

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 4, 2018 Budget and Finance Committee Meeting

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Item 5 File 18-0887	Department: Municipal Transportation Agency (MTA)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize San Francisco Municipal Transportation Agency (SFMTA) to execute the first option to extend its vehicle advertising contract with Intersection Media, LLC, for a term of five years, from July 2019 through June 2024, with minimum guaranteed revenue of \$32,250,000. <p>Key Points</p> <ul style="list-style-type: none"> • In October 2013, SFMTA conducted a Request for Proposals (RFP) for advertising on SFMTA vehicles and other property. Titan Outdoor, LLC (now known as Intersection Media, LLC) was deemed the highest scoring responsive and responsible proposer. In May 2014, the Board of Supervisors approved a contract with Titan, for a term of five years and minimum guaranteed revenue of \$28,500,000, and two five-year options to extend. • SFMTA wishes to exercise the first option, which would extend the contract from July 2019 through June 2024, with minimum guaranteed revenue of \$32,250,000 over the five years. Intersection would pay the greater of the Minimum Annual Guaranteed (MAG) revenue or a 65 percent revenue share. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • Over the five-year term of the contract extension, SFMTA will receive at least \$32,250,000 in MAG revenues. SFMTA has typically received the 65 percent revenue share, which exceeds the MAG. • SFMTA would also receive at least \$1,651,250, over five years, in administrative payments and marketing support. The amount would be adjusted annually based on the Consumer Price Index (CPI). <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of \$1 million or more, or (ii) have anticipated revenues of \$1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

In October 2013, the San Francisco Municipal Transportation Agency (SFMTA) issued a Request for Proposals (RFP) for advertising on SFMTA vehicles and other property. SFMTA received two proposals, as shown in Table 1 below.

Table 1: Proposals and Scores from RFP

Proposer	Score (Out of 400)
Titan Outdoor LLC (now known as Intersection Media, LLC)	383.0
CBS Outdoor	334.1

Titan, which had been SFMTA's vehicle advertising vendor since July 2009, was deemed the highest scoring responsive and responsible proposer. In May 2014, the Board of Supervisors approved a contract with Titan (now known as Intersection Media, LLC) for five years through June 2019, with two five-year options to extend through June 2029 (File 14-0225).

The contract provided for Intersection to pay SFMTA the greater of the minimum annual guarantee payment (MAG) totaling \$28,500,000 over five years, or 65 percent of gross advertising revenues. Intersection has paid percentage revenues to SFMTA through FY 2017-18 of \$23,998,051, which is \$1,498,051 more than the MAG, as shown in Table 2 below.

Table 2: Minimum Annual Guarantee and Actual Payments by Intersection to SFMTA

Year	MAG	Actual Payment based on 65% of Gross Advertising Revenues	Percentage Revenues > MAG
FY 2014-15	\$5,400,000	\$5,781,783	\$381,783
FY 2015-16	5,550,000	6,439,011	889,011
FY 2016-17	5,700,000	5,837,471	137,471
FY 2017-18	<u>5,850,000</u>	<u>5,939,786</u>	<u>89,786</u>
Four-year subtotal	\$22,500,000	\$23,998,051	\$1,498,051
FY 2018-19	<u>6,000,000</u>	n/a	n/a
Total	\$28,500,000	n/a	n/a

Under the existing contract, Intersection has the exclusive right to advertise on SFMTA buses, light rail vehicles, cable cars, and historic street cars. Advertising may include vehicle wraps (as defined in the contract), vehicle exteriors, transit stations, Central Subway, parking garages, and backs of fare and parking media.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first five-year extension to the existing contract between SFMTA and Intersection from July 1, 2019 through June 30, 2024. The MAG revenue paid by Intersection to SFMTA over five-years is \$32,250,000. The contract would have one final option to extend through June 30, 2029.

According to Ms. Sonali Bose, SFMTA Director of Finance and Information Technology, SFMTA is requesting to exercise the contract extension nine months prior to the end of the existing contract because SFMTA is facing significant pressure on operating revenues, and wants to ensure continuation of advertising revenues under the proposed contract extension.

FISCAL IMPACT

The original contract provided for an annual increase of \$150,000 in the MAG in the extended term, as shown in Table 3 below. Other payments to SFTMA by Intersection include \$150,000 per year in administrative payments and \$150,000 per year in marketing support, totaling \$300,000, increased annually by the percentage change in the Bay Area Consumer Price Index (CPI). Over the five-year term of the contract extension, SFMTA will receive at least \$32,250,000 in MAG revenue and \$1,651,250 in administrative payments and marketing support, as shown in Table 3 below.

Table 3: Revenues Paid by Intersection to SFMTA by Year

Year	MAG	Administrative Payment and Marketing Support ¹
FY 2019-20	\$6,150,000	\$330,250
FY 2020-21	6,300,000	\$330,250
FY 2021-22	6,450,000	\$330,250
FY 2022-23	6,600,000	\$330,250
FY 2023-24	6,750,000	\$330,250
Total	\$32,250,000	\$1,651,250

As noted in Table 3 above, Intersection has paid 65 percent revenue share over the first four years of the contract of \$23,998,051, which is greater than the MAG of \$22,500,000. According to Ms. Bose, SFMTA expects to continue receiving the 65 percent revenue share, which would exceed the MAG.

RECOMMENDATION

Approve the proposed resolution.

¹ Adjusted annually by CPI

Item 6 File 18-0729	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 approves Modification No. 5 to the project management support services contract between San Francisco International Airport (Airport) and PGH Wong-MCK JV for the Airport Hotel Program, extending the contract through June 10, 2019 and increasing the amount by \$4,600,000, to a total not to exceed \$14,500,000. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Airport Hotel Program consists of constructing a new 351-room Grand Hyatt hotel on Airport property, addition of aircraft parking spaces, and reconfiguration of South McDonnell Road. The project's completion is expected by the end of 2019. • In 2014, the Airport issued a Request for Proposals (RFP) to select project management services for the Airport Hotel Program. PGH Wong-MCK JV was selected as the highest ranking responsive and responsible proposer. In January 2015, the Airport Commission approved a contract with PGH Wong-MCK JV for an initial term of one year and an amount not to exceed \$2,938,000. The Airport Commission has subsequently approved annual modifications to the contract. The contract currently expires November 30, 2018, with a total amount not to exceed \$9,900,000. • The proposed resolution would approve Modification No. 5, extending the term of the contract through June 10, 2019 and increasing the not-to-exceed amount to \$14,500,000. The term and not-to-exceed amount are expected to be sufficient to oversee the Airport Hotel Program through completion. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed resolution would increase the not-to-exceed amount of the PGH Wong-MCK JV contract by \$4,600,000. Sufficient funding is provided in the Airport's Capital Improvement Plan budget. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

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) Hotel Program includes the Airport Hotel Project and the Plot 2 Aircraft Parking Reconfiguration and South McDonnell Road Realignment Project. The Airport Hotel Project consists of constructing a new, 351 room Grand Hyatt hotel on Airport property, including meeting spaces, ballrooms, dining facilities, and a fitness center. The Plot 2 Aircraft Parking Reconfiguration and South McDonnell Road Realignment Project will install new underground utilities needed to add aircraft parking spaces near Boarding Area A, and reconfigure South McDonnell Road.

In September 2014, the Airport Commission authorized staff to conduct a Request for Proposals (RFP) for project management services for the Airport Hotel Program. The Airport received four proposals and a selection panel interviewed the three highest ranking proposers. The final scores for the proposals, following the interviews, are shown in Table 1 below.

Table 1: Proposals and Scores from RFP

Proposers	Final Score
PGH Wong-MCK JV	494.86
Hill International, Inc.	424.67
TCJV	414.00

PGH Wong-MCK JV was deemed the highest scoring responsible and responsive proposer, and the Airport Commission approved a contract in January 2015, for a term of one year and an amount not to exceed \$2,938,000.

The Airport Commission has subsequently approved annual modifications to the contract, as shown in Table 2 below.¹ The original contract and four previous modifications were not subject to Board of Supervisors approval because the contract amount was less than \$10 million.

¹ According to Ms. Garcia, the practice of the Airport’s Capital Program is to modify contracts for professional services annually in order to evaluate the services prior to extending the contract term and amount.

Table 2: Modifications to PGH Wong-MCK JV Contract

Modification	Approval Date	Contract Termination Date	Not-to-Exceed Amount
Original Contract	January 20, 2015	June 10, 2016	\$2,938,000
Modification No. 1 ²	March 18, 2016	June 10, 2016	2,938,000
Modification No. 2	May 3, 2016	June 10, 2017	5,500,000
Modification No. 3	June 6, 2017	June 10, 2018	9,000,000
Modification No. 4	May 15, 2018	November 30, 2018	9,900,000
Modification No. 5	May 15, 2018	June 10, 2019	14,500,000

On May 15, 2018, the Airport Commission approved Modification Nos. 4 and 5 to the contract. Modification No. 4 was for \$900,000 to allow project management services to continue while the Airport seeks Board of Supervisors approval on Modification No. 5.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification No. 5 to the project management contract between the Airport and PGH Wong-MCK JV, extending the term of the contract through June 10, 2019 and increasing the not-to-exceed amount to \$14,500,000. Other terms of the contract would not change. According to Ms. Sarah Garcia, Airport Project Manager, the contract term and not-to-exceed amount of Modification No. 5 are expected to be sufficient to complete the Airport Hotel Program.

FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount of the contract by \$4,600,000, to a total amount of \$14,500,000. A breakdown of the uses of funds is shown in Table 3 below.

² Modification No. 1 only amended billing rates and did not require Airport Commission approval.

Table 3: Breakdown of Uses of Funds

Contractor	Description	Mod. 5	Total Cost
<i>Task 1: Hotel</i>			
PGH Wong Engineering, Inc.	General Project Management Support Services	\$700,000	\$4,300,000
MCK Associates Inc.	General Project Management Support Services	909,099	3,029,420
Apex Testing Laboratories, Inc.	Special Inspection and Material Testing	176,531	800,000
Chaves & Associates	Document Control	(78,736)	600,000
Cornerstone Transportation Consultants	Administration	25,000	300,000
T.M. Davis & Associates, Inc.	Hotel Development Specialist	0	35,580
Subconsultants Markup (2%)		2,744	35,000
Other Direct Costs		110,000	400,000
Subtotal		\$1,844,638	\$9,500,000
<i>Task 2: Roadway – Landside</i>			
PGH Wong Engineering, Inc.	General Project Management Support Services	\$58,362	\$100,000
MCK Associates, Inc.	General Project Management Support Services	950,200	1,800,000
Apex Testing Laboratories, Inc.	Special Inspection and Material Testing	570,000	800,000
Chaves & Associates	Document Control	70,000	200,000
Subconsultants Markup (2%)		12,800	20,000
Other Direct Costs		14,000	80,000
Subtotal		\$1,675,362	\$3,000,000
<i>Task 3: Roadway – Airside</i>			
MCK Associates Inc.	General Project Management Support Services	\$534,300	\$1,184,000
Apex Testing Laboratories, Inc.	Special Inspection and Material Testing	410,000	600,000
Chaves & Associates	Document Control	125,000	200,000
Subconsultants Markup (2%)		10,700	16,000
Subtotal		\$1,080,000	\$2,000,000
Total		\$4,600,000	\$14,500,000

According to Ms. Garcia, the contract will be funded by the Airport's Capital Improvement Plan budget. Project management services authorized by Modification No. 5 are expected to be sufficient to complete the Airport Hotel Program.

RECOMMENDATION

Approve the proposed resolution.