

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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October 21, 2022

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** October 26, 2022 Budget and Finance Committee Meeting

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<b>Item 1</b> <b>File 22-0970</b> <i>(Continued from 10/19/22 meeting)</i>	<b>Department:</b> Treasurer-Tax Collector
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**EXECUTIVE SUMMARY**

**Legislative Objectives**

- The proposed ordinance would extend the First Year Free Program through June 2023 and expand the program retroactively to November 1, 2021 by: (a) increasing the maximum amount of gross receipts in San Francisco for a business to qualify for the program from \$2 million to \$5 million; (b) removing the requirement that a qualifying business is located on the ground floor; (c) increasing the amount of gross receipts above which the waiver would be retroactively revoked from \$10 million to \$15 million in the calendar year of, or in any of the three calendar years following, the date the business commenced or opened a new location; and (d) expand the eligibility to include all business types.

**Key Points**

- In July 2021, the Board of Supervisors approved legislation waiving first-year permit, license, and business registration fees for certain small businesses for a one-year period between November 2021 and October 2022 (File 21-0741). The goal of the waiver program, referred to as the “First Year Free Program,” is to provide relief to small businesses during the City’s recovery from the COVID-19 pandemic. The Treasurer-Tax Collector administers the First Year Free Program, which had enrolled 1,758 businesses as of October 10, 2022. The City has waived a total of \$441,423 from November 2021 through August 2022 under the existing First Year Free Program.
- Under the current program, qualifying businesses are defined as businesses that (a) obtain a new business registration certificate between November 2021 and October 2022, (b) have \$2 million or less in gross receipts in San Francisco, and (c) have a registered business location that is at ground floor on a public right of way. Under the current program, eligible business types include Sales and Services, Retail; Entertainment, Arts and Recreation Use; or Social Service or Philanthropic Facility, and COVID-19 Relief and Recover. Formula retail does not qualify for the program.
- The Treasurer-Tax Collector estimates that expanding eligibility to include businesses earning between \$2 million and \$5 million and extending the program through June 2023 would result in an additional 2,622 eligible businesses by the end of FY 2022-23. The Department was not able to estimate the number of businesses that would also qualify due to waiving the ground floor street facing requirement or expanding eligibility to include all business types.

**Fiscal Impact**

- Due to uncertainty regarding the total number of businesses that would be eligible for waivers under the proposed program changes, we cannot determine whether the FY 2022-23 program budget (\$3.7 million) will be sufficient to cover costs in FY 2022-23

**Recommendation**

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

**MANDATE STATEMENT**

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

**BACKGROUND**

**First Year Free Program**

In July 2021, the Board of Supervisors approved legislation waiving first-year permit, license, and business registration fees for certain small businesses for a one-year period between November 2021 and October 2022 (File 21-0741). The goal of the waiver program, referred to as the “First Year Free Program,” is to provide relief to small businesses during the City’s recovery from the COVID-19 pandemic. The Treasurer-Tax Collector administers the First Year Free Program, which had enrolled 1,758 businesses as of October 10, 2022.

**Program Eligibility**

Both new small businesses and existing small businesses with new locations are eligible for fee waivers. According to the legislation, qualifying businesses are defined as businesses that (a) obtain a new business registration certificate between November 2021 and October 2022, (b) have \$2 million or less in gross receipts in San Francisco, and (c) have a registered business location that is ground floor on a public right of way. Eligibility is limited to Sales and Services, Retail; Entertainment, Arts and Recreation Use; or Social Service or Philanthropic Facility, and COVID-19 Relief and Recovery, as defined in the Planning Code. Formula retail businesses, which are defined in Section 303.1 of the Planning Code as business that have 11 or more establishments with standardized features, do not count as qualified businesses.

The program does not apply to certain permits, licenses, and fees, such as state fees for police fingerprinting and hazardous materials. In addition, fee waivers may be revoked if a business that originally qualified for a fee waiver had more than \$10 million in gross receipts in San Francisco in the calendar year of or in any of the three calendar years following the date the business commenced or opened a new location.

**Implementation**

Businesses that meet program criteria are automatically prompted to opt-in to the program during the New Business Registration and Account Update application processes. New businesses complete the New Business Registration application and existing businesses opening a new location complete the Account Update application with the Treasurer-Tax Collector. The Treasurer-Tax Collector waives business registration fees for eligible businesses that opt-in to the program. The Treasurer-Tax Collector has created a lookup tool that enables other City departments that collect license and permit fees to validate eligibility for fee waivers. According to the First Year Free Program Report, departments submit monthly invoices detailing all fees waived due to the First Year Free Program to the Treasurer-Tax Collector accounting team, which transfers the amount waived from the General Fund to the permitting department.

**DETAILS OF PROPOSED LEGISLATION**

As amended in the October 19, 2022 Budget & Finance Committee meeting, the proposed ordinance would extend the First Year Free Program through June 2023 and expand the program retroactively to November 1, 2021 by: (a) increasing the maximum amount of gross receipts in San Francisco for a business to qualify for the program from \$2 million to \$5 million; (b) removing the requirement that a qualifying business is located on the ground floor; (c) increasing the amount of gross receipts above which the waiver would be retroactively revoked from \$10 million to \$15 million in the calendar year of, or in any of the three calendar years following, the date the business commenced or opened a new location; and (d) expand the eligibility to include all business types.

In addition, the ordinance would revise the procedures for challenging Tax Collector determinations that a business improperly claimed a waiver and would make other administrative and reporting changes.

**Reporting**

The proposed ordinance would require the Treasurer-Tax Collector to report on the program, including information on the number of qualified businesses by supervisorial district that received fee waivers, the types of businesses that received fee waivers, and the fees and total amounts waived through March 2023, by May 1, 2023. According to the Treasurer-Tax Collector's First Year Free Program Report, issued in April 2022, two-thirds of all fees waived for 504 enrolled businesses through February 2022 were for food services businesses, indicating that the program is particularly helpful to new restaurants.

**FISCAL IMPACT****Actual Fees Waived Under Existing Program**

The City has waived a total of \$441,423 from November 2021 through August 2022 under the existing First Year Free Program. From November 2021 through June 2022, 1,085 businesses were enrolled in the First Year Free and the City waived \$288,715. According to Amanda Fried, Chief of Policy and Communication at the Office of the Treasurer & Tax Collector, actual fees waived were less than the budgeted amount of \$4 million in FY 2021-22 because the criteria was limiting, many businesses can open without seeking permits, and some building permits do not become payable until several months to a year after application. In July and August 2022, the City waived an additional \$152,708. Exhibit 1 below shows the actual fees waived by department and fiscal year.

**Exhibit 1: Actual Value of Fees Waived by Department**

<b>Department</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>	<b>Total</b>	<b>Percent of Total</b>
	8 Months Nov-Jun	2 Months Jul-Aug		
Treasurer	\$103,498	\$65,477	\$168,976	38%
Building Inspection	88,160	52,025	140,185	32%
Public Health	79,434	25,739	105,173	24%
Entertainment	9,670	5,246	14,916	3%
Public Works	2,569	3,224	5,793	1%
Planning	4,568	996	5,564	1%
Police	816	0	816	0%
Fire	0	0	0	0%
<b>Totals</b>	<b>\$288,715</b>	<b>\$152,708</b>	<b>\$441,423</b>	<b>100%</b>

Source: Treasurer-Tax Collector

As shown above the top three departments with the highest amounts waived under the existing program are the Treasurer-Tax Collector (38 percent of total fees waived), the Department of Building Inspection (32 percent of total fees waived), and the Department of Public Health (24 percent of total fees waived).

**Estimated Eligible Businesses Under Proposed Expanded Program**

As mentioned above, 1,758 businesses were enrolled in the existing program as of October 2022. According to Amanda Fried, Chief of Policy & Communications at Treasurer-Tax Collector, expanding eligibility to include businesses earning between \$2 million and \$5 million and extending the program through June 2023 would result in an additional 2,622 eligible businesses by the end of FY 2022-23, including:

- 1,627 new businesses or existing businesses with new locations commencing operations in FY 2022-23 with gross receipts of \$2 million or less;
- 597 new businesses or existing businesses with new locations commencing operations in FY 2022-23 with gross receipts between \$2 million and \$5 million; and
- 398 new businesses or existing businesses with new locations commencing operations in FY 2021-22 with gross receipts between \$2 million and \$5 million that will be eligible for fee waivers retroactively.

The Treasurer-Tax Collector was unable to account for the expansion of eligibility beyond street facing establishments or expanding eligibility to all business types. Therefore, the actual increase in the number of eligible businesses will likely be more than 2,622.

Our report for the October 19, 2022 Budget & Finance Committee meeting projected total forgone revenue of \$3.5 million in FY 2022-23 based on 4,380 eligible businesses (1,758 currently eligible and 2,622 newly eligible), which included a 50 percent contingency to account for the lack of data on expanding eligibility to include non-street facing ground floor establishments. At

that committee meeting, the proposed ordinance was amended to expand eligibility to include all business types, of which, as noted above, we do not have a count.

Because we do not have complete information on the number of eligible businesses, we cannot determine whether the FY 2022-23 program budget (\$3.7 million) will be sufficient to cover costs in FY 2022-23 and therefore consider approval of the proposed ordinance to be a policy matter for the Board of Supervisors.

**RECOMMENDATION**

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

<p><b>Item 2</b>  <b>File 22-0931</b>  <i>(Continued from 10/19/22 meeting)</i></p>	<p><b>Department:</b>  City Attorney's Office (CAT), Real Estate Division (RED)</p>
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**EXECUTIVE SUMMARY**

**Legislative Objectives**

- The proposed resolution would approve the Fifth Amendment to the lease between SFII 1390 Market St., LLC as landlord and the City Attorney’s Office as tenant for approximately 75,137 square feet at 1390 Market Street, extending the term from January 2023 through five years after substantial completion of tenant improvements, for initial annual rent of \$4,959,042, with three percent annual increases, and continuing the use of a portion of the premises for childcare services.

**Key Points**

- The City Attorney’s Office has leased office space at 1390 Market Street since the 1980s. The current lease was approved by the Board of Supervisors in 2000 and has been amended four times to extend the term, increase the premises, and increase the rent amount. The lease expires December 31, 2022, and the Real Estate Division (RED) has negotiated a lease amendment with the landlord to extend the term 10 years. Based on feedback from the Budget & Finance Committee, RED negotiated a five-year lease extension to provide an opportunity for the City to identify City-owned space for City Attorney staff at 1390 Market Street.
- The Real Estate Division analyzed the fiscal feasibility of relocating City tenants at 1390 Market Street to City owned space. The report noted that approximately 300,000 rentable square feet currently leased by the City in the Civic Center area will be expiring in 2028 and that it may make sense for the City to purchase property in the area, if economic conditions allow. Based on that report that, we estimated that continuing the City’s leases at 1390 Market Street for ten years was less expensive than purchasing a site in the Civic Center area.
- Under the proposed Fifth Amendment, the City Attorney’s Office would relocate their existing space on the 10<sup>th</sup> floor to the 4<sup>th</sup> floor, expanding the premises to 75,137 square feet. The landlord would contribute \$1.9 million to renovations of the new and existing 4<sup>th</sup> floor spaces and one month of rent abatement.

**Fiscal Impact**

- Initial annual rent is \$66 per square foot. Over the five-year term of the lease extension, the City Attorney’s Office would pay \$25,914,974 in total rent. The City would also contribute \$1.6 million to the tenant improvement costs, for a total City cost of \$27,514,974. Costs would be funded by the General Fund.
- The five-year cost of the originally proposed lease is \$24,675,211 or \$2,839,763 less than the cost of the amended lease due to shifting \$1.6 million of the tenant improvements to the City and a reduction in the rent abatement from four months to one month, though the total cost of the original lease is higher due to the 10-year term.

**Recommendation**

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

**MANDATE STATEMENT**

City Administrative Code 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution. A third-party appraisal is required for leases in which the rent exceeds \$45 per square foot per year, and an appraisal review is required for leases in which the rent exceeds \$60 per square foot.

**BACKGROUND**

The City Attorney’s Office has leased office space at 1390 Market Street since the 1980s. In May 2000, the Board of Supervisors approved the City Attorney Office’s current lease at 1390 Market Street, for approximately 62,814 square feet of office space, for a term of seven years, from January 2001 through December 2007, with one five-year option to extend through December 2012 (File 00-0851). In June 2006, the City Attorney’s Office executed the First Amendment to the lease, which set the parameters for relocating to new space within the building, at the request of the landlord, and reduced the rent for the option term. In May 2007, the Board of Supervisors approved the Second Amendment, exercising the five-year option to extend the lease through December 2012, and increasing the leased space to 68,783 square feet (File 07-0506). In May 2012, the Board of Supervisors approved the Third Amendment to the lease, extending the term by five years through December 2017, granting the City two additional five-year terms to extend through December 2027, and expanding the leased space to 69,402 square feet (File 12-0280). In June 2017, the Board of Supervisors approved the Fourth Amendment to the lease, exercising the first five-year option to extend through December 2022. The leased premises include approximately 1,737 square feet of space used for infant and toddler care services.

The lease expires December 31, 2022. The Real Estate Division (RED) had negotiated a lease amendment to extend for an additional 10 years through December 2032, and to relocate office space from the 10<sup>th</sup> floor to the 4<sup>th</sup> floor, expanding the premises to approximately 75,137 square feet. Based on feedback from the September 21, 2022 Board of Supervisors Budget and Finance Committee meeting, RED staff have renegotiated the lease to shorten the extension term to five years. The purpose of the shorter lease is to provide an opportunity for the City to identify City-owned space for City Attorney staff at 1390 Market Street.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve the Fifth Amendment to the lease between SFII 1390 Market St., LLC as landlord and the City Attorney’s Office as tenant for approximately 75,137 square feet of office space at 1390 Market Street, extending the term from January 2023 through five years after substantial completion of tenant improvements, for initial annual rent of \$4,959,042, with three percent annual increases, and continuing the use of a portion for childcare services. The proposed resolution would also allow the Director of Property to enter into immaterial amendments to the lease or the day care license.

Under the proposed Fifth Amendment, the City Attorney’s Office would relocate leased space from the 10<sup>th</sup> floor to the 4<sup>th</sup> floor, expanding the leased premises from approximately 69,402 to 75,137 square feet. According to Andrico Penick, Director of Real Estate, the move is mutually



beneficial in that it allows the City Attorney's Office to consolidate its office space from the 4<sup>th</sup> through 7<sup>th</sup> floors while allowing the landlord to market the more attractive 10<sup>th</sup> floor space to a new tenant. The landlord would contribute \$1.9 million and the City would contribute \$1.6 million to build out the 4<sup>th</sup> floor space to the City Attorney's Office specifications and refurbish the existing 4<sup>th</sup> floor space with new paint and carpeting. The landlord would also provide one month of rent abatement, for a total contribution of approximately \$2.3 million. Director Penick anticipates that the 4<sup>th</sup> floor improvements will be complete by approximately April 2023.<sup>1</sup>

The proposed Fifth Amendment would have an initial annual rent of \$66 per square foot (\$5.50 per square foot per month), with three percent annual increases thereafter. This is a reduction of \$3.99 per square foot from the current rental rate of \$69.99 per square foot. An appraisal conducted by the Dore Group and an appraisal review conducted by Colliers International have affirmed that the annual rental rate of \$66 per square foot is fair market rent. Starting in the second year of the lease extension, the City Attorney's Office would resume paying a share of the increase of the building's commercial operating expenses over the new 2023 base year, which includes property taxes, insurance, maintenance, repairs, utilities, waste disposal, janitorial services, and security. With the expanded premises, the City Attorney's Office's share of the increase of the building's operating expenses would increase from 31.75 percent to 34.74 percent.

The key terms of the proposed Fifth Amendment, both as previously proposed and as further amended, are shown in Exhibit 1 below.

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<sup>1</sup> If the 4<sup>th</sup> floor improvements are not complete by the lease commencement date, the City Attorney's Office would pay the proposed rate of \$5.50 per square foot per month for the current leased premises of 69,402 square feet.

**Exhibit 1: Key Terms of Proposed Lease Amendment**

	<b>As Previously Proposed</b>	<b>As Amended</b>
<b>Premises</b>	75,137 square feet	75,137 square feet
<b>Initial Annual Rent</b>	\$4,959,042 (\$66 per square foot)	\$4,959,042 (\$66 per square foot)
<b>Rent Adjustment</b>	3% annual increase	3% annual increase
<b>Term</b>	10 years (January 2023 – December 2032)	5 Years (January 2023 through 5 years after substantial completion of tenant improvements)
<b>Options to Extend</b>	One 5-year option (through December 2037)	None
<b>Building Expenses</b>	City pays proportional share (34.74%) starting year 2 of the lease, of the increase over the base year (expenses include property taxes, insurance, maintenance, repairs, utilities, waste disposal, janitorial services, and security)	No Change
<b>Rent Abatement</b>	4 months abated (value of \$1,653,014)	1 month abated (value of \$413,254)
<b>Tenant Improvements</b>	New carpeting and painting on 4 <sup>th</sup> floor Existing Premises, relocation of servers and City’s furniture, fixtures and equipment including files and personal property on 10 <sup>th</sup> floor, buildout of the new 4 <sup>th</sup> Floor Expansion Space to City specifications, paid by landlord (valued at approximately \$3.5 million)	New carpeting and painting on 4 <sup>th</sup> floor Existing Premises, relocation of servers and City’s furniture, fixtures and equipment including files and personal property on 10 <sup>th</sup> floor, buildout of the new 4 <sup>th</sup> Floor Expansion Space to City specifications, \$1.9 million paid by landlord, \$1.6 million paid by City.
<b>Option to Purchase</b>	City has right of first refusal if the Landlord offers the Office Condominium up for sale. This right does not apply if the Landlord offers its entire Portfolio consisting of 4 condominiums up for sale.	No Change

Source: Proposed Lease

Under the proposed Fifth Amendment, the City Attorney’s Office would continue to lease approximately 1,737 square feet on the ground floor for use as a childcare facility. The space was previously used by Marin Day Schools but closed due to lack of enrollment because of the COVID-19 pandemic and shelter-in-place order. According to Director Penick, the City Attorney’s Office and RED plan to issue a Request for Proposals (RFP) by the end of 2022 to select a new operator for the childcare facility as well as the closed childcare facility in City Hall. The childcare facility was previously rented to Marin Day Schools for the nominal rate of \$1 per year, and the proposed resolution requires that the City will continue to rent the space at \$1 per year to a childcare provider.

**Rent vs. Buy**

The proposed Fifth Amendment would also provide the City with the first right to purchase if the landlord were to sell the office condominium.

At the recommendation of the Budget & Legislative Analyst, File 20-1394, a resolution approving a lease at 1390 Market Street for the Department of Children, Youth, & Their Families (DCYF),

was amended to request the Real Estate Division provide an analysis on the fiscal feasibility of moving the City tenants (DCYF and CAT) at 1390 Market Street into existing City-owned office space or purchasing and/or developing new City-owned office space, to allow for termination of the City’s leases in that building. On September 20, 2022, RED issued the report. The report noted that approximately 300,000 rentable square feet currently leased by the City in the Civic Center area will be expiring in 2028 and that it may make sense for the City to purchase property in the area, if economic conditions allow.

Based on data in the RED report, we estimated that continuing the City’s leases at 1390 Market Street for ten years was less expensive than purchasing a site in the Civic Center area, after accounting for market conditions, moving costs, tenant improvements, and debt service on a building purchase.

**FISCAL IMPACT**

Under the proposed Fifth Amendment, the City Attorney’s Office would pay initial annual rent of \$4,959,042 (\$66 per square foot), with one month of rent abated, and three percent annual increases. Over the five-year term, the total rent paid would be \$25,914,974 and would be paid by the General Fund. Annual rents, both as previously proposed and in the amended lease, are shown in Exhibit 2 below.

**Exhibit 2: Annual Rent under Proposed Lease Amendment**

<b>Year</b>	<b>Rent per Square Foot</b>	<b>Annual Rent, as Previously Proposed</b>	<b>Annual Rent, as Amended</b>
Year 1	\$66.00	\$3,306,028	\$4,545,789 <sup>2</sup>
Year 2	67.98	5,107,813	5,107,813
Year 3	70.02	5,261,048	5,261,048
Year 4	72.12	5,418,879	5,418,879
Year 5	74.28	5,581,445	5,581,445
Year 6	76.51	5,748,889	-
Year 7	78.81	5,921,355	-
Year 8	81.17	6,098,996	-
Year 9	83.61	6,281,966	-
Year 10	86.12	6,470,425	-
<b>Total</b>		<b>\$55,196,845</b>	<b>\$25,914,974</b>

In addition to the rent, the City would contribute \$1,600,000 to tenant improvement costs, for a total City cost of \$27,514,974 over five years.

As mentioned above, beginning in Year 2 of the lease extension, the City Attorney’s Office would pay a portion of the increase to the operating expenses of the commercial portion of the building over the new base year (2023). As the 2023 operating expenses for the building are currently

<sup>2</sup> Year 1 includes one month of rent abatement, a reduction from four months of rent abatement in the previously proposed lease.

unknown, future increases cannot be projected at this time. In 2022, the City Attorney's Office pays \$291,030 in annual operating expenses.

### **Updated Lease Terms**

The five-year cost of the originally proposed lease is \$24,675,211 or \$2,839,763 less than the cost of the amended lease due to shifting \$1.6 million of the tenant improvement costs to the City and a reduction in the rent abatement from four months to one month, though the total cost of the original lease is higher due to the 10-year term. As noted above, the purpose of the shorter lease is to provide an opportunity for the City to identify City-owned space for City Attorney staff at 1390 Market Street.

### **RECOMMENDATION**

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

<p><b>Item 3</b> <b>File 22-0989</b></p>	<p><b>Department:</b> San Francisco International Airport (Airport)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve a shuttle bus services contract between San Francisco International Airport (Airport) and SFO Hotel Shuttle, Inc. for a term of five years, from approximately December 2022 through November 2027, and an amount not to exceed \$72,612,418.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Airport provides free employee shuttle bus service to various locations, which have included the Long Term and Employee Parking Garages/Lots, remote airfield operations locations, as-needed emergency busing during AirTrain outages, and regional transit connections. In March 2022, the Airport issued a Request for Proposals (RFP) for shuttle bus services. SFO Hotel Shuttle, the existing shuttle provider, was deemed the highest scoring responsive and responsible proposer and was awarded a contract.</li> <li>• Under the proposed contract, SFO Hotel Shuttle would continue to provide service to the West Field Garage and Lot D, which is generally only available to employees, as well as service to Hayward and Castro Valley, which began in September 2022 but would begin charging a fare under the new contract. SFO Hotel Shuttle would continue to provide as-needed service for AirTrain outages, which have become more frequent. The Airport anticipates that airfield busing would resume in 2024. Finally, the Airport is considering establishing new routes to Solano County, western San Francisco, and to cover overnight BART routes.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The proposed contract would have a total amount not to exceed \$72,612,418 over the five-year term. The Airport anticipates that SFO Hotel Shuttle will initially employ approximately 92 full-time equivalent (FTE) employees.</li> <li>• Projected 2023 contract expenditures are estimated using the average monthly bill from March 2021 through April 2022, as well as cost estimates for the Hayward-Castro Valley line, a 10 percent contingency, and startup costs for new routes. Using the 2023 cost estimate of \$12,304,237 and three percent annual escalation, as well as estimates for airfield busing service, the Airport estimates the total not-to-exceed amount of \$72,612,418 over five years.</li> <li>• Establishing new service to Solano County, western San Francisco, or covering overnight BART routes may require an increase in the not to exceed amount.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**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 San Francisco International Airport (Airport) provides free shuttle bus service to various locations, which have included the Long Term and Employee Parking Garages/Lots, remote airfield operations locations, as-needed emergency busing during AirTrain outages, and regional transit connections. Routes change occasionally based on the Airport’s assessed needs.

SFO Hotel Shuttle has an existing contract with the Airport to provide shuttle bus services for a not-to-exceed amount of \$116,181,617 and a 10-year term ending December 31, 2022. The most recent amendment to that contract approved by the Board of Supervisors included a term through June 2022, however the Airport later extended the agreement through December 2022 without increasing the not to exceed amount. According to Airport staff, pandemic-induced route changes and contractor vacancies allowed for funding the extension without increasing the not to exceed amount.

**Selection Process**

In March 2022, the Airport issued a Request for Proposals (RFP) for shuttle bus services. In April 2022, the Airport received four proposals, and a three-member evaluation panel scored them, as shown in Exhibit 1 below.<sup>1</sup>

**Exhibit 1: Proposals and Scores from RFP**

<b>Proposer</b>	<b>Score (out of 500)</b>
SFO Hotel Shuttle, Inc.	437.00
SP Plus Transportation	408.01
Storer Transit Systems	394.96
ABM Aviation, Inc.	287.48

Source: Staff memo to Airport Commission

SFO Hotel Shuttle, Inc., the existing shuttle provider, was deemed the highest scoring responsive and responsible proposer and was awarded a contract. In September 2022, the Airport Commission awarded a contract to SFO Hotel Shuttle, Inc.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve a shuttle bus services contract between the Airport and SFO Hotel Shuttle for a term of five years, from approximately December 2022 through

<sup>1</sup> The evaluation panel consisted of a Port of Oakland Airport Parking Operations Superintendent, a San Francisco Municipal Transportation Agency (SFMTA) Performance and Analytics Manager, and an SFO Aviation Planner.

November 2027, and an amount not to exceed \$72,612,418. Consistent with the RFP, the proposed contract does not include any options to extend the term. The Airport's current contract with SFO Hotel Shuttle expires December 31, 2022, but would be terminated after approval of the proposed new contract.

Under the proposed contract, SFO Hotel Shuttle would initially provide service on the following routes:

1. Lot D to and from the terminals: service every 2-8 minutes;
2. West Field Garage to and from the terminals: service every 5-10 minutes; and
3. Hayward and Castro Valley BART stations to and from the terminals: service every 30 minutes most of the day and infrequently overnight.

The Lot D and West Field Garage lines provide free service, which is generally only available to employees who work at the Airport. The Hayward and Castro Valley line began free service in September 2022 but would begin charging a fare once the new contract takes effect, which would partially offset the cost of this service.<sup>2</sup> Service may be available either only to Airport employees or to both employees and travelers. The Airport may add or remove routes throughout the contract term.

### **AirTrain Outages and Airfield Busing**

Under the proposed contract, SFO Hotel Shuttle would continue to provide as-needed service for AirTrain outages. According to Seth Morgan, Airport Senior Transportation Planner, AirTrain outages have become more frequent as air travel has increased in recent months and the system ages and expands. Airfield busing service was suspended due to the COVID-19 pandemic, but the Airport anticipates that it will resume in 2024 and has accounted for this service in the contract budget.

### **Expanded Shuttle Services for Airport Employees**

In December 2020, Nelson Nygaard Consulting issued a study for the Airport analyzing employee commute patterns and strategies to address employee commute challenges, such as long commutes and shift start or end times that do not align with public transit service schedules. According to the study, many Airport employers experience hiring challenges and high turnover rates, and Airport employees live increasingly far from the Airport. The study considered five potential shuttle routes and concluded that the Hayward and Castro Valley line would have the highest ridership and the lowest cost per passenger to operate. According to Airport Senior Transportation Planner Morgan, the Airport is considering adding shuttle service to Solano County in 2023, as well as service to western San Francisco and overnight BART replacement service at some point during the contract term.

### **Contract Performance**

The existing contract requires SFO Hotel Shuttle to submit daily reports detailing any bus breakdowns, non-operational routes, passengers left behind at bus stops, and customer

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<sup>2</sup> Under the existing contract, SFO Hotel Shuttle, Inc. cannot charge fares for service.

complaints. The Airport does not conduct a formal performance evaluation but reports the contractor is performing satisfactorily and the Budget and Legislative Analyst has reviewed a sample of daily reports going back to June 2022. The new contract requires similar data collection and daily reporting. An on-time rate below 70 percent would be potential grounds for termination as non-performance.

**FISCAL IMPACT**

The proposed contract would have a total amount not to exceed \$72,612,418 over the five-year term. The Airport anticipates that SFO Hotel Shuttle will initially employ approximately 92 full-time equivalent (FTE) employees.<sup>3</sup> Projected 2023 contract expenditures are estimated using the average monthly bill from March 2021 through April 2022, as well as cost estimates for the Hayward-Castro Valley line, a 10 percent contingency, and startup costs for new routes, as shown in Exhibit 2 below.

**Exhibit 2: Estimated 2023 Contract Costs**

Average Monthly Bill (March 2021 – April 2022)	\$796,666
Hayward/Castro Valley Monthly Subsidy <sup>4</sup>	80,545
Estimated Monthly Cost	877,211
Estimated Annual Cost	\$10,526,531
Contingency (10%)	1,052,653
New Bus Routes Start-Up Costs	725,053
<b>Total Estimated Cost</b>	<b>\$12,304,237</b>

Source: Airport

Like the current contract with SFO Shuttle, under the proposed contract, the Airport will reimburse the contractor for direct labor costs and other reimbursable costs (such as training costs and cleaning supplies costs), and pay the contractor a fixed monthly management fee of \$77,472.<sup>5</sup> The Airport will provide lots to store buses and other vehicles when they are not in service. According to Senior Transportation Planner Morgan, the new bus routes start-up costs represent approximately three months of free service for a new route as an incentive for employees to try the service. For the potential Solano County line, the cost may include renting a parking lot for park and ride service and a larger coach bus. The Airport requests including this in the baseline annual costs for future years because costs for operating new routes beyond three months, and potential subsidies to do so, have not been determined. Using the 2023 cost estimate of \$12,304,237 and three percent annual escalation, as well as estimates for airfield busing service, the Airport estimates the total not-to-exceed amount of \$72,612,418, as shown in Exhibit 3 below.

<sup>3</sup> The positions are 81 Drivers, four Mechanics, one Mechanic-Foreman, two Cleaners, and four Supervisors.  
<sup>4</sup> According to Ricardo Valle, Airport Principal Administrative Analyst, SFO Hotel Shuttle would collect fares from passengers and deduct this revenue from its invoices. The estimated annual subsidy is the amount the Airport projects to spend on the route, net of fares. Fare revenue would be collected by a software application procured by the contractor, but the Airport retains the right of approval, and will not approve a package which does not incorporate a data auditing feature accessible to Airport staff.  
<sup>5</sup> The monthly management fee would decline from \$107,346 under the current contract because certain expenses that had been included would now be directly reimbursed.



**Exhibit 3: Estimated Annual Contract Costs**

Year	Baseline Cost	Airfield Busing <sup>6</sup>	Total Cost
Year 1 (2023)	\$12,304,237	-	\$12,304,237
Year 2 (2024)	12,669,698	1,752,000	14,421,698
Year 3 (2025)	13,046,013	1,804,038	14,850,051
Year 4 (2026)	13,433,506	1,857,621	15,291,127
Year 5 (2027)	13,832,508	1,912,797	15,745,304
<b>Total</b>	<b>\$65,285,962</b>	<b>\$7,326,456</b>	<b>\$72,612,418</b>

Source: Airport

According to Airport staff, once sufficient data from the pilot Hayward/Castro Valley route is available to project precise operating costs for FY 2022-24, funding will be made available to completely cover this essential Airport service.

**Additional Shuttle Service**

According to Senior Transportation Planner Morgan, Solano County shuttle service has been of particular interest to airlines and other Airport-based businesses as a recruitment and retention tool due to the lower cost of housing there. The Airport is exploring partnerships with its private employers to potentially help offset the cost of Solano County service. Establishing this route, or routes to western San Francisco, or that cover overnight BART routes may require an increase in the not to exceed amount.

**RECOMMENDATION**

Approve the proposed resolution.

<sup>6</sup> According to Senior Transportation Planner Morgan, airfield busing service requires a Spotter in each bus to look out for aircrafts under the Airport's safety protocols. The estimated cost of \$150 per hour for airfield service includes the Driver, Spotter, and additional maintenance and overhead costs. This projection estimates that airfield service would run 16 hours per day with two buses, 365 days per year.