

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

March 3, 2023

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: March 8, 2023 Budget and Finance Committee Meeting

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<p>Item 3 File 23-0090</p>	<p>Department: Real Estate Division</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would retroactively authorize a lease amendment between the City and 101 South Van Ness LLC for the entire building located at 110 12th Street, used by the City’s ReproMail services, for an additional five years from February 1, 2023 to January 31, 2028 at the base rent of \$454,668.67 in the first year with annual three percent rent increases starting February 1, 2024. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The original lease, dated November 15, 2012, included a 10-year term commencing on February 1, 2013 and ending on January 31, 2023, with two five-year options to extend. The existing lease has been in hold-over status at the current rental rate since February 1, 2023. The current annual rent is \$44.05 per square foot. • The original lease established that base rent for the extended term would be equal to 95 percent of fair market rent, which suggests base rent of \$38.00 per square foot (95% of \$40) based on the appraisal. However, the proposed extension includes annual increases to base rent of three percent, which is lower than the four percent annual increases in the original lease and assumed in the appraisal. Base rent in the proposed extension of \$43.43 was established based on section 4.5, Determination of Base Rent for the Extended Term. The Real Estate Division and the Landlord could not agree on the prevailing market rate, so they both obtained appraisals per Section 4.5., which differed by less than 10 percent. Per the terms of lease, the average of the two appraisals were used to set the rental rate for the extension. • The proposed extension does not include an option for the City to purchase the property because the Landlord declined the Real Estate Division’s request for a purchase option. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The total annual base costs (including rent, janitorial services, security, utilities, and building maintenance) for the proposed extension are \$570,513. The proposed lease increases rent annually by three percent. Therefore, the rent and operating costs for the additional five-year term would be \$3,028,931, assuming service costs also escalate at three percent annually. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease, modification, amendment, or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of \$1 million or more is subject to Board of Supervisors approval.

Administrative Code Section 23.27 states that the Board of Supervisors shall approve all leases on behalf of the City as tenant by resolution for which the term is longer than a year and costs over \$15,000 per month.

BACKGROUND

ReproMail Current Lease

The City, on behalf of the City Administrator's Reproduction and Mail (ReproMail) Services, has an existing lease with 101 South Van Ness, LLC, of the entire building and fenced parking area located at 110 12th Street also known as 101 South Van Ness.¹ The original lease, dated November 15, 2012, included a 10-year term commencing on February 1, 2013 and ending on January 31, 2023, with two five-year options to extend. The original lease included annual base rent of \$30.95 per square foot and annual increases of four percent and established that base rent for the extended term would be equal to 95 percent of fair market rent.

The existing lease ended on January 31, 2023, and has been in hold-over status at the current rental rate since February 1, 2023 according to Real Estate Division staff. The current annual rent is \$44.05 per square foot.

The Real Estate Division, on behalf of ReproMail Services, desires to extend the existing lease for an additional five years through January 31, 2028, with three percent annual rent adjustments.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively authorize a lease amendment between the City and 101 South Van Ness LLC for the entire building located at 110 12th Street, used by the City's ReproMail services, for an additional five years from February 1, 2023 to January 31, 2028 at the base rent of \$454,668.67 in the first year with annual three percent rent increases starting February 1, 2024.

If the City exercises this first option to extend the lease, there will be one five-year option to extend remaining through January 31, 2033.

¹ The original lease was between the City and The St. James Family Partnership L.P., which merged with 101 South Van Ness LLC, the current landlord.

Provisions of Lease

Exhibit 1 below provides an overview of the terms of the proposed lease agreement.

Exhibit 1: Lease Comparison Table

	Original Lease	Proposed Extension
Premises	Two-story building, located at 110 12 th Street and fenced parking area	<i>No change</i>
Rental Area	10,469 square feet	<i>No change</i>
Base Rent	\$30.95 per square foot per year (\$324,000 annually)	\$43.43 per square foot per year (\$454,668.67 annually)
Base Rent Adjustments	Four percent annually	Three percent annually
Term Start and End	February 1, 2013 through January 31, 2023	February 1, 2023 through January 31, 2028
Option to Extend	Two five-year options to extend through January 31, 2033	One five-year option to extend through January 31, 2033
Early Termination Option	City may terminate on or after February 1, 2016 with at least one-year prior written notice	<i>No change</i>
Maintenance and Repair	Landlord pays to maintain the building, building systems, and parking area. City pays to maintain interior areas of the building	<i>No change</i>
Utility Costs	Paid by City	<i>No change</i>
Janitorial Services	Paid by City	<i>No change</i>
Security Services	Paid by City	<i>No change</i>

Sources: Original Lease and Proposed Amended Lease

According to Real Estate Division staff, the proposed extension does not include an option for the City to purchase the property because the Landlord declined their request for a purchase option.

Under the terms of the existing lease, the landlord paid for tenant improvements, which were built in 2012 and 2013. The proposed extension does not provide for additional tenant improvements.

Services Provided

The City's ReproMail Services provides design, print, and mail services for all City departments. Services include but are not limited to printing of annual reports, banners, blueprints, books and magazines, brochures, business cards, business forms, certificates, direct mail printing, envelopes, exhibits, flyers, labels, letterhead, manuals, t-shirts, traffic and property restriction signs, training materials, vehicle wraps, binding, and design.

Site Use

ReproMail Services has 20 City staff working in this building. ReproMail Services' production equipment, printers, and mailing machines are centrally located close to Civic Center to provide timely service to all City departments.

Site Appraisal

The Real Estate Division obtained an appraisal from J Kauper & Company dated May 6, 2022. The appraisal used a direct market comparison approach to provide a prospective value as of February 1, 2023. The office and parking area were valued separately because of the few comparable properties in the South of Market area. Comparable data provided support two months of free rent and annual rent increase of three percent as opposed to the four percent increase established under the original lease. The appraisal concludes the building has a rental value of \$40.00 per square foot, based on annual increases of four percent.

FISCAL IMPACT

The proposed amendment for the lease of 110 12th Street has a base rate of \$454,669 annually, or \$43.43 per square foot per year. Exhibit 2 below shows a breakdown of the rent and associated costs with the lease for the first year.

Exhibit 2: Annual Base Rent and Operating Costs for 110 12th Street

Item	Cost
Rent	\$454,669
Janitorial Services	\$74,858
Security	\$1,845
Utilities	\$18,800
Building Maintenance	\$20,341
Total	\$570,513

Source: Real Estate Division

As shown in Exhibit 2 above, the total annual base costs for the proposed extension are \$570,513. The proposed lease increases rent annually by three percent. Therefore, the rent and operating costs for the additional five-year term would be \$3,028,931, assuming service costs escalate at three percent annually.

Change in Base Rent

The proposed base rent of \$43.43 per square foot is more than the original initial base rent of \$30.95 per square foot in 2013, but less than the current base rent of \$44.05 per square foot.

Real Estate Division staff were not able to provide the funding source for the proposed lease costs at the time this report was finalized.

Base Rent and Annual Adjustment

The original lease established that base rent for the extended term would be equal to 95 percent of fair market rent, which suggests base rent of \$38.00 per square foot (95% of \$40) based on the appraisal. However, the proposed extension includes annual increases to base rent of three percent, which is lower than the four percent annual increases in the original lease and assumed in the appraisal. According to Real Estate Division staff, base rent in the proposed extension of \$43.43 was established based on section 4.5, Determination of Base Rent for the Extended Term. The Real Estate Division and the Landlord could not agree on the prevailing market rate, so they both obtained appraisals per Section 4.5., which differed by less than 10 percent. Per the terms of lease, the average of the two appraisals were used to set the rental rate for the extension.

RECOMMENDATION

Approve the proposed resolution.

<p>Items 4 & 5 Files 22-0050, 22-0051</p>	<p>Department: Department of Technology (DT)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolutions would approve the following contract amendments between the Department of Technology (DT) and AT&T dba AT&T Mobility: (1) the First Amendment to the cellular voice and data service contract, extending the term by approximately four years and one month through June 2027, and increasing the not-to-exceed amount by \$9,082,078, for a total not to exceed \$18,582,078 (File 22-0050); and (2) the First Amendment to the public safety-grade wireless communication services contract, increasing the amount by \$13,252,968, for a total not to exceed \$22,252,968, with no change to the contract term (File 22-0051). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The City has two cellular services contracts with AT&T through the State of California’s CALNET program: (1) a commercial contract for general use, and (2) a public safety-grade contract using the national FirstNet network. The number of AT&T wireless lines between the two contracts has increased by approximately 62 percent since June 2020. This trend accelerated due to remote and hybrid work environments during the pandemic, as well as cybersecurity concerns of employees using personal phones for work purposes. The high usage has depleted contract not-to-exceed amounts much faster than DT had anticipated. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed contract amendments would increase the two AT&T contract not-to-exceed amounts by a total of \$22,335,046. The contracts are funded by the various departments that use AT&T services. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • The City now has approximately 19,926 cellular lines. Although the City Administrator’s Office issued a memo establishing a policy to terminate accounts that are inactive for 60 days, some Departments have requested DT not to disconnect lines or suspend service. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • The Board of Supervisors could consider requesting that DT staff: (1) include stronger controls in the new Citywide Mobile Device Use Policy, such as requiring departments to provide justification for lines that are kept open on underutilized accounts after 60 days; and/or (2) provide a report to the Board of Supervisors on the final COIT approved Citywide Mobile Device Use Policy, including any controls that may help reduce the number of cellular devices. • Approve the proposed resolutions. 	

MANDATE STATEMENT

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

BACKGROUND

The City has five contracts with telecommunications services providers that allows the City to benefit from reduced rates and favorable terms via participation in the State of California's Integrated Telecommunications Network Program (CALNET) for Cellular Voice and Data Services. These agreements include:

1. AT&T First Net (for first responders) for \$9 million, from June 2020 to October 2025
2. AT&T (for commercial cellular services) for \$9.5 million from June 2020 to May 2023
3. Verizon¹ for \$30,626,500 from June 2020 to June 2027 (\$4.3M/yr.)
4. T-Mobile for \$5 Million from June 2021 to June 2023
5. Sprint for \$5 million from June 2021 to June 2023²

These telecommunications services include all cellular device services such as cell phones, Wi-Fi hot spots, vehicle modems, laptops/iPads, wireless water meters, wireless security cameras, etc. Each device may have one or multiple lines.

According to Department of Technology (DT) staff, the City has cellular services agreements with multiple providers in order to benefit from increased competition among vendors and to keep prices as low as possible. Each department chooses their own vendors and plans according to need. According to DT staff, some departments have staff with higher needs for a specific service (such as data or texting) or may need a specific carrier that has better coverage in a certain area.

DT is proposing to amend the two AT&T contracts due to higher than projected usage and spend on the contracts (as discussed below).

AT&T FirstNet Contract

After the September 11th terrorist attacks, the federal government sought to build a single wireless communication network for law enforcement, firefighters, paramedics, and other public safety officials in every state. In 2012, the Middle Class Tax Relief and Job Creation Act created the First Responder Network Authority (FirstNet) to build, deploy, and operate the network. In January 2016, FirstNet issued a Request for Proposals (RFP) for the deployment of the network. In March 2017, FirstNet awarded a \$46.5 billion contract to AT&T for a 25-year term. By December 2017, all 50 states had agreed to opt into the FirstNet/AT&T network. In June 2020,

¹ The Board of Supervisors approved the First Amendment to the Verizon contract in October 2022 (File 22-0790).

² According to DT staff, due to T-Mobile's acquisition of Sprint, the City's Sprint contract will be closed out by the end of this fiscal year and all remaining Sprint lines will be transferred to T-Mobile or disconnected.

the DT executed a contract with AT&T to use the FirstNet network, for a term of five years and four months, from June 23, 2020 through October 21, 2025 and an amount not to exceed \$9,000,000.

AT&T Commercial Contract

CALNET, managed by the California Department of Technology (CDT), provides competitively bid contracts with standardized service levels for information technology and communication services that may be used by state and local governments. In 2018, CDT issued an Invitation for Bids (IFB) for CALNET cellular voice and data service providers. CDT received four bids and scored them, as shown in Exhibit 1 below.

Exhibit 1: Bidders and Scores from IFB

Bidder	Non-Cost Points	Cost Points	Total Points
Sprint	6,000.00	4,000.00	10,000.00
T-Mobile	4,448.28	3,877.30	8,325.58
AT&T	6,000.00	2,116.56	8,116.56
Verizon Wireless	4,655.17	2,556.18	7,211.35

Source: CDT

All four bidders met the minimum score³ and were awarded contracts. DT has established contracts with all four providers using the CDT solicitation. In June 2020, DT executed a commercial cellular contract with AT&T for a term of approximately three years, from June 1, 2020 through May 22, 2023, with two 2-year options to extend through May 22, 2027, and an amount not to exceed \$9,500,000.

High Contract Usage

According to Hao Xie, DT Strategic Sourcing Manager, the number of AT&T wireless lines under the FirstNet contract has increased by approximately 71 percent since June 2020, or by approximately 28 percent per year, and the number of lines under the commercial contract has increased by approximately 54 percent, or 22 percent per year. This trend accelerated due to remote and hybrid work environments during the pandemic, as well as cybersecurity concerns of employees using personal phones for work purposes.⁴ The high usage has depleted contract not-to-exceed amounts much faster than DT had anticipated. DT and AT&T have negotiated amendments to the contracts to provide for sufficient expenditure authority in the remainder of the contract terms.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve the following contract amendments between DT and AT&T Mobility:

³ CDT established an average baseline score of 7,884.50 points, which was the average score, excluding any high or low score that was more than 15 percent above or below the next highest or lowest score. CDT then set a minimum score of 7,096.05 points, which is 10 percent below the average baseline score.

⁴ According to DT staff, the Department’s rough estimate shows that approximately 8,000 personal devices (laptops and/or phones) accessed the City’s Office 365 application (email, teams, calendar, etc.) in November 2022.

- 1. The First Amendment to the commercial cellular voice and data service contract, extending the term by approximately four years and one month through June 2027, and increasing the not-to-exceed amount by \$9,082,078, for a total not to exceed \$18,582,078 (File 22-0050); and
- 2. The First Amendment to the public safety-grade wireless communication services contract, increasing the amount by \$13,252,968, for a total not to exceed \$22,252,968, with no change to the contract term (File 22-0051).

Other contract terms would not change.

Services

The scope of services for the contracts covers voice, text, and data plans on the cellular network, as well as the purchase of equipment, such as cell phones, wireless cards, vehicle modems, and cellular monitoring devices (such as water meter controllers) at set rates. According to DT staff, the benefits of the contracts include no minimum purchase commitment, no fees to terminate service, and a “most favored nation” clause, which guarantees that no other similarly situated public customer would receive lower rates for a substantially similar service. Each City department determines its ordering of cellular service and equipment. DT administers the contracts and pays monthly service charges to AT&T, which are billed back to City departments as work orders. The Airport manages its own purchases and monthly payments under the AT&T contracts.

Usage

Between the two contracts, AT&T provides services for 12,053 lines, as of December 2022. Over the period of November 2022 to January 2023, each AT&T line used approximately 78.5 minutes of talk, sent 33.6 text messages, and used 3.0 GB of data per month, on average (excluding Airport usage). As noted above, the number of AT&T lines has increased by approximately 54 to 71 percent under the contracts since June 2020 (22 to 28 percent per year). DT projects that growth in future years will decline in half, to 14 percent annual growth under the FirstNet contract and 11 percent annual growth under the commercial contract.

AT&T Commercial Contract Term

The term extension on the commercial contract assumes that CALNET will extend its underlying contract with AT&T. If CALNET chooses not to extend its contract, the City’s contract would be terminated on May 22, 2023.

FISCAL IMPACT

The proposed contract amendments would increase the contracts as follows: (1) increase the commercial AT&T contract not-to-exceed amount by \$9,082,078, for a total not to exceed \$18,582,078 (File 22-0050); and (2) increase the FirstNet AT&T contract not-to-exceed amount by \$13,252,968, for a total not to exceed \$22,252,968 (File 22-0051). The not-to-exceed amounts are estimated using FY 2021-22 average monthly expenditures of \$166,743 for the commercial contract and \$296,556 for the FirstNet contract, with annual escalation of 11 percent on the

commercial contract and 14 percent on the FirstNet contract. Actual and projected contract expenditures are shown in Exhibit 2 below.

Exhibit 2: Actual and Projected Contract Expenditures

	Commercial Contract (File 22-0050)	FirstNet Contract (File 22-0051)	Total
Actual Expenditures (through June 2022)	\$4,750,001	\$6,295,408	\$11,045,408
FY 2022-23 (Projected)	2,221,021	4,056,889	6,277,910
FY 2023-24 (Projected)	2,465,333	4,624,853	7,090,186
FY 2024-25 (Projected)	2,736,520	5,272,332	8,008,852
FY 2025-26 (Projected)	3,037,537	2,003,486 ⁵	5,041,023
FY 2026-27 (Projected)	3,371,666	-	3,371,666
Total Projected Expenditures	\$13,832,077	\$15,957,560	\$29,789,638
Total Actual and Projected Expenditures	\$18,582,078	\$22,252,968	\$40,835,046

Source: DT

The contracts are funded by the various departments that use AT&T services. The departments with the highest contract expenditures in FY 2020-21 and FY 2021-22 are the Police Department (\$4,234,027), Airport (\$950,289), Department of Public Health (\$861,841), Municipal Transportation Agency (\$734,736), Human Services Agency (\$688,928), Department of Public Works (\$539,849), and Recreation and Park Department (\$466,354). Collectively, these departments account for approximately 80 percent of AT&T contract expenditures in FY 2020-21 and FY 2021-22.

POLICY CONSIDERATION

As noted above, the AT&T cellular line count has increased by 28 percent annually on the FirstNet contract and 22 percent annually on the commercial contract since June 2020. DT projects annual increases of 14 percent for the FirstNet contract and 11 percent for the commercial contract in future years after DT implements a new mobile device usage policy (discussed below). Between the AT&T, T-Mobile, and Verizon contracts, the City now has approximately 19,926 cellular lines⁶ as of January 2023, an increase from the 13,643 cellular devices in January 2020. While DT identifies cost-effective providers and plans, administers and oversees all cellular service contracts (excluding the Airport's use of the AT&T contracts), cell phone equipment purchases, usage, and issuance decisions are made by individual departments.

In July 2020, the City Administrator's Office issued a memo establishing a policy to terminate accounts that are inactive for 60 days. According to Strategic Sourcing Manager Xie, DT generates a monthly consolidated report that tracks usage for all carriers and distributes this list to departmental finance managers and staff responsible for ordering mobile service. The reports are intended to inform departments of the usage per line and which lines may be on the wrong rate plan, as well as unused lines that are still incurring monthly service fees. According to Strategic Sourcing Manager Xie, there were approximately 3,679 cellular device units across all

⁵ FY 2025-26 projected expenditures for the FirstNet contract are for the four-month period of July-October 2025.

⁶ According to DT staff, as of December 2022 there were still 13 Sprint lines remaining, which would be in addition to the 19,926 cellular lines on the AT&T, T-Mobile, and Verizon contracts.

providers that were inactive over the past 60 days at a total average monthly cost of \$127,000. However, Strategic Sourcing Manager Xie added that some City Departments have requested DT not to disconnect or suspend service for the unused lines, because they may use some devices or SIMs as backups, for example, dual-SIMs for police vehicles.

According to Strategic Sourcing Manager Xie, DT is updating the Citywide Mobile Device Use Policy. DT intends to complete a draft policy by April 30, 2023 and bring forward a final policy to the Committee on Information Technology (COIT) for approval by August 30, 2023. This new policy will require departments to have a policy defining the specific need for cellular devices, the assignment of devices, and monitoring of devices. Department CFOs will be responsible for acknowledging on a quarterly basis that any unused phones are for a specific purpose (employee on medical leave, emergency device, etc.). To reduce cellular service costs, the Board of Supervisors may consider requesting that DT include stronger controls in the new policy, such as requiring departments to provide justification for lines on underutilized accounts after 60 days of inactivity. The Board of Supervisors may also consider requesting that DT staff provide a report to the Board on the final COIT approved Citywide Mobile Device Use Policy, including any controls that are intended to reduce the number of cellular devices.

If implementation of the forthcoming Citywide Mobile Device Use Policy does not reduce growth in usage of the two AT&T contracts to projected levels, expenditures may exceed current projections. Amendments to the contracts that exceed \$500,000 would require Board of Supervisors' approval.

RECOMMENDATIONS

1. The Board of Supervisors could consider requesting that DT staff include stronger controls in the new Citywide Mobile Device Use Policy, such as requiring departments to provide justification for lines that are kept open on underutilized accounts after 60 days of inactivity.
2. The Board of Supervisors could consider requesting that DT staff provide a report to the Board of Supervisors on the final COIT approved Citywide Mobile Device Use Policy, including any controls that may help reduce the number of cellular devices.
3. Approve the proposed resolutions.