

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Government Audit and Oversight Committee

FROM: Budget and Legislative Analyst



SUBJECT: June 11, 2021 Special Government Audit and Oversight Committee Meeting

TABLE OF CONTENTS

Item	File	Page
4	21-0449 Contract Amendment - HealthRIGHT 360 - COVID-19 Isolation and Quarantine Services - Not to Exceed \$21,767,146	1
5 & 6	21-0413 Agreement - Medline Industries, Inc. - Bulk Medical Supplies Distribution Services - Not to Exceed \$115,072,061 21-0414 Agreement - Medline Industries, Inc. - Low Unit of Measure Medical Supplies Distribution Services - Not to Exceed \$178,218,296.....	4
7	21-0610 Grant Agreement Amendment - St. Vincent de Paul Society of San Francisco - Division Circle Navigation Center - Not to Exceed \$40,038,573	9
8	21-0482 Lease Agreement - New Cingular Wireless PCS, LLC (d.b.a. AT&T) - Cellular Service Partner Lease - Base Rent of \$2,400,000 for Year 1 - One-Time Reimbursement Payment to City of \$28,600,000	13

Item 8 File 21-0482	Department: San Francisco International Airport
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve a lease between the Airport as landlord and New Cingular Wireless PCS, LLC (dba AT&T) as tenant, for a term of 10 years. The initial annual base rent is \$2,400,000. The proposed lease also requires the tenant to make a one-time payment of \$28,600,000 for the reimbursement of the Airport’s costs in constructing and implementing the Neutral Host Distributed Antenna System for Harvey Milk Terminal 1 and the Grand Hyatt at SFO. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In December 2012, the Board of Supervisors retroactively approved four five-year existing cellular service equipment site leases with (a) New Cingular Wireless PCS, LLC (Cingular) (b) Sprint Spectrum Realty Company, LLC (Sprint/Nextel) (c) GTE Mobilnet of California dba Verizon Wireless (Verizon), and (d) T-Mobile West, LLC (T-Mobile) from July 1, 2009 through June 30, 2014; and (2) approved the first amendment for three of the four existing cellular service equipment site leases that would extend the leases for five years between the City, and (a) Cingular, (b) Nextel/Sprint, and (c) Verizon from July 1, 2014 through June 30, 2019 (File 12-1037). In September 2014, the Board of Supervisors retroactively approved the first amendment to extend the lease agreement between the Airport and T-Mobile for five years from July 1, 2014 through June 30, 2019 (File 14-0501). • Rather than maintain separate leases with multiple providers, Airport staff proposed a plan in June 2018 to enter into one single cellular service provider lease to plan, design, procure, install, operate, and maintain a Neutral Host Distributed Antenna System (DAS) solution. According to the Airport, consolidating services under a single cellular service provider operating and managing all carrier services will ease the burden on space, resources, and coordination. Consequently, in December 2018, the Airport commenced the informal proposal process to award one new 10-year lease to a single Cellular Service Partner (CSP) which would provide cellular services on behalf of all cellular providers at the Airport. New Cingular Wireless PCS, LLC (dba AT&T) was determined to be the top ranked, most responsible and responsive proposer. In October 2020, the Airport Commission awarded the lease to New Cingular Wireless PCS, LLC (dba AT&T). <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The base rent for the first lease year is \$2,400,000 with an annual base rent increase of 3 percent for the term of the lease. Under the proposed lease, the base rent is also increased by \$600,000 per year for each new cellular carrier other than the existing carriers who wish to participate during the proposed lease term. Over the 10-year term of the proposed lease, the Airport would receive at least \$27,513,310 in base rent. <p style="text-align: center;">Recommendation</p> <p>Approve the proposed resolution.</p>	

MANDATE STATEMENT

City Charter Section 9.118(c) states that (1) any lease of real property for ten or more years, including options to renew, (2) have anticipated revenues to the City of \$1,000,000, or (3) the modification, amendment or termination of these leases is subject to Board of Supervisors approval.

BACKGROUND

Existing Cellular Service Provider Leases

Cellular service equipment sites are spaces at the Airport where cellular service providers install their equipment to provide adequate cellular coverage at the Airport. Sites include small equipment rooms at the Airport that feed antennas throughout the Airport via cable and fibers running through conduits. In December 2012, the Board of Supervisors retroactively approved four five-year existing cellular service equipment site leases between the City, acting by and through its Airport Commission, and (a) New Cingular Wireless PCS, LLC (Cingular) (b) Sprint Spectrum Realty Company, LLC (Sprint/Nextel) (c) GTE Mobilnet of California dba Verizon Wireless (Verizon), and (d) T-Mobile West, LLC (T-Mobile) from July 1, 2009 through June 30, 2014; and (2) approved the first amendment for three of the four existing cellular service equipment site leases that would extend the leases for five years between the City, and (a) Cingular, (b) Nextel/Sprint, and (c) Verizon from July 1, 2014 through June 30, 2019 (File 12-1037). In September 2014, the Board of Supervisors retroactively approved the first amendment to extend the lease agreement between the Airport and T-Mobile for five years from July 1, 2014 through June 30, 2019 (File 14-0501).

Transition to One Single Cellular Service Provider Lease

Rather than maintain separate leases with multiple providers, Airport staff proposed a plan in June 2018 to enter into one single cellular service provider lease to plan, design, procure, install, operate, and maintain a Neutral Host Distributed Antenna System (DAS)¹ solution. According to Ms. Dina Quesada, Business Services Manager of Information Technology & Telecommunications at the Airport, this decision is primarily due to rationalizing wireless carrier services and the continuing burden on the Airport's space and resources. Ms. Quesada states that consolidating services under a single cellular service provider operating and managing all carrier services will ease the burden on space, resources, and coordination. In addition, a Neutral Host Distributed

¹ According to Ms. Quesada, a Distributed Antenna System (DAS) is a network of antennas which act as repeaters that send and receive cellular signals through the individual carrier's network. Well implemented DAS architecture fills coverage gaps and capacity shortages within buildings. A DAS may be carrier owned, like in the current SFO environment under the separate Cellular Equipment Sites Leases, or neutral-host where one system infrastructure supports multiple cellular carrier's licensed frequency, which will be implemented under the proposed lease. Neutral Host DAS are typically deployed at large venues like arenas, malls, airports, etc.

Antenna System optimizes carrier signals under a single infrastructure and eliminates the duplication of equipment and hardware deployed at the Airport. According to Ms. Quesada, the Neutral Host Distributed Antenna System provides fair and neutral access to the infrastructure for any cellular service providers interested in serving customers at the Airport, through a sublease or other business arrangement.

Consequently, in December 2018, the Airport commenced the informal proposal process to award one new 10-year lease to a single Cellular Service Partner (CSP) which would provide cellular services on behalf of all cellular providers at the Airport, and released the proposed business and technical requirements for a CSP at the Airport (the CSP Airport Requirements). San Francisco Administrative Code Section 2A.173² exempts telecommunications leases from the competitive process. However, according to Ms. Quesada, the Airport elected to conduct the informal proposal process in an effort to obtain the most advantageous commercial terms and select a CSP that would complement the Airport's objectives.

In January 2019, the Airport received proposals from New Cingular Wireless PCS, LLC (dba AT&T), Verizon, and DAS Group Professionals in response to the CSP Airport Requirements. The Airport determined that the three proposals qualified for scoring and convened a four-member evaluation panel³ that reviewed the proposals and scored them, as shown in Table 1 below.

Table 1: RFP Proposals and Scores

Proposer	Score
New Cingular Wireless (AT&T)	1334.0
Verizon	1281.5
DAS Group Professionals	795.5

Source: Airport

New Cingular Wireless PCS, LLC (dba AT&T) was determined to be the top ranked, most responsible and responsive proposer. In October 2020, the Airport Commission awarded the lease to New Cingular Wireless PCS, LLC (dba AT&T).

The four existing lease agreements for cellular service equipment sites expired on June 30, 2019 and are currently in month-to-month holdover tenancies. According to Ms. Quesada, given the informal proposal process was underway prior to the expiration date of the leases, the Airport opted to continue the lease on a month-to-month holdover increasing the rent to 125 percent

² Administrative Code Section 2A.173 states the following: The Airport Commission shall have power to negotiate and execute leases of airport lands and space in airport buildings, without necessity for competitive bidding, to any person, firm, or corporation engaged in air transportation, aviation support services, or the provision of utility services to the public (including, but not limited to, the provision of: telecommunications, electricity, water, gas or sewerage), or to any agency of government, for such purposes only; provided, that the original term of any such lease shall not exceed 50 years, nor shall any extension of such lease exceed a period of 50 years, except that a lease for aviation support services shall not exceed 10 years.

³ The panel consisted of the Director of Financial Planning & Analysis for the Airport, Director of Application Development and Acting Chief Information Security Officer (CISO) for the Airport, a Principal Infrastructure Engineer for the Airport, and a Property Manager for the Airport.

(\$718,750) of the then prevailing annual base rent, which was \$575,000.⁴ Under the Airport's general policy with respect to lease holdovers, the total holdover period should not exceed 12 months without Commission approval. Therefore, on June 2, 2020, by Resolution No. 20-0100, the Commission authorized the continuance of holdover tenancies for the existing cellular leases beyond 12 months.

Total Rent from Existing Leases

As shown in Table 2 below, total rent from FY 2014-15 through May 2021 of the four existing cellular service equipment site leases is \$16,010,416.

Table 2: Total Rent Under Existing Leases from FY 2014-15 through May 2021

Term	Cingular	Sprint/Nextel	Verizon	T-Mobile	Total
FY 2014-15	\$475,000	\$475,000	\$475,000	\$475,000	\$1,900,000
FY 2015-16	\$500,000	\$500,000	\$500,000	\$500,000	\$2,000,000
FY 2016-17	\$525,000	\$525,000	\$525,000	\$525,000	\$2,100,000
FY 2017-18	\$550,000	\$550,000	\$550,000	\$550,000	\$2,200,000
FY 2018-19	\$575,000	\$575,000	\$575,000	\$575,000	\$2,300,000
FY 2019-20 (month-to-month status)	\$718,750	\$718,750	\$718,750	\$718,750	\$2,875,000
July 1, 2020 – Current (May 2021)	\$658,854	\$658,854	\$658,854	\$658,854	\$2,635,416
Total	\$4,002,604	\$4,002,604	\$4,002,604	\$4,002,604	\$16,010,416

Source: Airport

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a lease between the Airport as landlord and New Cingular Wireless PCS, LLC (dba AT&T) as tenant, for a term of 10 years. The initial annual base rent is \$2,400,000. The proposed lease also requires the tenant to make a one-time payment of \$28,600,000 for the reimbursement of the Airport's costs in constructing and implementing the Neutral Host Distributed Antenna System for Harvey Milk Terminal 1 and the Grand Hyatt at SFO. According to Ms. Quesada, the reimbursement amount is based on the estimated cost of the construction project at the time of the release of the CSP Airport Requirements. Under the proposed lease, the start date of the proposed lease is the commencement date, which is the first day of the calendar month immediately following the completion of the Development Term. The Development Term is 120 days from the Board approval of the proposed lease.

According to Ms. Quesada, upon Board approval of the proposed lease, the tenant will commence with negotiating partnership agreements with the existing wireless carriers. Once the partnership agreements are in place, the tenant will then transition the carrier signal to the SFO

⁴ Tenants will continue to pay 125 percent of the Annual Base Rent during the holdover tenancy.

Neutral Host Distributed Antenna System, which will then mark the termination of the current hold-over leases.

FISCAL IMPACT

The base rent for the first lease year is \$2,400,000 with an annual base rent increase of 3 percent for the term of the lease. According to Ms. Quesada, the initial base rent of \$2,400,000 is based on the total rent amount (\$2,300,000) of the final year of the existing leases (FY 2018-19) with an approximately 4.35 percent escalation. Ms. Quesada states that the annual base rent increase of 3 percent is based on industry standards per information technology surveys conducted in May 2016 by the Airport Council International – North America of other airport Distributed Antenna System contracts. Survey responses from participating airports noted an annual escalation of 1 to 3 percent per year. Under the proposed lease, the base rent is also increased by \$600,000 per year for each new cellular carrier other than the existing carriers who wish to participate during the proposed lease term. Over the 10-year term of the proposed lease, the Airport would receive at least \$27,513,310 in base rent. Base rent under the proposed lease is shown in Table 3 below.

Table 3: Total Base Rent Under Proposed 10-Year Lease

Term	Total Rent Amount
Year 1	\$2,400,000
Year 2	\$2,472,000
Year 3	\$2,546,160
Year 4	\$2,622,545
Year 5	\$2,701,221
Year 6	\$2,782,258
Year 7	\$2,865,726
Year 8	\$2,951,697
Year 9	\$3,040,248
Year 10	\$3,131,456
Total	\$27,513,310

Source: Airport

According to Ms. Quesada, an appraisal report to determine the fair market value of the cellular equipment site lease was not completed. Instead, the Airport used the results of the information technology surveys conducted by the Airport Council International – North America to determine base rent. Based on survey responses, most participating Airports had annual revenues of \$1 million to \$2.1 million.

RECOMMENDATION

Approve the proposed resolution.