

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

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TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: October 9, 2013 Budget and Finance Committee Meeting

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Item 2 File 13-0777	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve a new property lease between the Airport and American Airlines, Inc. (American Airlines) for hangar and associated space. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Airport and American Airlines had a prior four-year lease for hangar and associated space from January 2005 through June 2009. Rather than exercise the five-year lease extension provided under the prior lease, American Airlines continued occupying the property on a month-to-month holdover from July 2009 to date, pending American Airlines' assessment of their facility use nationwide in order to reduce costs prior to their bankruptcy proceedings in 2011. The prior lease provisions continued during the more than four-year holdover period, including annual rent increases based on the Consumer Price Index (CPI). • The proposed new lease between the Airport and American Airlines is for exclusive use of: (a) 166,800 square feet of hangar space; (b) 11,500 square feet of shop space for ground support maintenance; (c) 17.4 acres for aircraft parking; and (d) 6.18 acres for employee vehicle parking. The proposed lease would be for three years from approximately November 1, 2013 through October 31, 2016, with two one-year options to extend the lease through October 31, 2018. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The first year rent to be paid by American Airlines to the Airport of \$4,355,869 is \$482,979 or 12.5 percent more than the rent of \$3,872,890 paid by American Airlines in FY 2012-13. • Rent for the hangar, shop, and aircraft parking space is a blended rate, based on the City's Real Estate Division's fair-market valuation of the space. • Rent of \$93,000 per acre for employee parking is \$4,574 or 4.7 percent less than the Real Estate Division's estimate of the fair-market value of \$97,574 per acre. According to the Airport, the Airport negotiated this rate: (a) in order to maintain a long-standing business relationship with American Airlines; (b) to be consistent with the rent per acre for employee parking in a separate agreement between the Airport and United Airlines; and (c) because the \$93,000 per acre rent is \$15,732 or 20.4 percent more than the existing rent of \$77,268. • Under the proposed lease, rent is increased annually by the CPI. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Administrative Code Section 2A.173 authorizes the Airport to negotiate and execute leases of Airport land and space in Airport buildings without undergoing a competitive bid process for contracts where the original term does not exceed 50 years.

City Charter Section 9.118(c) states that any lease of real property for a period of ten years or more or that has revenue to the City of \$1 million or more is subject to Board of Supervisors approval.

Background

On January 25, 2005, the Board of Supervisors approved a four-year property lease (File No. 04-1564) between the Airport and American Airlines, Inc. (American Airlines) for exclusive use of:

- (1) 166,800 square feet of space in the Superbay Hangar;
- (2) 11,500 square feet of shop space;
- (3) Approximately 20 acres of land for aircraft maintenance and parking; and
- (4) Approximately 3.58 acres for 500 employee parking spaces.

The lease also provided for non-exclusive use of 1.27 acres by American Airlines and United Airlines as an equipment wash area.

The lease term was approved retroactively for the four-and-one-half years from January 1, 2005 through June 30, 2009 with one option to extend the term of the lease by an additional five years. According to Ms. Diane Artz, Airport Senior Property Manager, American Airlines did not exercise the option to extend the existing lease in 2009 because American Airlines was analyzing the airline's facility use nationwide to reduce costs prior to their bankruptcy proceedings in 2011. Ms. Artz advises that because the review took several years, American Airlines did not want to commit to any long-term facility agreements.

From July 1, 2009 to date, a period of over four years and three months, American Airlines has been operating under the holdover provisions of the lease, which converts the lease to a month-to-month agreement, under the same terms and conditions of the prior lease, including annual rent increases based on the Consumer Price Index (CPI). American Airlines paid \$3,872,890 in rent to the Airport in FY 2012-13.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease between the Airport and American Airlines for a term of three years. Table 1 below shows the major terms and provisions of the proposed lease.

Table 1: Summary of American Airlines Lease Provisions	
Term	Three years from approximately November 1, 2013 through October 31, 2016
Options to Extend	Two one-year options extending the lease through approximately October 31, 2018
Exclusive Use Premises	166,800 square feet in the Superbay Hangar
	11,500 square feet of shop space for ground support and equipment maintenance
	17.4 acres for aircraft parking and maintenance
	6.18 acres for employee vehicle parking
Non-Exclusive Use Premises	1.5 acres* of shared space for equipment wash rack and aircraft wash station
Rent	\$4,355,869 per year (\$362,989 per month)
Annual Rent Increase	Based on CPI

*This 1.5 acres of shared space reflects a more accurate measurement conducted by the Airport in 2012 of the same 1.27 acres of shared space under the existing lease,

American Airlines uses the first floor space in the Superbay Hangar, the shop space, and 17.4 acres of land for aircraft maintenance, aircraft parking, ground support and equipment maintenance, and storage. American Airlines uses the upper floor space of the Superbay Hangar for office space and related administrative activities.

FISCAL IMPACT

The proposed resolution would approve a new property lease between the Airport and American Airlines that will generate \$4,355,869 in revenue to the Airport in the first year of the lease, as summarized in Table 2 below.

Table 2: Annual Rent¹			
	\$/FT2	FT2	Total
Hangar Space 1 st Floor	\$24.56	127,900	\$3,141,224
Hangar Space 2 nd and 4 th Floors	\$16.45	38,900	639,905
Subtotal, Hangar Space		166,800	3,781,129
	\$/Acre	Acres	Total
Employee Parking Space	\$93,000	6.18	574,740
Total Rent			\$4,355,869

¹ The rents per square foot for first, second and fourth floor hangar space, shown in Table 2, are blended rates, incorporating hangar space, shop space, and aircraft parking and maintenance space, based on the City's Real Estate Division's fair-market valuation of the space.

The first year rent paid by American Airlines to the Airport under the proposed lease of \$4,355,869 is \$482,979 or 12.5 percent more than the rent of \$3,872,890 paid by American Airlines to the Airport in FY 2012-13.¹

¹ The total leased space under the prior lease is the same as under the proposed new lease.

Rent of \$93,000 per acre for 6.18 acres of employee parking space, as shown in Table 2 above, is \$4,574 or 4.7 percent less than the Real Estate Division's estimate of the fair-market value of \$97,574 per acre. According to Ms. Artz, the Airport negotiated this rate because it is the same rate for employee parking space in the current exclusive-use agreement between the Airport and United Airlines (File 13-0324) at their Maintenance Operations Center, which was approved by the Board of Supervisors on July 24, 2013. Ms. Artz advises that the Airport and American Airlines negotiated the reduced rent per acre: (1) in order to maintain a long-standing business relationship with American Airlines; (2) to be consistent with the current rent per acre paid by United Airlines to the Airport for employee parking at the United Airlines' Maintenance Operations Center; and (3) because the \$93,000 per acre rent is \$15,732 or 20.4 percent more than the existing rent of \$77,268 per acre.

RECOMMENDATION

Approve the proposed resolution.

Item 3 File 13-0779	Department(s): San Francisco International Airport
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objective</p> <ul style="list-style-type: none"> • The proposed resolution would approve a new ten-year lease between the Airport, as landlord, and American Express Travel Related Service, Inc. (TRS), as tenant, for common use club services in Terminal 3. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The common use club provides services to all airline passengers, including club room and seating areas, food and beverages, restrooms, luggage storage, business center, destination travel information, and other services. The common use airline club operator charges for these services, based on agreed upon prices between the Airport and the operator. • On January 15, 2013, the Airport Commission approved a new ten-year lease with TRS, who was the sole respondent to the Airport's Request for Proposals (RFP), for the Terminal 3 common use club services. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • TRS' rent under the proposed lease of \$185.47 per square foot per year (or \$1,515,475 for 8,171 square feet) was set by the Airport Commission in the Airport's FY 2013-14 Rates and Charges, and adjusts annually. In addition, TRS pays \$1 per square foot per year promotional charge (\$8,171 for 8,171 square feet), subject to future adjustment. TRS' estimated rent to the Airport in the first year of the lease is \$1,523,646. • Under the proposed lease, the Airport must complete construction work to deliver the premises to TRS, including reconstruction of a stairwell, relocation of one existing telecommunications closet and demolition of the previous Burger King site; and relocate existing occupied office space, for total construction and relocation costs to the Airport of \$1,865,460. • Under the proposed lease, TRS must complete tenant improvements with costs to TRS of \$2,859,850. In addition, TRS would construct an elevator and stairwell on the Airport's behalf to provide access between the mezzanine and departure levels, and the Airport would reimburse TRS up to \$600,000 for TRS' construction costs. Because the proposed lease does not explicitly state that the reimbursed costs of \$600,000 for the elevator and stairwell are in addition to TRS' minimum costs for tenant improvements of \$2,859,850, the proposed resolution should be amended to reflect that the reimbursed costs of up to \$600,000 are excluded from TRS' required minimum costs for tenant improvements of \$2,859,850. • Total estimated net rent revenue to the Airport over the ten-year term of the lease, including rent and promotional charges, less the Airport's estimated construction costs to deliver the premises, is at least \$12,771,004. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to request that the Airport amend the proposed lease to reflect that the \$600,000 cost of building an elevator and stairwell between the lobby and mezzanine levels of the common use club is excluded from the required minimum investment in tenant improvements. • Approve the proposed resolution as amended. 	

MANDATE STATEMENT & BACKGROUND

Mandate Statement

According to San Francisco Charter Section 9.118, any lease or amendments to an existing lease with a term of ten or more years or having anticipated revenue to the City and County of \$1,000,000 or more is subject to approval by the Board of Supervisors.

Background

The Airport Commission authorized Airport staff to issue a Request for Proposal (RFP) for the Terminal 3 common use club lease in August 2012. The common use club provides services to all airline passengers, including club room and seating areas, food and beverages, restrooms, luggage storage, business center, destination travel information, and other services. The common use airline club operator charges airline passengers for these services, based on agreed upon prices between the Airport and the operator.

The Airport received one response to the RFP by the due date of December 5, 2012, from American Express Travel Related Services Company, Inc. (TRS). Airport staff convened a three-member panel¹ to evaluate TRS' proposal based on the selection criteria in Table 1 below. TRS received an overall average score of 86 from the Airport's three-member panel.

Table 1: Selection Criteria for RFP Process

Selection Criteria	Maximum Possible Points	Average Score Received
Proposed Concept ²	55	47.6
Design Intention and Capital Investment ³	30	27.7
Business Plan ⁴	15	10.7
Total Score	100	86.0

On January 15, 2013, the Airport Commission approved a new ten-year lease with TRS.

¹ The three-member panel was comprised of (a) Mr. Dan Ravina, Sr. Principal Property Manager in the Aviation Management Division of the Airport, (b) Ms. Ronda Chu, Airport Economic Planner in the Airport Finance Division, and (c) Ms. Anne Le Clair, President & CEO – San Mateo County Convention and Visitors' Bureau.

² The proposed concept was evaluated based on (a) overall appeal of the proposed concept to passengers, (b) how the concept is reflective of San Francisco, (c) conformance of proposal with the concept sought in the RFP, (d) the ability to maximize service and customer satisfaction, (e) complement of proposal to overall concessions program at the Airport, (f) the proposed service category list and prices, (g) the approach to customer service and corporate monitoring of the operation, (h) a staffing plan for a typical one week period, (i) the approach to customer service training for staff and how that would be monitored, and (j) how customer complaints will be handled.

³ The design intention and capital investment criterion was evaluated based on (a) the source of funds and amounts for capital investment and working capital, (b) a description of the proposed design, (c) the overall appeal and quality of the design, (d) the degree to which the design supports the proposed brand/concept, (e) the merchandising strategy incorporated into the design, and (f) floor plan with services and service areas described.

⁴ The business plan criterion was evaluated based on a five-year financial pro forma showing projected sales, projected number of users and rent to the Airport, expenses, and net income as well as lease/sublease history for the previous five years.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new ten-year lease between the Airport, as landlord, and American Express Travel Related Services, Inc. (TRS), as tenant, as follows:

Table 2: Proposed Lease Terms

Premises	Terminal 3, Boarding Area F
Square Feet	8,171
Term	Ten years, from approximately May 27, 2014 to May 26, 2024
Option to Extend	None
Rent	Airport Annual Rates and Charges schedule for Category II VIP and Club Lounge Terminal Area
Tenant's Minimum Investment	\$350 per square foot, equal to \$2,859,850
Promotional Charge	\$1 per square foot per year

The Airport must complete an estimated \$1,865,460 of construction work to deliver the premises to TRS

Under the proposed lease, the Airport must complete the following work in order to deliver the premises to TRS:

- Demolition of an existing egress stairwell and infill of the prior stairwell space;
- Construction of a new egress stairwell to the east of the premises;
- Vacation of existing occupied office space;
- Relocation of one existing telecommunications closet within the premises; and
- Demolition of the premises that previously served the prior Burger King concession.

The current estimated delivery date of the premises is November 25, 2013.

As shown in Table 3 below, the Airport's estimated costs to complete the construction work are \$1,865,460. According to Mr. Tomasi Toki, Airport Acting Senior Principal Property Manager, the Airport selected Schembri Construction as a subcontractor to Hensel Phelps Construction to perform the construction work on July 2, 2013 through a competitive bidding process.

Table 3: Estimate of Construction Work Necessary to Deliver the Premises

Construction Costs	
Direct Cost of Construction	\$1,070,000
General Conditions ⁵ (6.55%)	70,085
Overhead and Profit (3.25%)	34,775
Design (8%)	85,600
Total Construction Costs	1,260,460
Vacation of Existing Office Space	605,000
Total Airport Costs	\$1,865,460

⁵ General Conditions include project management, insurance, bonds, administrative and other costs.

TRS must complete \$2,859,850 in tenant improvements under the proposed lease within 180 days

Once the Airport delivers the premises to TRS, TRS would be required to pay for and complete initial tenant improvements⁶ of a minimum of \$350 per square foot, a total of \$2,859,850⁷, and open the common use airline club within 180 days of the lease commencement date. Rent would commence on the day the common use club opens and the ten-year term of the lease would also begin on that date. If the common use airline club fails to open within 180 days, TRS would pay the Airport \$500 per day after those 180 days. According to Mr. Toki, the estimated date of completion of the tenant improvements is May 27, 2014. Therefore, the term of the lease would begin on May 27, 2014 and expire on May 26, 2024.

TRS would construct an elevator and stairwell on the Airport's behalf to provide access between the mezzanine and departure levels⁸, and the Airport would reimburse TRS for the construction costs, not to exceed \$600,000, in the form of a rent credit. According to Mr. Toki, TRS has chosen to upgrade to a glass elevator with estimated costs of \$1,648,372, but the Airport is only obligated to reimburse \$600,000, which is the estimated cost of a standard elevator.

According to Mr. Toki the reimbursable construction costs of \$600,000 for the elevator would not be included in the TRS' minimum investment in tenant improvements of \$2,859,850. Because the proposed lease does not explicitly state that exclusion, the proposed lease should be amended to reflect that the reimbursable construction costs of not-to-exceed \$600,000 are excluded from the \$2,859,850 required minimum investment in tenant improvements.

FISCAL IMPACT

As shown in Table 4 below, the Airport would receive at least an estimated \$12,771,005 in net revenue over the ten-year term of the proposed lease with TRS.

Table 4: Estimated Net Revenues to the Airport under Proposed Lease

	1 st Lease Year	Total over 10 Years
<u>Estimated Minimum Rent to Airport:</u>		
Rent ¹	\$1,515,475	\$15,154,475
Promotional Charge	8,171	81,710
Subtotal Rent Revenues	1,523,646	15,236,465
<u>Estimated Airport Costs:</u>		
Construction Costs to Deliver Premises		(\$1,865,460)
Reimbursement to TRS for Elevator and Stairwell Construction		(\$600,000)
Net Revenue		\$12,771,005

¹ Based on FY 2013-14 Airport Rates and Charges for VIP-Club Lounge space of \$185.47 per square foot for 8,171 square feet.

⁶ Initial tenant improvements include all improvements, alterations, fixture, equipment, and signage installation, as well as furniture placement, enclosure, and soundproofing of the premises.

⁷ The proposed lease allows TRS to spend less than \$350 per square foot if they comply with the Concessions Design Guidelines and receive Design Review Committee approval.

⁸ According to Mr. Toki, the Airport wanted to convert the space on the mezzanine level from non-sterile (pre-security) to sterile (post-security); in order to provide vertical access to the sterile mezzanine from the departures level, it is necessary to install an elevator and stairwell.

RECOMMENDATIONS

1. Amend the proposed resolution to request that the Airport amend the proposed lease to reflect that the \$600,000 cost of building an elevator and stairwell between the lobby and mezzanine levels of the common use club is excluded from the required minimum investment in tenant improvements.
2. Approve the proposed resolution as amended.

Item 7 File 13-0973	Department: City's Administrator's Office Department of Public Works
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the City to: (1) submit a grant application to the Board of State and Community Corrections (BSCC) for \$80,000,000 in state revenue bonds under SB 1022 to fund the construction of a proposed jail facility to replace County Jail #3 and County Jail #4; and (2) seek funding preference for the awarding of the grant funds. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Under SB 1022, the City is eligible to request up to \$80,000,000 in state grant funds to finance the acquisition, design and construction of an adult local criminal justice facility. SB 1022 requires that funding preference be given to counties that are most prepared to proceed with proposed projects in a timely manner. • Replacement of County Jail #3 and County Jail #4 at the Hall of Justice has been a high priority in the City's 10-Year Capital Plan since the first Capital Plan was issued in 2006. The 2014-2023 Capital Plan recommends the construction of a replacement jail estimated to cost \$290,000,000 on adjacent property east of the current Hall of Justice, to be completed in 2019. • Under the 2014-2023 Capital Plan, construction of the proposed replacement jail would be financed by the issuance of approximately \$290,000,000 in Certificates of Participation starting in FY 2016-17. In addition, the Board of Supervisors has appropriated \$11,190,000 from the City's General Fund from FY 2011-12 to FY 2014-15 for architectural, engineering, and project management services related to the planning of the project. • The proposed resolution would authorize the City to: (1) submit a grant application to BSCC for \$80,000,000 in state revenue bonds to fund the construction of the proposed replacement jail; and (2) seek funding preference for the awarding of the grant funds. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • If the City is awarded the requested grant amount of \$80,000,000, it would offset \$80,000,000 of the estimated \$290,000,000 cost of developing and constructing the proposed jail. <p style="text-align: center;">Policy Considerations</p> <ul style="list-style-type: none"> • The proposed resolution does not meet the RFP funding preference requirement that the proposed project be authorized to proceed in its entirety when and if SB 1022 grant funds are awarded. Rather, the proposed resolution states that such authorization will only be granted if the Board of Supervisors elects to proceed with the project after all required environmental review is completed, and if the City is awarded the SB 1022 grant, acquires the real property necessary for the proposed replacement jail and obtains sufficient funding for the development and construction of the proposed replacement jail. As such, the proposed resolution does not commit the City to constructing the proposed replacement jail, but it does move forward the proposed acquisition of property necessary for the replacement jail. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed resolution is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT / BACKGROUND

Mandate Statement

The Senate Bill (SB) 1022 Request for Proposals (RFP) issued by the California Board of State and Community Corrections (BSCC) on July 23, 2013 requires all counties applying for grant funds under SB 1022 to include a Board of Supervisors' resolution with the county's proposal. The Board of Supervisors' resolution must contain certain designations, authorizations and assurances specified in the RFP, and, if counties seek funding preference for the awarding of the grant funds, the resolution must include additional resolution language specified in the RFP.

Background

The SB 1022 RFP Process

SB 1022, signed by Governor Brown on June 27, 2012, authorizes the State Public Works Board to issue up to \$500,000,000 in revenue bonds, notes, or bond anticipation notes¹ to finance the acquisition, design and construction of adult local criminal justice facilities.² Under the RFP issued on July 23, 2013, counties with more than 700,000 residents are eligible to request up to \$80,000,000 or up to 90% of the estimated project costs, whichever is less, of the available SB 1022 funding. Except for these maximum state funding limits, the state has no overall limit on the total cost of an eligible county project. Unless a county is proposing a regional facility, counties may only request funding for one facility.

Funding Preference

SB 1022 requires that funding preference be given to counties that are most prepared to proceed with proposed projects in a timely manner, and that determination of preparedness must include, but need not be limited to, the availability of matching funds authorized by the county Board of Supervisors. Meeting the funding preference criteria for project preparedness is not required in order to be awarded grant funds; however, projects that satisfy the preference criteria for project preparedness will be awarded first, as stated in the RFP. The RFP establishes four funding preference criteria related to the preparedness of the proposed project:

1. Commitment of adequate county contribution of funds, including Board of Supervisors' resolution language authorizing the project to proceed in its entirety when and if SB 1022 grant funds are awarded (mandatory criterion for funding preference);
2. Initial real estate due diligence package;
3. Documentation evidencing California Environmental Quality Act (CEQA) compliance has been completed; and
4. Review of and authorization to execute the financing program Project Documents.

¹ Bond anticipation notes are short-term securities issued in advance of a larger, future bond issue.

² Under SB 1022, an "adult local criminal justice facility" may include any custodial housing, reentry, program, mental health, or treatment space necessary to manage the adult offender population.

Project Ranking

As stated in the RFP, the order of awards to counties will be determined first by the number of above listed funding preference criteria that are fully satisfied, and then by the ranking of projects, irrespective of the funding preference criteria, based on:

1. Project need,
2. Scope of work,
3. Offender management and programming,
4. Administrative work plan, and
5. Budget review.

The deadline for proposal submittal is October 23, 2013.

The Hall of Justice Replacement Program

The San Francisco Sheriff's Department operates six jails in San Francisco and San Mateo County. Two of the jails, County Jail #3 and County #4 are located on the sixth and seventh floors respectively of the Hall of Justice (HOJ) at 850 Bryant Street, which also houses the Superior Court, Police Headquarters, the District Attorney's office, the Adult Probation Department, and other City agencies. County Jail #3 and County Jail #4 have a combined total of 905 (826 rated) beds.³

Constructed in 1958, the HOJ has been found to be highly susceptible to severe structural and non-structural damage that could pose "appreciable life hazard to occupants" in the event of an earthquake, although the risk of collapse has been found to be moderately low. In addition, repairs to the damage would require the building to be vacated or would not be economically feasible. Engineering consultants evaluated several alternatives for seismically retrofitting the HOJ, but found that each option would require a major reconfiguration of the building space and/or significant costs.⁴

In response to the HOJ's seismic deficiency, the City undertook a planning effort from 2006 to 2009 that resulted in the Justice Facilities Improvement Program, a \$1.5 billion capital program to replace the HOJ, which the City has since commenced. In June 2010, the voters approved the first Earthquake Safety and Emergency Response (ESER) General Obligation Bond, from which proceeds are currently being used to fund the construction of a new Public Safety Building at 3rd Street and Mission Rock. Slated for completion in fall 2014, the Public Safety Building will house the Police Command Center and Southern District Station currently housed in the HOJ.

The City's 2014-2023 Capital Plan proposes a second ESER General Obligation Bond, scheduled for the June 2014 ballot, of which a portion of the bond proceeds would fund the construction of seismically sound facilities for two offices currently located at the HOJ: (1) the Medical Examiner's Office, which would be relocated to 1 Newhall Street, and (2) the Police Department's Traffic Company and part of its Forensics Services Divisions, which would be potentially relocated to 1995 Evan Street, pending completion of due diligence reviews and

³ The number of "rated" beds is the maximum number of beds or inmates that may be housed in a jail as established by state or local rating officials.

⁴ *County Jail Needs Assessment, Hall of Justice Replacement Jail*, Office of the Controller, City Services Auditor, August 15, 2013.

other matters. In addition, the Capital Plan recommends the relocation of the District Attorney and Adult Probation Department from the HOJ to an as yet undetermined nearby location, to be financed by \$235 million in Certificates of Participation that would be issued in FY 2021-22.

Although the City intends to relocate all of its facilities from the HOJ, the Superior Court is anticipated to remain at the east wing of the HOJ indefinitely. After the City relocates its facilities to other locations and the west wing of the HOJ is demolished, the Superior Court may use the vacant land to construct a new, seismically sound building. In any event, proximity to the Superior Court, which is anticipated to remain at 850 Bryant Street indefinitely, is a criterion in the selection of a location for the replacement of County Jails #3 and #4.

Replacement of County Jail #3 and County Jail #4

According to Mr. Brian Strong, Director of the Capital Planning Program, replacement of County Jail #3 and County Jail #4 has been a high priority in the City's 10-Year Capital Plan since the first Capital Plan was issued in 2006. In response to the City's historically low inmate population and uncertainty about the impact of State Public Safety Realignment, the 2014-2023 Capital Plan recommends a two-phased approach to replacing County Jails #3 and #4. The first phase is the construction of a replacement jail estimated to cost \$290,000,000 on adjacent property east of the current HOJ.⁵ The second phase would add an additional jail on the same property if future forecasts indicate the inmate population is likely to increase beyond current forecasts. In the event a second jail is determined to be unnecessary, the 2014-2023 Capital Plan recommends relocating the District Attorney and Adult Probation Department (discussed above) to the remaining unused space on the proposed adjacent property.

Although the City's inmate population is at an historical low, the Controller's Office forecasts the need for a replacement jail in 2019 (the tentative completion date of a replacement jail) containing between 481 and 688 beds to replace the 905 beds in County Jails #3 and #4.⁶

According to Mr. Jim Buker, Senior Architect at the Department of Public Works (DPW), construction of the proposed replacement jail would commence in January 2017 and would be completed in December 2019. The estimated costs to construct the proposed replacement jail are shown in Table 1 below.

⁵ The adjacent property east of the current HOJ contains seven lots at the addresses 444, 450, 470 and 482 6th Street, and 804, 814-820, and 820 Bryant Street (Real Estate Division).

⁶ *County Jail Needs Assessment, Hall of Justice Replacement Jail*, Office of the Controller, City Services Auditor, August 15, 2013. The 2012-2021 Capital Plan's proposal for a replacement jail for County Jails #3 and #4 included one-to-one bed replacement, while the 2014-2013 Capital Plan includes less than one-to-one replacement.

Table 1: Estimated Project Costs for the Proposed Replacement Jail

Construction	199,500,000
Project Control ⁱ	54,900,000
Site Control ⁱⁱ	30,700,000
Bond Issuance and Oversight	4,900,000
GRAND TOTAL	\$290,000,000

Source: Department of Public Works

- i. Project control includes architectural and engineering, construction management, and project management services, as well as permits.
- ii. Site control includes the cost of purchasing the proposed property, consultant contract expenses related to due diligence, relocation expenses owed to displaced occupants, and demolition.

Under the 2014-2023 Capital Plan, construction of the proposed replacement jail would be financed by the issuance of approximately \$290,000,000 in Certificates of Participation starting in FY 2016-17. According to Ms. Nadia Sesay, Director of Public Finance in the Controller's Office, the issuance of \$290,000,000 in Certificates of Participation in FY 2016-17 as currently planned would result in annual debt service that does not exceed the City's 3.25% limit on the percentage of discretionary revenue that can be used to fund annual debt service costs.

In addition to the proposed issuance of Certificates of Participation, the Board of Supervisors has appropriated \$11,190,000 from the City's General Fund from FY 2011-12 to FY 2014-15 as a continuing project for architectural, engineering, and project management services related to the planning of the project. Mr. Buker advises that \$584,790 of the appropriated funds had been expended as of September 12, 2013.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the City to:

- Submit a grant application to BSCC for \$80,000,000 in state revenue bonds under SB 1022 to fund the construction of a proposed jail facility to replace County Jail #3 and County Jail #4; and
- Seek funding preference for the awarding of the grant funds.

In support of City's request for funding preference, as required under the SB 1022 RFP, the proposed resolution would:

- Declare the availability of \$8,900,000 in required matching funds from funds previously appropriated by the Board of Supervisors for the construction of the proposed replacement jail;
- State that the City is seeking funding preference on the basis of submitting an initial real estate due diligence package; and
- Conditionally approve the Project Documents for the proposed replacement jail and authorize certain officers of the City to execute the Project Documents.

Required Designations, Authorizations and Assurances under the RFP

The RFP issued by BSCC on July 23, 2013 requires all counties applying for grant funds under SB 1022 to include a Board of Supervisors' resolution with the county's proposal submittal that must contain certain designations, authorizations and assurances specified in the RFP. To meet this requirement, the proposed resolution contains following:

- Designation of the project's Construction Administrator, Financial Officer and Contact Person;
- Authorization of the Director of DPW to sign the Applicant's Agreement and submit the proposal for funding;
- Assurance that the City will adhere to state requirements and terms of agreements between the City, BSCC, and the State Public Works Board in the expenditure of any state financing allocation and county contribution funds;
- Assurance that the City will safely staff and operate the proposed facility within 90 days after the project completion;
- Assurance that the City will not lease housing capacity in the proposed facility to any other public or private entity for a period of 10 years beyond the completion date of proposed facility.

Resolution Language Supporting the City's Request for Funding Preference

If counties seek funding preference for the awarding of SB 1022 grant funds, the Board of Supervisors' resolution must include additional resolution language specified in the RFP in support of any of the four funding preference criteria, noted on page 11 above.

The City's application for SB 1022 grant funds seeks funding preference on the basis of satisfying three of the four funding preference criteria including: (1) commitment of adequate county contribution of funds, (2) initial real estate due diligence package, and (3) review of and authorization to execute the financing program Project Documents. The City's application does not seek funding preference on the basis of completing CEQA compliance because the City has not commenced environmental review of the proposed project.

Commitment of Adequate County Contribution of Funds

The proposed resolution declares the availability \$8,900,000 in required matching funds from \$11,190,000 in funds previously appropriated by the Board of Supervisors for the construction of the proposed replacement jail. The proposed resolution further allocates the use of such funds to pay for preliminary designs, studies, environmental review and analysis, and preliminary project management for the proposed facility.

- *The proposed resolution does not meet the RFP funding preference requirement that the proposed project be authorized to proceed in its entirety*

Fully satisfying the criterion of commitment of adequate matching funds also requires counties seeking funding preference to include a Board of Supervisors' resolution authorizing the proposed project to proceed in its entirety when and if SB 1022 grant funds are awarded. However, the proposed resolution does not grant such authorization. Rather, the proposed resolution states that such authorization will only be granted if the Board of Supervisors elects

to proceed with the project after all required environmental review is completed, and if the City is awarded the SB 1022 grant, acquires the real property necessary for the proposed replacement jail and obtains sufficient funding for the development and construction of the proposed replacement jail.

Initial Real Estate Due Diligence Package

The proposed resolution supports the request for funding preference on the basis of submitting an initial real estate due diligence package by declaring the intention of the Sheriff's Department to submit the initial real estate due diligence package. According to Mr. Updike, the initial real estate due diligence package includes review of all matters of title for each of the lots located on the City block adjacent to the HOJ where the proposed replacement jail would be built.

Review of and Authorization to Execute the Financing Program Project Documents

The proposed resolution supports the request for funding preference on the basis of review of and authorization to execute the financing program Project Documents by conditionally approving the form of (1) the Project Delivery and Construction Agreement, (2) the BSCC Jail Construction Agreement, (3) the Ground Lease, (4) the Right of Entry for Construction and Operation, and (5) the Facility Sublease, and authorizing certain officers of the City to execute such Project Documents.

Future Board of Supervisors' Approvals Needed for Construction of the Proposed Replacement Jail

In order for the proposed project to proceed, Board of Supervisors' approval would need to be obtained for:

- (1) The acquisition of real property where the proposed facility would be located;
- (2) The findings of an environmental review under CEQA; and
- (3) The issuance of Certificates of Participation to finance the project.

However, under the RFP, the City would be required to acquire the real property for the proposed facility within 90 days of receiving notification by BSCC of the conditional award for financing. Mr. John Updike, Director of Real Estate for the City, advises that the City is likely to be able to acquire the subject property within 90 days of notification from BSCC. The estimated cost to acquire the property is included in the \$290,000,000 total estimated project cost as part of the Site Control cost noted in Table 1 above.

FISCAL IMPACT

The proposed resolution would authorize the City to submit a grant application to BSCC for \$80,000,000 in State revenue bonds under SB 1022 to fund the construction of a proposed jail facility to replace County Jails #3 and #4. If the City is awarded the full requested grant amount of \$80,000,000, it would offset \$80,000,000 of the estimated \$290,000,000 cost of developing and constructing the proposed replacement jail.

The proposed resolution would allocate \$8,900,000 of \$11,190,000 in funds previously appropriated by the Board of Supervisors as the matching funds required under SB 1022 exclusively to pay for preliminary designs, studies, environmental review and analysis, and

preliminary project management for the proposed replacement jail, if the City is conditionally awarded and accepts a SB 1022 grant.

POLICY CONSIDERATIONS

The proposed resolution does not commit the City to constructing the proposed replacement jail, but does move forward the proposed acquisition of property.

Although the RFP requires counties seeking funding preference to include a Board of Supervisors' resolution authorizing the proposed project to proceed in its entirety when and if SB 1022 grant funds are awarded, the proposed resolution does not grant such authorization. Rather, the proposed resolution states that such authorization will only be granted if:

- (a) The Board of Supervisors elects to proceed with the project after all required environmental review is completed;
- (b) The City is awarded the SB 1022 grant;
- (c) The City acquires the real property necessary for the proposed replacement jail; and
- (d) The City obtains sufficient funding for the development and construction of the proposed replacement jail.

Carol Wong, Deputy City Attorney, advises that the City cannot commit to constructing the proposed replacement jail, as required under the RFP in order to seek funding preference, unless many of the above mentioned conditions are satisfied. Nonetheless, according to Ms. Tamsen Drew, Deputy Director of Government and Legislative Affairs in the Mayor's Office, the relevant City departments have determined to proceed with requesting funding preference on the basis of having committed adequate matching funds, as reflected in the proposed resolution.

Although the proposed resolution does not commit the City to constructing the proposed replacement jail, the City would be required to acquire the real property for the proposed facility within 90 days of receiving notification by BSCC of the conditional award for financing. Mr. Updike advises that he anticipates introducing a resolution to the Board of Supervisors approving the acquisition of the subject property in November 2013, in order to be prepared to complete the acquisition of the subject property within 90 days of receiving notification by BSCC. According to Mr. Updike, the acquisition of the subject property, subject to Board of Supervisors approval, would be financed by the issuance of the commercial paper notes in the interim, and would be paid down by Certificates of Participation at a later date.

RECOMMENDATION

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

Item 12 File 13-0940	Department: San Francisco Municipal Transportation Agency (SFMTA)
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EXECUTIVE SUMMARY

Legislative Objective

The proposed resolution would authorize SFMTA to execute a new five-year agreement with IPS Group, Inc. (IPS Group) for the (1) procurement of single-space parking meters and (2) related support services, for not-to-exceed \$54,000,000. The anticipated term of the agreement is from December 1, 2013 through November 30, 2018, with an option to extend the agreement for up to two years, or through November 30, 2020 for a total of seven years.

Key Points

- In 2002, the Board of Supervisors approved an agreement between SFMTA and Serco Inc. (Serco) to replace old mechanical parking meters with electronic single-space meters and multi-space (pay stations) meters (Resolution No. 305-02). Under the 2002 agreement, the SFMTA procured 24,830 single-space and 490 multi-space parking meters.
- On October 17, 2012, the SFMTA issued a Request for Proposals (RFP) for procurement of both single-space and multi-space parking meters to replace outdated devices. IPS Group was selected as the highest-ranked proposer for the single-space parking meter procurement. Although not part of the proposed resolution, a separate agreement with MacKay Meters, Inc. was approved by the SFMTA Board of Directors on September 17, 2013 to procure 300 multi-space parking meters, for a not-to-exceed \$8,000,000.
- Under the proposed agreement, SFMTA (a) will procure 25,000 single-space parking meters, including spare single-space meter parts and related services, to replace all of the City’s existing single-space parking meters; and (b) have the option to purchase an additional 10,000 single-space parking meters; and IPS Group will provide (a) Meter Management System (MMS) software applications; (b) credit card processing; (c) communications between the meter and the credit card processing management system and SFMTA databases; (d) product support; and (e) a three-year standard warranty with two one-year extension options at SFMTA’s discretion.

Fiscal Impacts

- The proposed agreement between SFMTA and IPS Group is for not-to-exceed \$54,000,000, which includes one-time procurement of the meters and annual operating and maintenance expenditures. The one-time procurement costs total \$19,695,421 will be paid by SFMTA reserve funds set aside for the purpose of parking meter replacement.
- The annual operating and maintenance costs total \$23,098,218 for the initial five-year term and \$34,304,580 for the total seven-year term, including the two-year option to extend. These costs include credit card processing and wireless communication fees, contractor’s meter management system, replacement meter parts, extended warranty, and a contingency. Funding for these annual operating and maintenance costs will be included in the SFMTA’s FY 2014-15 and FY 2015-16 budgets, subject to Board of Supervisors appropriation.

Recommendation

- Approve the resolution.

MANDATE STATEMENT/ BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118(b), City agreements with anticipated expenditures of \$10,000,000 or more, or amendments to such City agreements with anticipated expenditures of more than \$500,000 are subject to approval by the Board of Supervisors.

Background

According to Ms. Lorraine Fuqua, San Francisco Municipal Transportation Agency (SFMTA) Manager of On-Street Parking Services Contracts, SFMTA currently has approximately 25,000 single-space parking meters and approximately 490 multi-space parking meters that are maintained by the SFMTA's Meter Shop.¹

Prior Agreements between SFMTA and Serco, Inc. for Parking Meter Installation and Collections

In 2002, the Board of Supervisors approved an agreement between SFMTA and Serco Inc. (Serco) to replace old mechanical parking meters with electronic single-space meters and multi-space (pay stations) meters (Resolution No. 305-02). Under the 2002 agreement, the SFMTA procured 24,830 single-space and 490 multi-space parking meters.

In July 2012, the Board of Supervisors approved a new five-year agreement with Serco from August 1, 2012 through July 31, 2017 with an option to extend the term for up to an additional four years through July 31, 2021, for parking meter coin collection, counting and related support services for a not-to-exceed \$46,410,974 (Resolution No. 272-12).

According to Mr. Steven Lee, SFMTA Manager of Financial Services, given that the existing Serco agreement is specifically for parking meter coin collection services, SFMTA pays for the agreement's costs based on actual coin collection volume, which allows the SFMTA to adjust services as needed in the event that coin usage declines and other payment options (i.e. debit and credit card transactions) increase and/or are implemented².

Under the existing agreement, Serco collects, counts and provides related support services for all parking meter collections, which were \$53,371,640 in FY 2012-13, as shown in Table 1 below.

¹ According to Ms. Fuqua, the exact inventory of single and multi-space parking meters is variable, as minor adjustments to meter inventory are made on a daily basis. As of September 26, 2013 SFMTA has 24,896 single-space meters and 488 multi-space meters.

² In FY 2012-13 Serco invoiced SFMTA for \$4,336,873 in services, which included management fees, collection of coins for single-space and multi-space meters, and coin room services. According to Ms. Fuqua, the annual Serco invoice will decrease due to decreased coin collection for single-space and multi-space meters and coin room services.

Fiscal Year	Amount
2003-04	\$24,107,482
2004-05	24,148,426
2005-06	29,687,616
2006-07	30,916,410
2007-08	31,625,512
2008-09	32,524,232
2009-10*	38,297,900
2010-11	40,429,963
2011-12	47,010,379
2012-13	53,371,640
2013-14 (budgeted amount)	\$45,760,000

*Parking meter rate increase.

Request for Proposal Process for New Single-Space Parking Meters

According to Ms. Fuqua, the existing single-space and multi-space parking meters (except for the meters purchased for the SFpark Pilot discussed below) are more than ten years old which results in the following problems:

- (a) Outdated technology that requires any modifications to the meters to be made manually on-site and prevents remote support to system-wide updates;
- (b) Outdated meter spare parts that are hard to procure or no longer available; and
- (c) Lack of credit card payment options.

On October 17, 2012, the SFMTA issued a Request for Proposals (RFP) for procurement of either or both single-space and multi-space parking meters.³ On January 18, 2013, two proposals were submitted for the single-space parking meter procurement: (1) IPS Group Inc. (IPS Group) and (2) MacKay Meters, Inc.⁴

On April 16, 2013, IPS Group was selected as the highest-ranked proposer for the procurement of 25,000 single-space parking meters.⁵ SFMTA successfully negotiated the proposed agreement with

³ On October 5, 2012, prior to the RFP issuance, the SFMTA obtained a Local Business Enterprise (LBE) subcontracting waiver from the SFMTA Contract Compliance Office because the parking meter equipment to be procured includes proprietary programming and hardware that requires all services to be performed only by personnel of the successful vendor, which is standard practice within the parking meter industry.

⁴ In February and March of 2013, an evaluation panel consisting of five experts from the SFMTA, the San Francisco International Airport and the Port of San Francisco reviewed and scored the two proposals, which included oral demonstrations from both vendors, for the meter procurement.

⁵ On April 23, 2013, MacKay Meters Inc. protested the SFMTA's selection of IPS Group Inc. for negotiation of the parking meter agreement. The SFMTA determined that the protest was without merit. MacKay Meters Inc. did not contest this determination.

IPS Group from June 18, 2013 to August 1, 2013 and on September 17, 2013 the SFMTA Commission approved the proposed agreement. According to Ms. Fuqua, the new single-space parking meters will provide the following:

- Multiple ways to pay for parking meter spaces, including coin, smart card, credit card and by phone;
- A more user-friendly interface provided by a larger screen and tactile operating buttons;
- Visual indication of Pay-By-Phone payment on the meter;
- Remote notification of maintenance needs and meter programming; and
- Longer lasting meter batteries.

The proposed agreement also provides for parking meter replacement parts and a three-year warranty on the new meters.

A separate agreement with MacKay Meters Inc. was approved by the SFMTA Board of Directors on September 17, 2013 for the procurement of 300 multi-space parking meters, or pay stations, with the option to purchase an additional 200 devices, that includes the similar integration of technology for a not-to-exceed \$8,000,000 for a period of five years, with a two-year option to extend. This MacKay Meters Inc. agreement is not subject to Board of Supervisors approval as it does not meet the Charter threshold of expenditures greater than \$10,000,000 or a term of more than 10-years.

SFpark Pilot Program

SFMTA implemented a *SFpark* pilot program in 2008 to use new technologies and policies to improve parking in San Francisco.⁶ The *SFpark* pilot program uses “smart meters” and ground sensors to measure parking occupancy and adjust parking meter prices accordingly in an attempt to reduce traffic by helping drivers find parking, and to make streets less congested and safer. The *SFpark* pilot program included the installation of meters that accept credit and debit cards. The total cost of the *SFpark* pilot program is approximately \$44,000,000 and included the replacement of 6,200 single-space and 202 multi-space parking meters.⁷

SFMTA is currently evaluating the *SFpark* pilot program to determine the effectiveness of the program in measuring parking occupancy and reducing congestion with an expected completion date in 2014.

⁶ Of the total \$44 million cost, *SFpark* received 80 percent (\$19.2 million) of the initial program funding of \$24 million from the U.S. Department of Transportation Urban Partnership Program and \$20 million from the Metropolitan Transportation Commission (MTC) to implement this demonstration of a parking-based approach to congestion management.

⁷ In 2008, SFMTA entered into an agreement with Serco for *SFpark* support services (Resolution 289-08). As part of the service requirements, Serco conducted a competitive procurement to secure single-space parking meters and multi-space pay stations for use in the *SFpark* pilot program, and selected IPS Group as the single-space meter provider and Duncan Solutions as the multi-space paystation provider. Serco currently provides coin counting and collections services and support for all meters, including both the single-space parking meters and multi-space paystations in the *SFpark* pilot program and the existing non-credit card capable MacKay meters. Fees for credit card processing and wireless communication services are charged to Serco by third-party vendors, and Serco passes through these costs to the SFMTA for reimbursement.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize SFMTA to execute a new five-year agreement with IPS Group for the procurement of single-space parking meters and related support services, for not-to-exceed \$54,000,000. The anticipated term of the proposed agreement is December 1, 2013 through November 30, 2018, with an option to extend the agreement for up to two years, or through November 30, 2020, for a total term of seven years.

Under the proposed agreement between SFMTA and IPS Group, SFMTA will procure 25,000 single-space parking meters, including spare single-space meter parts and related services, to replace the City's existing 18,500 single-space parking meters, and replacement mechanisms for 6,500 meters installed as part of the *SFpark* pilot program. Under the proposed agreement, SFMTA retains the option to purchase an additional 10,000 parking meters over the term of the proposed agreement.⁸

The related support services include: (a) access to the IPS Groups Meter Management System (MMS) software applications; (b) credit card processing; (c) communications between the meter and the credit card processing management system, and SFMTA databases; (d) product support; and (e) a three-year standard warranty with two one-year extension options at SFMTA's discretion.

According to Ms. Fuqua, the up to two-year option to extend the agreement would provide for continued support services while the SFMTA determines whether to procure new meters incorporating new technology. The life expectancy of the new single-space parking meters under the proposed agreement is seven to ten years.

FISCAL IMPACT

The proposed agreement between SFMTA and IPS Group is not-to-exceed \$54,000,000, which includes the one-time procurement of the parking meters (see Table 2 below) and annual operating and maintenance expenditures (see Table 3 below).

As Table 2 below shows, the one-time expenditures for the single-space parking meter procurement and related services, including optional meters, total \$19,695,421. The average cost for each of the 18,500 new parking meters is \$515 and the average cost for the 6,500 replacement meters is \$415. Ms. Fuqua reports that the one-time expenditures shown in Table 2 will be paid for by SFMTA reserve funds set aside from previous SFMTA operating funds for the purpose of parking meter replacement.

⁸ The optional 10,000 single-space meters includes meters at new locations, such as Mission Bay, replacement of 1,200 Port meters, and other changes in inventory.

Table 2: One-Time Expenditures	
Expenditure Category	Total
25,000 Single-Space Parking Meters	\$13,294,688
Project Management	180,000
First Year Spare Parts	270,108
Support Services / Development	350,000
Subtotal	\$14,094,796
Optional 10,000 Single-Space Parking Meters	5,600,625
Total Capital Expenditures	\$19,695,421

According to Ms. Fuqua, SFMTA anticipates delivery of the single-space parking meters to begin in February 2014. Ms. Fuqua states that the meters will be accepted by SFMTA in batches, and the SFMTA Meter Shop will install the new meters at a rate of approximately 625 per week, with all 25,000 single-space parking meters anticipated to be installed and activated by approximately December 2014. Mr. Lee advises that SFMTA will not incur any additional costs to install the meters as existing SFMTA parking meter repair staff will be redeployed to complete the installations.

Mr. Lee reports that as each batch of single-space parking meters is installed, IPS Group will begin to charge support service fees, as shown in Table 3 below. According to Mr. Lee, SFMTA has sufficient funds in the FY 2013-14 operating budget to pay the operating and maintenance costs in FY 2013-14 under the proposed agreement.

As Table 3 below shows, IPS Group's annual operating and maintenance costs total \$23,098,218 for the initial five-year term of the agreement, and include credit card processing fees, wireless communication fees, access to contractor's meter management system, replacement meter parts, extended warranty, and a 0.7 percent contingency. According to Ms. Fuqua, funding for these annual operating and maintenance costs will be included in the SFMTA's FY 2014-15 and FY 2015-16 budgets, subject to Board of Supervisors appropriation.

As also shown in Table 3 below, including the two-year option to extend period, the total seven-year operating and maintenance expenditures would be \$34,304,580. Together with the one-time procurement costs of \$19,695,421, the proposed IPS Group not-to-exceed contract totals \$54,000,000.

Table 3: IPS Group Operating and Maintenance Expenditures

	Year 1*	Year 2	Year 3	Year 4	Year 5	Total Initial Lease Term	Option Year 6	Option Year 7	Total
Annual Operating Expenditures									
Credit Card Transaction Fees	\$360,000	\$799,920	\$881,366	\$964,362	\$1,048,929	\$4,054,577	\$1,059,418	\$1,070,012	\$6,184,007
Wireless Communications Fees	442,500	973,500	1,062,000	1,150,500	1,239,000	4,867,500	1,239,000	1,239,000	7,345,500
Meter Management System Licensing Fees	682,500	1,501,500	1,638,000	1,774,500	1,911,000	7,507,500	1,911,000	1,911,000	11,329,500
Subtotal – Annual Operating Expenditures	\$1,485,000	\$3,274,920	\$3,581,366	\$3,889,362	\$4,198,929	\$16,429,577	\$4,209,418	\$4,220,012	\$24,859,007
Other Annual Expenditures									
Spare Parts		694,233	1,388,466	1,388,466	1,388,466	4,859,630	1,388,466	1,388,466	7,636,561
Optional Two One-Year Warranty Extension				475,781	951,563	1,427,344			1,427,344
Subtotal - Other Annual Expenditures		\$694,233	\$1,388,466	\$1,864,247	\$2,340,028	\$6,286,973	\$1,388,466	\$1,388,466	\$9,063,905
Total Annual Expenditures	\$1,485,000	\$3,969,153	\$4,969,832	\$5,753,609	\$6,538,957	\$22,716,550	\$5,597,884	\$5,608,478	\$33,922,912
Contingency (0.7 percent)						381,668			381,668
Total Operating and Maintenance Expenditures						\$23,098,218			\$34,304,580

*Operating expenditures will be less in the first year of the agreement as support service fees will begin to accrue as the single-space parking meters are installed and activated through December 2014.

As noted above, SFMTA's expenditures under the existing Serco agreement to collect parking meter revenues are expected to decrease due to reduced coin collections in lieu of credit card and other electronic payments with the new parking meters. According to Mr. Lee, when the new parking meter transition is complete, the Serco agreement will only be used for coin collections and counting.

In addition, Mr. Lee states that the agreement with Serco includes meter management system costs, credit card processing and wireless communication fees for the existing SFpark pilot meters. These services for the SFpark meters will transfer to the new IPS Group agreement, and will no longer be included in the Serco contract. Ms. Fuqua estimates that annual savings of \$480,000 under the existing Serco agreement will partially offset the operating expenditures of \$3,274,920 in year two under the proposed IPS Group agreement, for net increased operating expenditures of approximately \$2,794,920.

RECOMMENDATION

Approve the proposed resolution.

Item 13
File 13-0941

Department:
San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the San Francisco Municipal Transportation Agency (SFMTA) to reallocate funds in the existing contract with PRWT Services, Inc. (PRWT) that are currently designated for optional services to non-optional services.

Key Points

- On October 30, 2008, the Board of Supervisors approved a resolution (Resolution 438-08) authorizing a five-year agreement with an option for up to an additional five years between SFMTA with PRWT Services, Inc. for a not-to-exceed \$53,475,441 to provide parking citation processing and management software and related support services. Under this total not-to-exceed \$53,475,441 contract, \$45,815,441 was specified for required, non-optional services and \$7,660,000 was specified for optional services.
- SFMTA is proposing to extend the PRWT contract for an additional two years, from November 1, 2013 through October 31, 2015, rather than the original five-year extension, in order to have sufficient time to develop and issue a new Request for Proposal (RFP) for parking citation processing. According to SFMTA, the two-year extension would enable the SFMTA to address SFMTA's changing services and technology needs, develop an improved business model to encourage competition from vendors, and potentially separate the existing contract into multiple contracts. The new RFP is anticipated to be issued in early 2015, to be awarded in later 2015, to coincide with the termination of the existing PRWT contract on October 31, 2015.

Fiscal Impacts

- Of the total \$53,475,441 existing PRWT contract, the SFMTA incurred costs of \$37,243,311 as of August 31, 2013, leaving a remaining authorized balance of \$16,232,130. Of the \$37,243,311 costs incurred to date, \$36,419,020 was for required services and \$824,291 was for optional services.
- Based on a remaining total authorized balance of \$16,232,130, the proposed resolution would reallocate \$52,651,150 for required services and \$824,291 for optional services, such that the total contract amount would remain the same not-to-exceed \$53,475,441 authorization. This \$16,232,130 should be sufficient for the remaining 26 months of the parking citation processing contract extension with PRWT, through October 31, 2015, given that the number of citations issued by SFMTA has declined from approximately 1.8 million to 1.6 million and may decline further, resulting in a commensurate decline in the payments to PRWT over the next 26 months.

Recommendations

- Amend the proposed resolution: (a) in the title on page 1, line 4 from \$6,827,729 to \$6,835,709 to reflect the remaining authorized amount for optional services that would be designated for non-optional required services; (b) on page 2, line 10 from \$6,827,729 to \$6,835,709 to reflect the remaining authorized amount for optional services; (c) on page 2, line 11 from \$10,367,685 to \$9,396,421 to reflect the remaining authorized amount for required services; and (d) on page 2, line 14 from \$6,827,729 to \$6,835,709 to reflect the remaining authorized amount for optional services that would be designated for non-optional required services.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT

City Charter Section 9.118(b) requires the Board of Supervisors to approve by resolution all contracts and that require the City to expend \$10,000,000 or more or modify such an agreement by more than \$500,000.

BACKGROUND

On October 30, 2008, the Board of Supervisors approved a resolution (File 08-1168; Resolution 438-08) authorizing a five-year agreement with an option to renew for up to an additional five years, between the City and County of San Francisco, on behalf of the San Francisco Municipal Transportation Agency (SFMTA) with PRWT Services, Inc. (PRWT) for an amount not to exceed \$53,475,441 to provide parking citation processing and management software and related support services. Under this total not-to-exceed \$53,475,441 contract:

- \$45,815,441 was specified for required, non-optional services; and
- \$7,660,000 was specified for optional services.

The original five-year agreement term extended from November 1, 2008 through October 31, 2013, with one five year option to extend through October 31, 2018, or a total of up to ten years.

Under this contract, PRWT provides the following major required services:

- Parking citation processing paid at a rate of \$2.89 per citation¹;
- Special citation follow-up collections for citations that remain unpaid after usual processing, paid at a rate of 34% of revenues collected;
- Pay-By-Phone and Pay-By-Web support services, with all 800-number and credit card fees passed through to SFMTA;
- Issuance of transit violation notifications and pass through of postage; and
- Replacement and maintenance of 265 handheld ticket-issuing devices.

Table 1 below identifies costs totaling \$36,419,020 for such required PRWT services under the existing contract with SFMTA.

¹ Parking rate processing rate of \$2.89 per citation includes costs for PRWT to provide software and support for SFMTA's Residential Permit Parking Program, the Administrative Review and Hearings Units and additional parking consulting and systems engineering support staff.

Table 1: Required Service Costs Incurred by SFMTA under existing PRWT Contract from November 1, 2008 through August 31, 2013

Contract Year	Citations Issued	Amounts Paid @ \$2.89 per Citation	Special Collections Revenue	Special Collections Fees Paid @ 34% of Revenue	Transit Postage (paid as pass-through)	Pay (Citations) by Phone Pay Citations by Web Credit Card Fees and 800 Number Access	Contract Totals
1	1,772,064	\$5,121,265	7,330,237	\$2,492,280	\$7,363	n/a	\$7,620,908
2	1,693,279	\$4,893,577	6,815,128	\$2,317,143	\$726	n/a	\$7,211,446
3	1,526,591	\$4,406,568	7,103,748	\$2,420,485	\$1,115	\$220,186	\$7,048,354
4	1,543,241	\$4,453,966	7,320,540	\$2,488,984	\$1,965	\$569,691	\$7,514,606
5*	1,284,213	\$3,711,376	7,925,899	\$2,694,806	n/a	\$617,524	\$7,023,706
Total Required		\$22,586,752		\$12,413,698	\$11,169	\$1,407,401	\$36,419,020
Average**	1,615,246	\$4,665,805		\$2,590,532	n/a	n/a	\$7,564,752

Source: SFMTA.

*Contract year 5 reflects ten months, from November 1, 2012 through August 31, 2013; annualized for 12 months or through October 31, 2013 is estimated at 1,541,056 citations to be issued and total costs of \$8,428,447.

**Averages include actual data for first four contract years and projected annual amount for Contract Year 5.

Under the existing contract, PRWT provided the following optional services²:

- Purchase and support of mobile license plate recognition (MLPR) cameras;
- Conducted a cameras-on-street-sweepers pilot program to support enforcement;
- Integrated software for Pay-By-Phone and Tow services; and
- Purchase of 27 additional handheld ticket-issuing devices for Parking Control Officers (PCOs) for Sunday enforcement.

Table 2 below identifies the SFMTA costs totaling \$824,291 for the optional services that were implemented under the existing contract with PRWT.

² The existing PRWT contract allowed for additional optional services which were not implemented by the SFMTA, including (a) marketing and revenue generation program (e.g. using citations for advertisements), (b) electronic residential parking permits, (c) electronic boot removal system, (d) paint shop and regulatory sign inventory system, (e) additional equipment options, (f) point of sale for SFMTA media, (g) additional support for entering handwritten citation data, and (h) taxi permits.

Table 2: Optional Service Costs Incurred by SFMTA under existing PRWT Contract from November 1, 2008 through August 31, 2013

Contract Year	MPLR Cameras	MPLR Monthly Support	Cam on Sweeper Pilot	PBP Integration	AR Integration	Sunday Enforcement Handhelds & Accessories	Contract Year Totals
1							
2							
3							
4	\$347,303	\$26,462	\$230,636	\$39,375			\$643,776
5		\$22,110			\$42,050	\$116,355	\$180,515
Total Optional	\$347,303	\$48,572	\$230,636	\$39,375	\$42,050	\$116,355	\$824,291

Source: SFMTA.

Therefore, as of August 31, 2013, the SFMTA incurred costs totaling \$37,243,311 under the existing PRWT contract, as summarized in Table 3 below.

Table 3: Total Required and Optional Service Costs Incurred by SFMTA under existing PRWT Contract from November 1, 2008 through August 31, 2013

Total Required Services	\$36,419,020
Total Optional Services	824,291
Total Services	\$37,243,311

Source: SFMTA.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the SFMTA to reallocate funds in the existing contract with PRWT that are currently designated for optional services to non-optional services.

As noted above, the Board of Supervisors previously authorized the PRWT contract for an initial term of five years from November 1, 2008 through October 31, 2013, with an option to renew for up to an additional five years, or from November 1, 2013 up through October 31, 2018. The initial PRWT contract was for an amount not to exceed \$53,475,441, including (a) \$45,815,441 for required, non-optional services and (b) \$7,660,000 for optional services.

According to Mr. Steven Lee, Manager of Financial Services for the SFMTA, although the Board of Supervisors previously authorized up to an additional five years, the SFMTA is now proposing to extend the existing PRWT contract for an additional two years, or from November 1, 2013 through October 31, 2015, in order to have sufficient time to develop and issue a new Request for Proposal (RFP) for parking citation processing. Mr. Lee advises that the two-year extension would enable the SFMTA to address SFMTA's changing services and technology needs, develop an improved business model to encourage competition from vendors, and potentially separate the existing contract into multiple contracts.

According to Mr. Lee, a new RFP for parking citation processing is anticipated to be issued in early 2015, to be awarded in later 2015, to coincide with the termination of the existing PRWT contract on October 31, 2015.

FISCAL IMPACT

When the SFMTA originally entered into this PRWT contract in 2008, based on historical patterns, SFMTA assumed an average of 1.8 million citations would be issued each year. However, as shown in Table 1 above, over the past five years, an average of 1.62 million citations was issued each year. As a result, the average costs incurred under the existing PRWT contract has averaged \$7.56 million annually.

According to Mr. Lee, the reduction in the number of citations issued is partially due to the Department of Public Works (DPW) implementation of its Mechanical Street Sweeping Efficiency Program in October of 2008, which reduced the frequency of street cleaning from weekly to twice monthly on ten of the 22 street sweeping routes. In addition, the SFMTA increased the cost of individual citations and implemented parking meter payment strategies such as Pay by Phone and credit card options that has resulted in higher meter compliance rates, further reducing the overall number of citations issued.

The original PRWT Services agreement was approved for a total not-to-exceed \$53,475,441, including \$45,815,441 for required services and \$7,660,000 for optional services. As summarized in Table 3 above, to date, the SFMTA has incurred total costs of \$37,243,311, including \$36,419,020 for required services and \$824,291 for optional services. As summarized in Table 4 below, based on a remaining total authorized balance of \$16,232,130, the requested reallocation would provide the same initial not-to-exceed \$53,475,441, but would reallocate the amounts of \$52,651,150 for required services and \$824,291 for optional services.

Table 4: Original and Requested Authorization for Required, Optional and Total Services

	Required Services	Optional Services	Total
Current Authorized Amount	\$45,815,441	\$7,660,000	\$53,475,441
Less Expenditures To Date	(36,419,020)	(824,291)	(37,243,311)
Remaining Authorization	\$9,396,421	\$6,835,709	\$16,232,130
Requested Reallocation	\$52,651,150	\$824,291	\$53,475,441
Remaining Revised Authorization	\$16,232,130	0	\$16,232,130

Source: SFMTA and Budget and Legislative Analyst.

According to Mr. Lee, the SFMTA does not plan to acquire any additional optional services from PRWT. Therefore, as shown in Table 4 above, if the proposed resolution is approved, all of the remaining \$6,835,709 authorization for optional services would be transferred to required services for a total remaining authorization of \$16,232,130 for required services.

Based on the data shown in Table 4 above, the title and body of the proposed resolution should be amended to reflect the revised SFMTA's expenditures to date, and the remaining authorized amounts that are identified in the proposed resolution.

Mr. Lee advises that the remaining \$16,232,130 should be sufficient for the remaining 26 months of the parking citation processing contract extension with PRWT, through October 31, 2015. Mr. Lee notes that given the anticipated higher compliance of motorists paying at parking meters that will accept easier and additional forms of payments, the number of citations issued by SFMTA

may decline further, such that the payments to PRWT would also decline commensurately over the next 26 months.

RECOMMENDATIONS

1. Amend the proposed resolution:
 - a. in the title on page 1, line 4 from \$6,827,729 to \$6,835,709 to reflect the remaining authorized amount for optional services that would be designated for non-optional required services, as shown in Table 4 above;
 - b. on page 2, line 10 from \$6,827,729 to \$6,835,709 to reflect the remaining authorized amount for optional services, as shown in Table 4 above;
 - c. on page 2, line 11 from \$10,367,685 to \$9,396,421 to reflect the remaining authorized amount for required services, as shown in Table 4 above; and
 - d. on page 2, line 14 from \$6,827,729 to \$6,835,709 to reflect the remaining authorized amount for optional services that would be designated for non-optional required services, as shown in Table 4 above.
2. Approve the proposed resolution, as amended.