as a sudden, unforeseeable and unexpected occurrence involving a clear and imminent danger, demanding immediate action to prevent or mitigate loss of or damage to life, health, property or essential public services. An actual emergency also means the discovery of any condition involving a clear and imminent danger to public health or safety, and demanding immediate action.

Background

Since the U.S. Navy closed operations on Treasure Island and Yerba Buena Island in 1997, the San Francisco Fire Department (SFFD) has provided emergency services for both islands operating out of Fire Station 48, a former Navy fire station located at 849 Avenue D on Treasure Island.

During an inspection by Pro Tech Consulting and Engineering on March 6, 2014, mold was discovered in Fire Station 48. Immediately upon learning this, SFFD moved firefighters and operations from the station to the nearby SFFD training facility located at 649 Avenue N on Treasure Island. SFFD converted classrooms into living quarters and created a temporary fire station at their training facility.

On March 28, 2014, the Department of Public Works (DPW), along with a mold consultant, released a rapid assessment report of Fire Station 48 stating the mold abatement costs would be approximately \$4,000,000. This cost does not include other building conditions that are not currently in compliance with the code and would need to be addressed, including a separate men’s and women’s bathroom and full Americans with Disabilities Act (ADA) accessibility. Given the circumstances, the report recommended that SFFD not rehabilitate the property.

Under the Disposition and Development Agreement between the Treasure Island Development Authority (TIDA) and the master developer, Treasure Island Community Development, the master developer will be required to construct a new joint-use police and fire station on Treasure Island, in approximately 2023 or eight years. SFFD is unable to use the existing Fire Station 48 because of the mold condition which is a danger to firefighters in the facility. Since construction of a new station is not planned for approximately eight years, SFFD wants to construct a temporary fire station on Treasure Island. SFFD does not consider long term use of

the training facility as a fire station to be feasible because the training facility does not provide covered space for fire apparatus, and the facility is needed for fire academies.¹

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve four emergency public works contracts under Administrative Code, Section 6.60 with (1) Design Space Modular Buildings, Inc. (two separate contracts), (2) McGuire and Hester, and (3) Albert Electric to expedite procurement and installation of temporary modular structures and related infrastructure to serve as a temporary fire station on Treasure Island including: water, sewer, electrical design, emergency alarms, telecom/data and public address systems to house fire operations on Treasure Island for a total amount not to exceed \$2,700,000 for the four contracts collectively.

SFFD requested funding from the Director of Capital Planning in April 2014 to construct a temporary fire station on Treasure Island. The SFFD FY 2014-15 budget as previously appropriated by the Board of Supervisors included \$1.5 million to construct a temporary fire station on Treasure Island.

SFFD provided information and specifications of the modular structures and infrastructure to the Office of Contract Administration (OCA) in July 2014 with the intention that the project would go out to bid in August 2014. However, upon reviewing the materials, the City Administrator recommended that the project be reassigned to DPW. In a September 22, 2014 letter to DPW, the Fire Chief requested that DPW expedite the construction of a temporary fire station on Treasure Island until the new permanent fire station is constructed in 2023. At the request of the TIDA Director, the Director of DPW declared an emergency on October 7, 2014 due to the lack of adequate fire facilities on Treasure Island, and awarded the four contracts to construct the temporary facility without conducting a competitive bid (see Policy Consideration Section below).

FISCAL IMPACT

The total estimated project costs for the temporary fire station on Treasure Island is \$3,00,000, of which \$2,700,000 is for the four emergency contracts noted above and \$300,000 is for DPW in-house design and project management and project contingencies. \$1,500,000 was previously appropriated by the Board of Supervisors in SFFD's FY 2014-15 budget, and the balance of \$1,500,000 will come from Earthquake Safety and Emergency Response (ESER) General Obligation Bond proceeds, previously appropriated by the Board of Supervisors for neighborhood fire station improvements. Although \$2,500,000 was originally expected to cover the construction costs, they have increased to \$2,700,000. According to Ms. Simone Jacques, the \$200,000 difference will be covered by the construction contingency and project reserves.

¹ According to Assistant Deputy Chief Ken Lombardi, SFFD conducted academy classes in March 2014 and during the Fall of 2014 at a smaller training facility at Folsom Street & 19th Street.

Interim Fire Station 48 Construction Costs

DPW determined that in order to build the temporary fire station, DPW needed to procure services to construct:

1. A modular structure for barracks and operations;
2. A temporary garage structure;
3. Underground utilities infrastructure including water and sewer; and
4. Electrical and lighting infrastructure including emergency alarms, telecom/data, and public address systems.

DPW selected three contractors: Design Space Modular Buildings, McGuire & Hester, and Albert Electric to complete the four tasks necessary to build the interim fire station. Due to the emergency nature of the work, the contractors were not procured through the City's normally required competitive bid process. Such waivers to the City's normally required competitive bid process are authorized for emergency contracts in accordance with Administrative Code 6.60. According to Mr. Charles Higuera, DPW Project Manager, the contractors were selected based on their readiness to respond, as well as their prior history working with the City. Details of the four contracts which collectively total \$2,700,000 are provided in Table 1 below.

Table 1: Interim Fire Station 48 Emergency Construction Contract Details

Contractor	Item	Estimated Cost
Design Space Modular Buildings	108' x 60' modular office complex to serve as barracks and operation center	\$1,021,739
Design Space Modular Buildings	60' x 75' temporary garage structure	\$276,732
McGuire & Hester	Preparatory infrastructure work related to underground utilities	\$259,892
Albert Electric (LBE)	Electrical and lighting infrastructure for temporary structures	\$494,394
	Subtotal	\$2,052,757
	32% Contingency*	\$647,243
Total Emergency Contracts Request		\$2,700,000

According to DPW, conventionally delivered projects generally include a design contingency of 20-25%. Given the emergency nature of this contract, a larger contingency was included by DPW to account for unforeseen expenses related to design and construction including possible special hazardous material construction protocols and hazardous material remediation.

According to Mr. Higuera, the prices quoted by the three contractors are reasonable based on DPW's prior experience.

To date, DPW has expended \$286,361, and encumbered \$1,817,230 of the total \$3,000,000 project budget as shown in Table 2 below.

Table 2: Amount of Funding Expended, Encumbered & Remaining to Date

	DPW In-House Design & Project Management	Construction Contracts and Contingency	Project Reserve	Total
<u>Actual Expenditures</u>				
FY 2014-15 Budget	\$47,292	\$79,246		\$126,538
ESER 2014 Bond	19,273	140,550		159,823
Subtotal	66,565	219,796	0	286,361
<u>Encumbered</u>				
FY 2014-15 Budget		1,343,887		1,343,887
ESER 2014 Bond		473,344		473,344
Subtotal	0	1,817,231	0	1,817,231
<u>Balance</u>				
FY 2014-15 Budget	10,836	18,740		29,576
ESER 2014 Bond	247,185	488,349	131,299	866,833
Subtotal	258,021	507,089	131,299	896,409
Total	\$324,586	\$2,544,116	\$131,299	\$3,000,000

Source: DPW

Project Timeline

Construction on the interim Fire Station 48 commenced in December 2014 and is expected to be complete by March 2015. Currently, installation of site utilities at the location is underway and construction of the modular fire station is taking place off-site. SFFD is expected to move in to the interim facilities by April 2015.

POLICY CONSIDERATIONEmergency Contracts

The Budget and Legislative Analyst does not consider the construction of a temporary fire station on Treasure Island to be an emergency as defined by Administrative Code Section 6.60. Mold was discovered in Treasure Island Fire Station 48 in March of 2014, which is almost one year ago. During the planning process for the temporary facility that occurred over the last year, there were several points during which the respective City departments could have moved forward with the City's normally required competitive bid process to accomplish the work needed for construction of the temporary fire station on Treasure Island.

According to Mr. Higuera, DPW Project Manager, terminating the four existing contracts and conducting a competitive process for new contractors is not feasible at this time because construction began in December 2014 and is scheduled for completion in April 2015.

Members of the Board of Supervisors should consider proposing an ordinance amending the Administrative Code to limit the ability of departments to award emergency contracts and waive the competitive bidding process, and should confer with the City Attorney about options.

ESER Bonds

As discussed above, DPW intends to use \$1,500,000 in Earthquake Safety and Emergency Response (ESER) General Obligation Bond proceeds to partially fund DPW and contractor costs to construct the temporary fire station. Initial planning for use of the ESER bonds for the neighborhood fire stations did not include the permanent fire station on Treasure Island, which will be constructed by the developer in 2023 as part of the redevelopment of Treasure Island. Also, the ESER bonds are intended for long-term seismic and safety improvements to the neighborhood fire stations, but DPW is now recommending use of ESER bond proceeds to fund a temporary, modular fire station on Treasure Island prior to construction of the permanent fire station by the developer. Both the City Attorney's Office and the Office of Public Finance have determined that this is an allowable use of bond funds.

RECOMMENDATIONS

1. Members of the Board of Supervisors should consider proposing an ordinance amending the Administrative Code to limit the ability of departments to award emergency contracts and waive the competitive bidding process, and should confer with the City Attorney about options.
2. Approval of the proposed resolution is a policy matter for the Board of Supervisors because (1) the resolution waives the competitive bid process for four contracts under Administrative Code Section 6.60 although these contracts could have been awarded through the City's normally required competitive bid procedures; and (2) the construction of the temporary modular fire station on Treasure Island will be partially funded by Earthquake Safety and Emergency Response (ESER) bond proceeds, which are intended for long-term seismic and safety improvements to the neighborhood fire stations.

Item 7 File 15-0110	Department: San Francisco Public Utilities Commission
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <p>The proposed resolution would authorize the SFPUC General Manager to execute a new 10-year water service contract with the United States Department of Energy, retroactive from July 1, 2014 through June 30, 2024, for the SFPUC to continue delivery of Hetch Hetchy water to the U.S. Department of Energy for the Lawrence Livermore National Lab.</p> <p>Key Points</p> <ul style="list-style-type: none"> • Since June 27, 1960, the SFPUC has sold and delivered Hetch Hetchy water to the U.S. Department of Energy for the Lawrence Livermore Field Office located at 7000 East Avenue in Livermore. • In 2014 SFPUC and the U.S. Department of Energy determined that a new contract was necessary, as the original contract had been amended several times making it difficult to accurately describe the current state of affairs at the two points of water delivery service to Lawrence Livermore. • Negotiations between SFPUC and the U.S. Department of Energy occurred from April 2014 through mid-January 2015, surpassing the term of the original contract, which expired on June 30, 2014, by more than six months. • During the negotiation period, SFPUC continued to provide water service without a contract, increasing the rates charged by SFPUC to the U.S. Department of Energy to the FY 2014-15 rates effective July 1, 2014 <p>Fiscal Impact</p> <ul style="list-style-type: none"> • Under the proposed contract, SFPUC is expected to receive average annual revenues of \$2,986,558 for the sale of 441,146 centum cubic feet (CCF) of water to Lawrence Livermore at an average rate of \$6.77 per CCF. • Over the 10-year term for the Hetch Hetchy water delivery to the Lawrence Livermore Lab, the SFPUC the U.S. Department of Energy would pay the SFPUC an estimated total of \$29,865,584. <p>Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to include the correct contract dates retroactive from January 1, 2015 through December 31, 2024. • Approve the proposed resolution, as amended. 	

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

City Charter Section 9.118(a) states that contracts entered into by a department, board or commission that will generate revenue in excess of \$1 million or any modification of that contract is subject to Board of Supervisors approval.

Background

The San Francisco Public Utilities Commission (SFPUC) serves approximately 2.6 million residential, commercial, and industrial customers in the San Francisco Bay Area through a complex water supply system including reservoirs, tunnels, pipelines, and treatment systems stretching from Hetch Hetchy Reservoir in the Sierra Nevada Mountains to San Francisco. Two thirds of the wholesale water deliveries go to 26 suburban agencies in Alameda, Santa Clara, and San Mateo counties. Since June 1960, the United States (U.S.) Department of Energy's Lawrence Livermore National Lab (Lawrence Livermore) located in Alameda County, has been one of SFPUC's wholesale water customers.

Original Contract (1960-2014)

Since June 27, 1960, the SFPUC has sold and delivered Hetch Hetchy water to the U.S. Department of Energy for the Lawrence Livermore Field Office located at 7000 East Avenue in Livermore. Water for Lawrence Livermore is provided by Site 200 at Mocho Shaft and Site 300 at Thomas Shaft of the Coast Range Tunnel of the Hetch Hetchy Aqueduct. From 1960 to 2014, the U.S. Department of Energy exercised its option to renew the contract annually, adding several amendments over the past 54 years.

New Contract

According to Mr. David Briggs, SFPUC Water Supply and Treatment Division Manager, in 2014 SFPUC and the U.S. Department of Energy determined that a new contract was necessary, as the original contract had been amended several times making it difficult to accurately describe the current state of affairs at the two points of water delivery service to Lawrence Livermore. Since 1960, both SFPUC and Lawrence Livermore have added new facilities at the Thomas and Mocho shaft sites which were not fully reflected in the original contract. Determination of legal ownership of these facilities was unclear, and was clarified in the new contract.

Item D was also added which inserted language permitting SFPUC to take more restrictive measures to conserve water during severe droughts per California Water Code, Section 350. SFPUC may implement conservation measures as long as they notify the U.S. Department of Energy approximately 60 days in advance about the anticipated measures, as well as the estimated length of the measure.

Contract Negotiations

Negotiations between SFPUC and the U.S. Department of Energy occurred from April 2014 through mid-January 2015, surpassing the term of the original contract, which expired on June

30, 2014, by more than six months. According to Mr. Briggs, the six-month delay was primarily due to lengthy internal U.S. Department of Energy review periods, which led to significant delays during the back and forth of negotiations. During the negotiation period, SFPUC continued to provide water service without a contract, increasing the rates charged by SFPUC to the U.S. Department of Energy to the FY 2014-15 rates effective July 1, 2014. In the absence of a contract, the U.S. Department of Energy has continued to pay the SFPUC for the Hetch Hetchy water delivery to Lawrence Livermore National Lab. The U.S. Department of Energy is current in its payments.

Key topics of the negotiations and the new contract include:

- Ownership of property and facilities at Mocho Shaft and Thomas Shaft;
- Addition of information regarding natural gas hazards and liability;
- Changes to the Federal Acquisition Regulations requiring internal review and exchange of comments;
- Insertion of text regarding interruption of service; and
- Clarification of ownership of improvements at both locations.

According to Mr. Briggs, the contract between the SFPUC and the U.S. Department of Energy would be substantially the same as the prior contract which has been in place since 1960, with the exception of the additions and clarifications described above.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the SFPUC General Manager to execute a new 10-year water service contract with the United States Department of Energy, retroactive from July 1, 2014 through June 30, 2024, for the SFPUC to continue delivery of Hetch Hetchy water to the U.S. Department of Energy for the Lawrence Livermore National Lab. Total estimated revenues to SFPUC over the ten-year term of the contract are \$29,865,584.

On January 27, 2015, SFPUC approved Resolution No. 15-0022, authorizing the General Manager of SFPUC, following approval by the Board of Supervisors, to execute the subject contract with the U.S. Department of Energy for continued water service to Lawrence Livermore.

Contract Term

Although the proposed resolution states that the contract term is retroactive from July 1, 2014 through June 30, 2024, the contract states that the contract term is from January 1, 2015 through December 31, 2024. Therefore, the proposed resolution should be amended to include the correct contract dates.

FISCAL IMPACT

Under the proposed contract, the U.S. Department of Energy would pay the SFPUC an estimated total of \$29,865,584, based on estimated average annual revenues of \$2,986,558.40 over the 10-year term for the Hetch Hetchy water delivery to the Lawrence Livermore Lab. SFPUC conducts an independent rate survey every five years, and adjusts water rates accordingly. The water rates used to estimate total payments to SFPUC by Lawrence Livermore are based on the SFPUC Water Rate Schedule W1-C for commercial uses, which took effect July 1, 2014. The FY 2014-15 rate for commercial units of water is \$5.79 per centum cubic feet (CCF) and increases annually to \$7.65 per CCF by FY 2017-2018, averaging \$6.77 per CCF from 2014-2018.

Under the proposed contract, SFPUC is expected to receive average annual revenues of \$2,986,558 for the sale of 441,146 centum cubic feet (CCF) of water to Lawrence Livermore at an average rate of \$6.77 per CCF.

Actual revenues payable by the U.S. Department of Energy to SFPUC over the 10-year term of the proposed contract will likely be more than \$29,865,584 because the average rate per CCF over the final six years of the contract from 2019 through 2024 will likely be higher than \$6.77. The proposed contract states that “new rates will be incorporated into the contract as an Attachment, and the contract award amount, if necessary, shall be adjusted to reflect the change in rates.”

RECOMMENDATIONS

1. Amend the proposed resolution to include the correct contract dates retroactive from January 1, 2015 through December 31, 2024.
2. Approve the proposed resolution, as amended.

<p>Item 8 File 15-0016</p>	<p>Department: Department of Environment (DOE)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> The City of San Francisco’s Department of the Environment (DOE) is requesting the release of the remaining balance of \$550,688 in State grant funds awarded by the California Public Utilities Commission (CPUC) to the City of San Francisco for the Environmental Justice Program, including: (1) \$400,688 for program administrative costs for Environmental Justice Program for a two-year period; and (2) Environmental Justice Program grant awards totaling \$150,000. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> In 1998, the CPUC awarded \$13,000,000 in grant funds to the City for the purpose of mitigating environmental issues caused by the Bayview-Hunters Point and Potrero power plants. In 1999, the Board of Supervisors placed the entire \$13,000,000 on reserve, pending submission of budget and programmatic details pertaining to the grant monies to be expended by the DOE. The Board of Supervisors has previously approved six releases of reserved funds for a total of \$12,449,312, resulting in a remaining balance of \$550,688. The requested release of reserves will fund: (1) \$400,688 for program administrative costs for Environmental Justice Program for a two-year period; and (2) Environmental Justice Program grant awards totaling \$150,000, including \$20,000 to the A. Phillip Randolph Institute, \$19,974 to Bay Institute Aquarium Foundation, and \$110,026 for future allocations of grant awards in May 2015. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> The requested release of \$550,668 in funds includes \$306,124 in DOE staff costs to administer the Environmental Justice Program, \$150,000 in grant awards, \$75,564 in overhead costs, and \$19,000 in other administrative costs. DOE plans to release a second Request for Proposals to allocate the remaining \$110,026 in grant awards in May 2015. The Budget and Legislative Analyst recommends releasing \$440,662 and retaining the final \$110,026 on Budget and Finance Committee Reserve until final recommendations on allocation of grant awards have been made. 	
<p style="text-align: center;">Recommendations</p>	
<ul style="list-style-type: none"> Approve the release of \$440,662 on Budget and Finance Committee Reserve for the Environmental Justice Program. Retain \$110,026 in funds on Budget and Finance Committee Reserve for future allocation of grant awards for the Environmental Justice Program. 	

MANDATE STATEMENT

In accordance with section 3.3 of the City's Administrative Code, the committee of the Board of Supervisors that has jurisdiction over the budget (i.e., Budget and Finance Committee) may place requested expenditures on reserve until released by the Budget and Finance Committee of the Board of Supervisors.

BACKGROUND

In 1998, the California Public Utilities Commission (CPUC) awarded \$13,000,000 in grant funds to the City and County of San Francisco for the purpose of mitigating environmental issues caused by the Bayview-Hunters Point and Potrero power plants. In 1999 the Board of Supervisors placed the entire \$13,000,000 on reserve, pending submission of budget and programmatic details pertaining to the grant monies to be expended by the Department of the Environment (DOE).

In April 2001, the Mayor's Office of Economic and Workforce Development and DOE submitted a plan for DOE's Environmental Justice Program to the Board of Supervisors, which addressed the environmental pollution and energy concerns of the southeast area of the City. Scope of work for the Environmental Justice Program includes providing grants to nonprofit organizations in the Potrero and Bayview-Hunters Point neighborhoods that operate community health, environmental justice and energy programs, and providing support to the City's environmental programs related to energy efficiency, reduction of vehicle emissions, brownfields cleanup planning, and related environmental activities. As shown in Table 1 below, of the \$13,000,000 originally awarded by the CPUC to the City in 1998, the Board of Supervisors has previously approved six releases of reserved funds for a total of \$12,449,312, resulting in a remaining balance of \$550,688.

Table 1: Board of Supervisors Approvals of Releases of Reserved Funds

File No.	Approval Date	Amount Released	Remaining Balance
01-0257	5/9/2001	\$9,615,121	\$3,384,879
03-0085	2/2/2003	342,186	3,042,693
03-1516	10/1/2003	576,544	2,466,149
08-0579	6/4/2008	813,488	1,652,661
09-0496	6/3/2009	793,264	859,397
10-0696	11/10/2010	308,709	550,688
Total		\$12,449,312	

DETAILS OF PROPOSED LEGISLATION

The City's Department of the Environment (DOE) is requesting the release of the remaining balance of \$550,688 in State grant funds awarded by the CPUC to the City for the Environmental Justice Program placed on Budget and Finance Committee reserve, including: (1) \$400,688 for program administrative costs for Environmental Justice Program for a two-year period; and (2) Environmental Justice Program grant awards allocated to nonprofit organizations totaling \$150,000.

Grant Awards

The requested release of funds will pay for \$150,000 in grants in FY 2014-15 to nonprofit organizations to provide outreach, education, and engagement services on climate change issues. Of this \$150,000, \$39,974 is allocated for an initial round of grants, and an additional \$110,026 will be allocated through a second round of grants in May 2015.

DOE will award \$39,974 in grant funds to two non-profit organizations based on a competitive Request for Proposals (RFP) that was issued on August 29, 2014, and covered four categories of service, including: 1) gardening and nutrition education services; (2) a bicycle training project; (3) a used oil pollution mural project; and (4) climate change community outreach and education services. DOE received four applications to perform climate change community outreach and education services¹. DOE empaneled a review committee² which, based on criteria in the RFP, selected the two highest scoring applicants to receive awards for climate change outreach and education services, as follows:

- \$20,000 to the A. Phillip Randolph Institute to design and implement a climate change adaptation and mitigation outreach campaign in the Bayview-Hunters Point neighborhood.
- \$19,974 to Bay Institute Aquarium Foundation to provide 30 interactive educational programs promoting climate change awareness targeted to middle and high school students at various locations in the Bayview-Hunters Point neighborhood.

Mr. Guillermo Rodriguez, Policy and Communications Director at DOE, reports that DOE will issue the second RFP to allocate the remaining \$110,026 in May 2015. This RFP will focus on community resources and training to address climate change, reducing toxic pollution and improving air quality in the Bayview-Hunters Point and Potrero Hill neighborhoods.

¹ Although DOE received three proposals for garden and nutrition education and one proposal for bicycle training, DOE did not award grants for these categories.

² The panel consisted of DOE's Development Director and Outreach Program Manager.

FISCAL IMPACT

Table 2 below shows the budget for requested release of \$550,668 in reserved funds, which includes \$373,373 in Fiscal Year 2014-15 and \$177,315 in Fiscal Year 2015-16.³

Table 2: Budget for Release of Reserve Funds for FY 2014-15 and FY 2015-16.

Category	FY 2014-15	FY 2015-16	Total
Grant Awards			
<i>A. Phillip Randolph Institute</i>	\$20,000	-	\$20,000
<i>Bay Institute Aquarium Foundation</i>	19,974	-	19,974
Subtotal Allocated Grant Awards	39,974		39,974
<i>Future RFP Allocation</i>	110,026	-	110,026
Grants Awards Subtotal	\$150,000	-	\$150,000
Administrative Costs			
<i>Salaries/Benefits</i>	\$149,329	\$156,795	\$306,124
<i>Overhead</i>	55,044	20,520	75,564
<i>Professional Services</i>	2,500	-	2,500
<i>Training</i>	500	-	500
<i>Printing</i>	500	-	500
<i>Food</i>	500	-	500
<i>City Attorney</i>	15,000	-	15,000
Administrative Costs Subtotal	\$223,373	\$177,315	\$400,688
Total	\$373,373	\$177,315	\$550,688

The \$306,124 in Salaries/Benefits will fund existing .97 FTEs to administer the Environmental Justice Program, including: (1) .22 FTE 5644 Senior Environmental Specialist; (2) .50 FTE 5642 Environmental Specialist; (3) .25 FTE 5640 Environmental Specialist.

Overhead costs represent the Environmental Justice Program's share of DOE's total overhead costs based on FTEs, and include rent, computer and phones services, office supplies, administrative staff support and other related overhead costs.

Maintain \$110,026 on Reserve pending 2nd Round of Grant Allocations

DOE plans to release a second RFP to allocate the remaining \$110,026 in grant awards in May 2015. The Budget and Legislative Analyst recommends releasing \$440,662 and that the remaining \$110,026 continue to be reserved pending completion of the RFP process and a subsequent request to release the funds subject to Board of Supervisors approval of the grant award allocations to nonprofit organizations.

³ The requested \$149,329 for salaries and benefits in FY 2014-15 would pay full-year costs for three existing positions.

RECOMMENDATIONS

1. Approve the release of \$440,662 on Budget and Finance Committee Reserve for the Environmental Justice Program.
2. Continue to reserve \$110,026 in funds on Budget and Finance Committee Reserve pending completion of the RFP process and final allocation to nonprofit organizations.

<p>Item 9 File 15-0027</p>	<p>Department: Department of Building Inspection (DBI)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • The proposed ordinance would extend the temporary 7 percent reduction of Building Code permit fees until the Board of Supervisors approves an updated Building Code permit fee schedule. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • The Department of Building Inspection (DBI) collected approximately 30 percent more permit fee revenue than budgeted in FY 2013-14, and recommended reducing fees on a temporary basis. The purpose of the fee reduction was to study DBI’s current permit fee structure and identify potential fee reductions, given historically high permit fee revenues. As part of that effort, the Controller’s Office was to review and recommend changes to DBI’s fee structure, which DBI would then use to update its fees. The Board of Supervisors approved a six month fee reduction from September 2014 to March 1, 2015. • Because the Controller’s study has not yet been completed, DBI is requesting the Board of Supervisors approve an extension of the temporary 7 percent fee reduction to the Building Code. The proposed ordinance does not provide a new end date for the temporary 7 percent fee reduction. The Budget and Legislative Analyst recommends amending the proposed ordinance to include an end date of October 31, 2015 for the temporary 7 percent reduction in Building Code permit fees. This end date of October 31, 2015 should allow sufficient time for DBI to finalize the revised Building Code permit fees, obtain Building Inspection Commission and Board of Supervisors approval, and allow for an effective date 30 days after Board of Supervisors approval. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • Based on DBI’s estimated revenues, the Budget and Legislative Analyst estimates that DBI will collect an estimated \$54,285,714 in permit fees for the eight-month period from March 1, 2015 to October 31, 2015. If the proposed ordinance is approved, DBI would collect \$3,800,000 or 7 percent less than projected, resulting in net fee revenues of \$50,485,714. 	
<p style="text-align: center;">Recommendations</p>	
<ul style="list-style-type: none"> • Amend the proposed ordinance so that the temporary 7 percent fee reduction ends on October 31, 2015. • Approve the proposed ordinance as amended. 	

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

Charter Section 2.109 requires Board of Supervisors approval by ordinance all rates, fees, or similar charges imposed by any City department.

Background

The Board of Supervisors approved a temporary 7 percent fee reduction on July 15, 2015 for Building Code permit fees (File 14-0592). The fee reduction was effective for six months from August 30, 2014 to March 1, 2015. The Department of Building Inspection (DBI) collected approximately 30 percent more permit fee revenue than budgeted in FY 2013-14, and recommended reducing fees on a temporary basis. The purpose of the fee reduction was to study DBI's current permit fee structure and identify potential fee reductions, given historically high permit fee revenues. As part of that effort, the Controller's Office was to review and recommend changes to DBI's fee structure, which DBI would then use to update its fees. Because the Controller's study has not yet been completed, DBI is requesting the Board of Supervisors approve an extension of the temporary 7 percent fee reduction to the Building Code.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would extend the temporary 7 percent reduction of all Building Code permit fees until the Board of Supervisors approves an updated Building Code permit fee schedule. Fees in DBI Table 1A-R, which refund certain fees for projects that are abandoned or have expired permits, are excluded from the temporary fee reduction.

The proposed ordinance would also affirm the Planning Department's Findings that DBI's proposed temporary fee reduction complies with the California Environmental Quality Act (CEQA).

The proposed ordinance would authorize the extension of the temporary 7 percent fee reduction retroactively from March 1, 2015, the end date of the original temporary fee reduction. According to the proposed ordinance, "the Board of Supervisors intends that the Department of Building Inspection exercise administrative discretion to continue to apply the 7% fee reduction" from March 1, 2015 until the effective date of the proposed ordinance, which is 30 days after Board of Supervisors approval.

The proposed ordinance does not provide a new end date for the temporary 7 percent fee reduction. According to Ms. Taras Madison, DBI Deputy Director of Finance, the Controller's review of Building Code permit fees is expected to be completed in March or April 2015. DBI expects that finalizing the revised Building Code permit fees based on the Controller's review, and obtaining Building Inspection Commission and Board of Supervisors approval, will take approximately four to five months.

The Budget and Legislative Analyst recommends amending the proposed ordinance to include an end date of October 31, 2015 for the temporary 7 percent reduction in Building Code permit fees. This end date of October 31, 2015 should allow sufficient time for DBI to finalize the revised Building Code permit fees, obtain Building Inspection Commission and Board of Supervisors approval, and allow for an effective date 30 days after Board of Supervisors approval.

FISCAL IMPACT

As a result of extending the proposed 7 percent temporary fee reduction, based on information provided by DBI, the Budget and Legislative Analyst estimates a \$3,800,000 reduction in Building Code fee revenues for the eight month period from March 1, 2015 through October 31, 2015, as shown in Table 1 below.

Table 1: Fee Reduction Impact: March – October 2015

Estimated Permit Fee Revenue	\$54,284,714
Temporary 7% Fee Reduction	\$3,800,000
Net Estimated Fees	\$50,485,714

RECOMMENDATIONS

1. Amend the proposed ordinance so that the temporary 7 percent fee reduction ends on October 31, 2015.
2. Approve the proposed ordinance as amended.

<p>Item 10 File 15-0044</p>	<p>Department Department of Public Works (DPW)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <p>The proposed ordinance would waive the competitive solicitation requirement under the City’s Administrative Code Section 6.20, and authorize DPW to enter into a sole-source construction services agreement with Pneumatic Tube Products Company in an amount not-to-exceed \$951,887 for the purpose of modifying and integrating the pneumatic tube delivery system in Buildings 5 and 25 at San Francisco General Hospital to provide one integrated pneumatic tube system to service both buildings.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • A new \$887,400,000 acute care and trauma building (Building 25) is currently under construction at San Francisco General Hospital (SFGH) which will replace Building 5 as the acute care hospital. • Pneumatic Tube Products Company (PTP) installed a pneumatic tubing system in Building 5 in 1976. An integrated pneumatic tubing system between Buildings 5 and the new Building 25 is necessary to allow staff to transport medications, medical records, and lab specimens between acute care facilities in Building 25 and support facilities in Building 5. • In 2009, SwissLog was awarded a subcontract under the larger SFGH Rebuild Webcor Builders contract to construct the pneumatic tubing system in the new Building 25, as well as perform the necessary modifications to the existing PTP pneumatic tubing system required to integrate the two systems for compatibility purposes. • By 2011, the SFGH Rebuild Team realized that the associated architectural and construction work, to be performed by a separate subcontractor, necessary for SwissLog to continue to integrate the two systems would cost approximately \$2,480,000. Including the \$752,008 to complete the pneumatic tubing conversion work, the total project cost would be \$3,232,008. • Alternatively, if PTP integrates the two systems, the associated architectural and construction work would cost \$240,000, and the pneumatic tubing conversion work would cost \$951,887, for a total project cost of \$1,191,887. The cost savings to DPW if PTP completes the work rather than SwissLog is estimated to be \$2,040,121. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The total project cost for PTP to perform the conversion work necessary to integrate the two existing pneumatic tubing systems would be \$951,887. Funding would come from the \$887,400,000 SFGH Rebuild Project funded with Proposition A General Obligation Bonds. <p style="text-align: center;">Recommendation</p> <p>Approve the proposed ordinance.</p>	

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

Administrative Code Section 6.20 requires City departments to use a competitive selection process when procuring outside construction services for public work projects greater than \$400,000.

Background**San Francisco General Hospital Rebuild Project**

Construction of a new acute care and trauma building at San Francisco General Hospital (SFGH), located in Potrero Hill, is currently underway at an estimated cost of \$887,400,000, including the construction of Building 25, a new nine-story 453,000 square foot building that will replace Building 5 as the acute care hospital facility. In the future, Building 5 will be used for acute care support facilities including pharmacies, labs, and administrative offices. The new Building 25 is necessary to upgrade the hospital to seismic standards mandated by California law.¹ The SFGH Rebuild Project is funded with \$887,400,000 of General Obligation Bonds approved by San Francisco voters in November 2008 (Proposition A). The new Building 25 is expected to be completed and ready for occupancy in December 2015.

Pneumatic Tube System at SFGH

A pneumatic tubing system is a network of tubes that transports items from one location to another by using compressed air and partial vacuum technology. A pneumatic tubing system is currently in place in Building 5, and one is under construction in the new Building 25. A compatible and integrated pneumatic tubing system between buildings at SFGH is necessary to allow staff to quickly and safely transport medications, medical records, lab specimens, sterile supplies and other critical patient care items between acute care facilities in Building 25 and support facilities including pharmacies, labs, and administrative offices in Building 5.

Pneumatic Tube Products Company (PTP) installed the original dual-tube pneumatic system in Building 5 in 1976, and has maintained this system for almost 40 years. In 2008, DPW issued a Request for Proposals (RFP) for a pneumatic tube system to be constructed in the new Building 25 as a subcontract under the larger \$690,000,000 Webcor Builders construction contract for the SFGH Rebuild Project. In 2008, PTP was undergoing a change in ownership and was not able to satisfy the City's bonding requirements to submit a bid for the pneumatic tubing system in Building 25. Only one company, SwissLog, responded to the RFP, and was awarded the subcontract in 2009 in the amount of \$2,185,655 as detailed in Table 1 below. The SwissLog subcontract included the construction of the new pneumatic tubing system in Building 25, as

¹ In 1996, California Senate Bill (SB) 1953 was passed as an amendment to the Alfred E. Alquist Hospital Seismic Safety Act (Alquist Act) enacted in 1973, to ensure that acute care hospitals remain functional after a major earthquake. Current State law requires all general acute care hospital buildings meet explicit seismic safety standards by either retrofitting existing buildings or rebuilding new hospital buildings.

well as necessary modifications required to integrate the existing system in Building 5 for compatibility purposes.

Table 1: Original SwissLog Subcontract for Installation of Pneumatic Tube System in Buildings 5 & 25

Item	Price
SwissLog CTS 430 System	\$1,950,000
BIM Coordination -Preconstruction	90,000
Performance Bond	31,200
Engineering for turn-key in Building 5	114,455
Total	\$2,185,655

Source: DPW

SwissLog Scope of Work & System Installation

After securing the subcontract in 2009, SwissLog began constructing a single-tube pneumatic system in Building 25 with the intention of additionally converting the existing 31 control panels in Building 5 to make the two systems compatible. However, between April 2009 and November 2011, the SFGH Rebuild Team², SwissLog, and clinical staff realized that to convert the existing 31 control panels in Building 5 would require opening up numerous walls, resulting in significant additional architectural and construction work. This additional architectural and construction work was not included in either the SwissLog bid or subcontract, and would have to be performed by a construction contractor, since SwissLog serves only as the pneumatic tubing service contractor. In addition, the SFGH Rebuild Team realized that this additional construction work in Building 5 would be disruptive to existing staff and patient operations and costly to complete.

Before a decision was made on how to proceed given the extensive architectural and construction costs, SwissLog continued to build out its new system in Building 25 which is expected to be completed in April 2015 as originally procured and designed. Although the two pneumatic tube systems in Building 5 and 25 are in place, the SFGH Rebuild Team has determined that having two incompatible pneumatic tube systems is not viable, as medical materials would need to be hand carried by staff between buildings which could negatively affect time-sensitive material and would drive up the hospital's staffing costs. The Department of Public Health (DPH) would be responsible for paying courier staff, which DPH estimates would cost \$1,890,000 annually.

Two Alternative Options

The SFGH Rebuild Team identified the following two options to connect and integrate the pneumatic tubing systems in Building 5 and Building 25:

Option 1: SwissLog could make its new system in Building 25 compatible with the existing system in Building 5 by converting the 31 existing control stations in Building 5 in addition to constructing ten new transfer stations and four blowers. The bulk of this work would occur

² The SFGH Rebuild Team is comprised of three DPW project management staff, and two DPH-SFGH Program Director/operations staff.

in Building 5 which could potentially disturb hazardous materials, such as asbestos, resulting in additional costs for hazardous waste containment and disposal. As Building 5 is currently in use as an acute care hospital staff and operations would also need to be relocated while this work is completed, disturbing normal hospital operations and resulting in further costs. The SFGH Rebuild Team estimates a total cost of approximately \$3,232,008 to complete this work.

Option 2: PTP could make its existing system in Building 5 compatible with the new SwissLog system in Building 25 by connecting three SwissLog control panels in Building 5. PTP would not need to modify any of the existing 31 control panels in Building 5. This process would minimize disruption to staff or patient operations in Building 5 as the majority of work would occur in Building 25 that is not yet occupied; the work in Building 5 would be part of PTP’s install cost rather than architectural modifications by others. The SFGH Rebuild Team estimates a total cost of \$1,191,887 to complete this work.

Table 2 below summarizes these two options.

Table 2: PTP and SwissLog Pneumatic Tube System Conversion Cost Comparison

	Option 1: SwissLog		Option 2: Pneumatic Tube Products Co. (PTP)	
Cost to Convert to Compatible Pneumatic Tube System	\$752,008		\$ 951,887	
Architectural Modification Touch Points with accompanying Construction, Deconstruction, and Project Controls*	31 Existing Stations, \$80,000 each	\$2,480,000	3 Existing Stations, \$80,000 each	\$240,000
Total Estimated Cost	\$3,232,008		\$1,191,887	

*Includes asbestos removal, infection control, wall revisions, additional inspections, etc.

Source: SF DPW

The SFGH Rebuild Team believes DPW should proceed with Option 2. Option 2 is estimated to cost \$2,040,121 less (\$3,232,008 less \$1,191,887) than Option 1, and will have minimal impact on existing hospital activities. After comparing the cost of the two options, Mr. Ron Alameida, Department of Public Works (DPW) SFGH Rebuild Program Manager, issued a cancel order for the portion of SwissLog’s contract related to this work. As a result, a credit of \$752,008 on the SwissLog subcontract was released and will be used to partially fund the cost of Option 2. At this time, Mr. Alameida advises that PTP is now in a financial position to meet the City’s bonding requirements to perform the necessary Option 2 work to convert the two pneumatic tube systems at a new subcontract cost of \$951,887.

Mr. Alameida advises that preliminary architectural drawings would be completed by LDA/KMD, an as-needed design joint venture for the SFGH Rebuild Project. Under Option 2, the estimated \$240,000 cost for associated architectural modification and related construction work would be obtained through a separate bid process. Mr. Alameida anticipates that this work will be completed by December 2015, when the new hospital is expected to open.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would waive the competitive solicitation requirement under the City's Administrative Code Section 6.20, and authorize DPW to enter into a sole-source construction services agreement with Pneumatic Tube Products Company in an amount not-to-exceed \$951,887 for the purpose of modifying and integrating the pneumatic tube delivery system in Buildings 5 and 25 at San Francisco General Hospital to provide one integrated pneumatic tube system to service both buildings.

Rationale for Waiver of Competitive Bid Process Request

According to Mr. Alameida, because the pneumatic tubing equipment is proprietary, there are only two companies able to perform the work without replacing the system in its entirety, PTP or SwissLog. Therefore, the SFGH Rebuild Team is requesting a waiver of the competitive bidding requirement in Administrative Code Section 6.20 for a new PTP subcontract to integrate the pneumatic tube delivery system at SFGH. The SFGH Rebuild Team provides three reasons for their request to select PTP as the sole-source contractor:

- (1) The work performed by PTP and a yet to be selected contractor to complete the construction modification work would cost an estimated \$1,191,887 (Table 2 above), or an estimated \$2,040,121 less than the \$3,232,008 total estimated cost of the work by SwissLog and a yet to be selected contractor to complete the construction modification work;
- (2) PTP's construction would not disturb the continued occupation and operation of Building 5, whereas SwissLog's work would require shutting down operations at 31 control panel stations which would include deconstruction and reconstruction of station areas, including full hazardous materials and infection control measures, as well as temporarily moving patients and staff from these sites; and
- (3) PTP's familiarity with the existing pneumatic tube system in Building 5 would increase efficiencies and reduce the chance of errors throughout construction.

Waiver of Local Business Enterprise Subcontracting Goals

On December 26, 2014, the Office of Contract Administration's Contract Monitoring Division granted DPW a sole source waiver of the Local Business Enterprise (LBE) subcontracting goals for this project, given the specialized knowledge of pneumatic tube systems required, and the absence of any LBEs who are certified to provide the goods or services required for this work.

FISCAL IMPACT

In October 2014, PTP provided a scope of work to perform the pneumatic tubing system modification and integration work at an estimated cost of \$951,887 as shown in Table 3 below. This budget includes all labor, material, equipment, programming, and supervision to complete the project.

Table 3: Pneumatic Tube Products Proposed Budget

Item	Price
Tube Conversion in Building 25	\$321,726
Upgrades to Building 5	425,413
CA Office of Statewide Health Planning and Development/Seismic Upgrades	59,388
New Lab Stations	145,360
Total	\$951,887

Source: Pneumatic Tube Products

Including the amount paid to SwissLog for the work they have completed, as well as the associated architectural design and construction modifications, the total cost to create an integrated pneumatic tubing system will be approximately \$2,630,284 as shown in Table 4 below.

Table 4: Pneumatic Tubing System Contract Amounts

Company	Final Contract Amount
SwissLog Subcontract (adjusted) ³	\$1,438,397
Pneumatic Tube Products (proposed)	951,887
Design and Construction Modifications	240,000
Total	\$2,630,284

Source: SF DPW

If DPW had continued the work as set forth in the original contract with SwissLog, the total estimated project cost for the entire pneumatic tubing system would be \$4,665,655 (\$2,185,655 for original contract amount + \$2,480,000 for architectural and construction work). This amount of \$4,665,655 is \$2,035,371, or 44%, more, than the final \$2,630,284 adjusted project cost using both SwissLog and PTP to complete the pneumatic tubing system.

Funding Source

Funding for the pneumatic tube system contract is within the SFGH Rebuild \$887,400,000 Construction Budget capacity. According to Mr. Alameida, there are sufficient funds under the existing SFGH Rebuild Construction Budget to complete the pneumatic tube system and associated architectural and construction work without utilizing Project contingency funds.

³ According to Mr. Alameida, the final cost of the SwissLog System is \$1,438,397 including the \$752,008 credit back to the City for releasing the original work expected in Building 5, and one \$4,750 increase for tube station design costs after the 95% construction drawings.

POLICY CONSIDERATIONSComprehensive Evaluation of Construction Projects

The unanticipated increase in costs and need to waive the competitive bid requirements for the integrated pneumatic tubing system between Buildings 5 and 25 resulted from (a) the existing vendor, PTP, not bidding on the project, such that the City only received one bid from an outside vendor, SwissLog, and (b) a lack of initial comprehensive evaluation of the work necessary to integrate these systems. Technically, the one bidder, SwissLog, provided an accurate bid for their portion of the work to install a new pneumatic system in Building 25, and the associated modification work necessary in Building 5. However, at the outset, neither DPW nor SwissLog evaluated the associated architectural and construction costs that would be required to complete the work, such as opening up walls in Building 5, potential hazardous materials abatement, and disturbing hospital operations that SwissLog needed to do to convert the 31 control panels in Building 5.

An initial comprehensive evaluation should be the responsibility of DPW as the overall project manager, rather than the individual bidders, as they are often not aware of the project in its entirety, or the details of the proposals from other companies. In addition, companies submitting bids should be asked to provide details about any related work that would need to be completed by other contractors in order to successfully complete their project. Although this did not initially occur on the subject integrated pneumatic tubing system for SFGH, given the current situation, the proposed ordinance to allow DPW to waive the City's competitive bid requirement to enter into a sole-source construction services agreement with Pneumatic Tube Products Company, at an estimated cost of \$951,887 to integrate the pneumatic tube delivery system at SFGH appears reasonable.

RECOMMENDATION

Approve the proposed ordinance.

<p>Item 11 File 15-0152</p>	<p>Department: San Francisco International Airport (Airport)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve the license and service agreement on a sole source basis between the Airport and a non-profit, Airport Research and Development Foundation (ARDF), in which the Airport would license the application-based commercial ground transportation, or ABCT, system to ARDF. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In October 2014, the Airport issued operating permits to three transportation network companies (Lyft, Uber, and Sidecar) to pick up and drop off passengers at the Airport for a fixed fee payable to the Airport of \$3.85 per trip. In order to monitor these Airport trips and collect trip fees, Airport staff developed the ABCT system in-house. The Airport proposes a license and service agreement with ARDF, in which ARDF would implement the ABCT system at the Airport and collect the transportation network companies' trip fees. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Under the proposed license and service agreement, the Airport would pay ARDF an Administrative Service Fee equal to 5% of trip fee revenues. In exchange, ARDF would pay the Airport a Service Development Fee equal to 25% of the Administrative Service Fee to compensate the Airport for ADRF's use of the Airport's proprietary ABCT system. The Administrative Service Fee and Service Development Fee would be waived during the first year of the agreement. • Over the initial two year term of the agreement, the Airport expects to collect \$11,600,000 (\$5,800,000 annually) in trip fees. Based on this revenue projection, the Airport would pay ARDF \$290,000 in Administrative Service Fees; and ARDF would pay the Airport \$72,500 in Service Development Fees, for net Airport revenues of \$11,382,500. • The Airport intends to license the ABCT system to other airports. Under the proposed license and service agreement, ADRF would be able to enter into agreements and implement the ABCT system at other airports. The Airport would charge ADRF the 25% Service Development Fee for revenues received by ADRF from other airports as compensation for ADRF's use of the Airport's proprietary ABCT system. The Airport estimates \$352,500 in these Service Development Fee revenues over the two-year term. • The proposed license and service agreement between the Airport and ADRF was the result of a sole source contracting process. ARDF is a non-profit corporation that was formed by the American Association of Airport Executives (AAAE), an airport trade association. AAAE already has business relationships with all major airports, which would facilitate marketing the ABCT system to other airports. AAAE has experience operating a complex clearing house of transaction data, as it currently manages a system that conducts background checks on airport employees. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Charter Section 9.118(a) states that contracts entered into by a department, board or commission that will generate revenue in excess of \$1 million or any modification of that contract is subject to Board of Supervisors approval.

Background

In October 2014, the Airport issued permits to three transportation network companies, Lyft, Uber, and Sidecar.¹ These permits allow transportation network companies to pick up and drop off passengers at the Airport for a fixed fee payable to the Airport of \$3.85 per trip.

Airport staff developed an application-based commercial ground transportation (ABCT) system in-house, which can monitor transportation network companies' trips to the Airport and collect the appropriate fees. The ABCT system is technically compatible with transportation network companies (Uber, Lyft, and Sidecar) that have permits to pick up and drop off Airport passengers. The Airport worked with these transportation network companies to test the accuracy of the ABCT system.

The ABCT system defines a perimeter around the Airport using geographic coordinates. Transportation network companies are required by the terms of their permit to send data to the Airport's ABCT system any time that one of their respective vehicles enters, leaves, picks-up or drops-off passengers within the perimeter. The ABCT system stores this trip data for future auditing and passes this trip data to the Airport's financial systems for invoicing.

The ABCT system may be licensed by the San Francisco International Airport to other airports that charge trip fees to transportation network companies.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the license and service agreement on a sole source basis between the Airport and a non-profit, Airport Research and Development Foundation (ARDF), in which the Airport would license the application-based commercial ground transportation, or ABCT, system to ARDF. The proposed license and service agreement has an initial two-year term, with three optional one year extensions, which are at the discretion of the Airport.

Under the proposed license and service agreement, ARDF would implement the ABCT system at the Airport, monitor transportation network companies' (Uber, Lyft, and Sidecar) trips, and collect trip fees. The Airport would pay ARDF an Administrative Services Fee of 5% of total trip fee revenues. ARDF would pay the Airport a Service Development Fee equal to 25% of ARDF's Administrative Service Fee revenues (see Table 1 below). The Service Development Fee is intended to partially reimburse the Airport for its costs to develop the ABCT system.

¹ The permits are in effect through May 31, 2015.

Licensing the ABCT System to Other Airports

Under the proposed license and service agreement, the ABCT system remains the exclusive property of the City. As noted above, the Airport developed the ABCT system in-house, and may license the system to other airports that issue permits and collect trip fees from transportation network companies.

Under the proposed license and service agreement, ARDF would be able to enter into service agreements with other airports to implement and operate the ABCT system. ARDF would (1) collect Administrative Service Fees from participating airports; and (2) pay to the Airport the Service Development Fee, equal to 25% of total Administrative Service Fee revenues received by ARDF from the participating airports.

Payment of the Service Development Fee by ARDF to the Airport is intended to reimburse the Airport for ARDF's use of the proprietary ABCT system. According to Ms. Cathy Widener, Airport Government Affairs Manager, the Airport decided to contract with ARDF to license the Airport's ABCT system to other airports, rather than the Airport directly licensing the ABCT system to other airports, because software licensing is not the Airport's core business.

During the first year of the agreement, both the Airport and ARDF would waive the Administrative Services Fee and the Service Development Fee. According to Ms. Widener, the one-year waiver of the Administrative Services Fee and the Service Development Fee is to give the service provider sufficient time to develop a derivative of the Airport's ABCT system for the purpose of providing trip monitoring and fee collection services to other airports.

FISCAL IMPACT

As shown below in Table 1, over the initial two year term of the proposed agreement, the Airport expects to collect \$11,600,000 (\$5,800,000 annually) in trip fees from transportation network companies (Uber, Lyft, and Sidecar). Based on this revenue projection, the Airport would pay Airport Research and Development Foundation (ARDF) \$290,000 (5% of \$5,800,000) in Administrative Service Fees. ARDF would pay the Airport \$72,500 in Service Development Fees (25% of Administrative Service Fee revenues). Net Airport revenue is \$11,382,500.

Table 1: Fee Collection for the Initial Two Year Term of the Agreement

Fees	Year 1	Year 2	Total
Transportation Network Companies Trip Fee Revenues	\$5,800,000	\$5,800,000	\$11,600,000
Administrative Services Fee Paid by Airport to ARDF	\$0	(\$290,000)	(\$290,000)
Service Development Fee paid by ARDF to the Airport	\$0	\$72,500	\$72,500
Net Revenue to the Airport	\$5,800,000	\$5,582,500	\$11,382,500

Source: Airport

According to Ms. Widener, there are currently nine airports in addition to San Francisco International Airport that allow or are expected to allow permitting of transportation network companies. These nine airports may therefore wish to obtain ABCT technology to manage

collection of trip fees. These airports include Los Angeles International (LAX), Orange County (SNA), Mineta San Jose International (SJC), Oakland International (OAK), Sacramento (SMF), San Diego (SAN), Denver International (DEN), Chicago O'Hare International (ORD) and Nashville (BNA). If the nine airports license the ABCT system, the Airport would collect an estimated additional \$352,500 in Service Development Fees for the initial two-year term of the agreement.

POLICY CONSIDERATION

Sole Source Contracting Process

The proposed license and service agreement between the Airport and ADRF was the result of a sole source contracting process. According to Ms. Widener, the Airport investigated companies that could serve as its licensee and determined that a not-for-profit trade organization representing the interests of the airport industry was the only option because such an organization could use the ABCT system to provide services to other airports at reasonable rates. Of the not-for-profit trade organizations representing the interests of the airport industry, the Airport determined that ARDF is the only such organization with the technical expertise and clearinghouse capabilities to adequately provide the desired services.

ARDF is a non-profit corporation that was formed by the American Association of Airport Executives (AAAE), an airport trade association.² According to Ms. Widener, AAAE already has strong business relationships with all major airports, which would facilitate marketing the ABCT system to other airports. AAAE has proven it can operate a complex clearing house of transaction data, as it currently manages a system that conducts background checks on airport employees.

The Office of Contract Administration approved ARDF as a sole source contractor for the agreement on January 30, 2015.

RECOMMENDATION

Approve the proposed resolution.

² AAAE has various levels of membership. The main membership group is the Airport Legislative Alliance that includes approximately 100 small, regional, and international airports. San Francisco International Airport is a member.