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: February 12, 2025 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the Ninth Amendment to the towing services contract between San Francisco Municipal Transportation Agency (SFMTA) and TEGSCO, LLC, increasing the not-to-exceed amount by $15,300,000, for a total not to exceed $136,700,000, with no change to the contract term, ending in March 2026.

Key Points

- In 2016, after a competitive solicitation, the Board of Supervisors approved a five-year towing contract with TEGSCO. The contract has since been amended eight times and extended through March 2026. The Seventh Amendment, which increased the not-to-exceed amount to $121,400,000, was intended to provide sufficient funding for the contract through March 2025.
- Under the contract, TEGSCO collects fees from the owners of towed vehicles and remits those fees to SFMTA. SFMTA then pays TEGSCO a fixed management fee (currently $790,000 per month) and pays TEGSCO fees based on the number of tows and related services, including a per tow charge paid to tow truck subcontractors.
- SFMTA rents a short-term facility for TEGSCO at 450 7th Street in San Francisco and a storage, office, and auction facility at 2650 Bayshore Boulevard in Daly City. A March 2023 SFMTA report found that rents for TEGSCO's leases were on the lower end of the rental market, and the closest suitable facility available for purchase was in Pittsburg, which would inconvenience tow customers and increase towing costs and wait times.

Fiscal Impact

- The proposed Ninth Amendment would increase the not-to-exceed amount of the TEGSCO contract by $15,300,000, for a total not to exceed $136,700,000. In addition to the contract costs, the tow program costs include rent and SFMTA administrative costs. Over the 10-year term of the contract, actual and projected tow program costs are approximately $278.6 million and revenues are approximately $207.9 million, for total net program costs to SFMTA of approximately $70.7 million. Net program costs are funded by transit revenues.
- Options to reduce SFMTA transit fund support for the towing program include: (1) reducing or eliminating fee discounts for parking regulation violators, (2) increasing towing fees, (3) increasing enforcement of parking regulations, (4) reducing SFMTA program costs, or (5) some combination of these options.

Recommendation

- 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

In 2015, the San Francisco Municipal Transportation Agency (SFMTA) issued a Request for Proposals (RFP) to select a towing service provider. TEGSCO, LLC, previously known as San Francisco AutoReturn, which had provided the service since 2004, was deemed the highest scoring proposal out of three bids and was awarded a contract. In March 2016, the Board of Supervisors approved a five-year contract with TEGSCO, from April 2016 through March 2021, for an amount not to exceed $65,400,000, with one five-year option to extend through March 2026 (File 16-0134).

Under the contract, TEGSCO provides customer service for towed vehicles, 24/7 tow truck dispatching, vehicle storage, and lien processing and vehicle auctions. Attachment 1 to this report details the reasons for vehicle tows in FY 2023-24 and FY 2024-25 to date. The contract has been amended eight times, as shown in Exhibit 1 below.

Exhibit 1: Previous Contract Amendments

No.	Date	Approval	Description
1	September 2016	SFMTA Board	Allowed TEGSCO to use short-term storage facility at 450 7th Street
1 (b)	November 2017	SFMTA Board	Formalized procedures for SFPD vehicles towed and stored (holdover vehicles) from the prior agreement[1]
2	July 2019	Administrative	Documented service requirement adjustments to customer service and tow request response times and provided clarification on the process to calculate annual Consumer Price Index (CPI) increases for management and variable fees paid to TEGSCO
3	April 2021	Board of Supervisors (File 21-0175)	Exercised the 5-year option to extend and increased the not-to-exceed amount to $88,200,000
4	April 2022	Administrative	Changed the doing-business-as name from San Francisco AutoReturn to TEGSCO and amended provisions related to management of confidential information and City data
5	April 2022	Administrative	Authorized TEGSCO to use a verification database to verify the eligibility of tow customers for income-based fee reductions and waivers
6	June 2022	Administrative	Allowed for the option to use online platforms for vehicle auctions
7	October 2022	Board of Supervisors (File 22-0974)	Increased not-to-exceed amount by $33,200,000, for a total not to exceed $121,400,000
8	May 2023	Administrative	Provided for the temporary relocation of the short-term storage facility to allow Caltrans to conduct maintenance and painting

[1] Due to administrative error, this was also labeled as the First Amendment. SFMTA now refers to these amendments by approval year.

The Seventh Amendment, which increased the not-to-exceed amount to $121,400,000, was intended to provide sufficient funding for the contract through March 2025. In December 2024, the SFMTA Board approved the Ninth Amendment to the contract to provide funding for the final year of the term.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Ninth Amendment to the towing services contract between SFMTA and TEGSCO, increasing the not-to-exceed amount by $15,300,000, for a total not to exceed $136,700,000, with no change to the contract term, ending in March 2026.

The proposed increase of $15,300,000 would provide contract funding through March 2026. SFMTA is planning to release an RFP in April 2025 to award a new towing services contract commencing after TEGSCO's contract expires.

Contract Costs and Program Fees

Under the contract, TEGSCO collects fees from the owners of towed vehicles and remits those fees to SFMTA. SFMTA then pays TEGSCO a fixed management fee (currently $790,000 per month) and pays TEGSCO fees based on the number of tows and related services, including a per tow charge paid to tow truck subcontractors. TEGSCO's variable fees are adjusted annually based on the lesser of three percent or the regional Consumer Price Index (CPI). Fees charged to vehicle owners are set by SFMTA.[2] A $56 fee waiver is granted to owners of first-time towed vehicles, and waivers are also available to low-income or homeless residents. In addition, victims of vehicle theft have their towing, administrative, and storage fees waived.

SFMTA leases 556,050 square feet of space at a facility located at 2650 Bayshore Boulevard in Daly City. Under the contract, TEGSCO uses 330,771 square feet for storage and transfer of vehicles, public lien sale auctions, and office space. TEGSCO does not pay rent but pays all utilities, services, and security for the space. SFMTA also rents 450 7th Street in San Francisco for TEGSCO to use as its short-term storage facility.

Quarterly Reports

The resolution approving the Seventh Amendment had requested the SFMTA to submit quarterly reports on any modifications to the towing program that may reduce costs, including if there were less expensive real estate options (including purchase options) for vehicle storage, customer service centers, and auction facilities. In March 2023, SFMTA submitted a report to the Board of Supervisors that found rents for TEGSCO's leases were on the lower end of the rental market ($7.89 per square foot across both sites as of March 2023). The closest suitable facility available for purchase was in Pittsburg, which would inconvenience tow customers and increase towing costs and wait times due to the travel distance. Janet Martinsen, SFMTA Local Government Affairs Liaison, reports that she contacted the Supervisor who had specifically

[2] Current SFMTA fees are: (1) Administrative Fee: $304 for first-time tows, $360 for repeat tows, no fee for low-income vehicle owners; (2) Tow Fee: $297, $104 for low-income residents, one-time waiver for homeless residents; (3) Storage Fee: no fee for first four hours, $64 for the first day after four hours, $77 for subsequent days; and (4) Dolly Fee (if eligible): $53.

requested the quarterly reports three times in 2023 to ask for quarterly report topics, but received no response. Therefore, SFMTA did not issue the quarterly reports as requested in the resolution. SFMTA's Muni Funding Working Group has explored reducing subsidies for tow fee discounts as an option for cost savings, but these are preliminary suggestions and have not been approved.

Tow Volume

Over the first four years of the contract (April 2016 through March 2020), annual tow volume varied from approximately 42,000 to 45,000 tows per year. Tow volume decreased significantly in 2020 due to the COVID-19 pandemic, but has since increased, from a low of 15,701 tows in contract Year 5 (April 2020 through March 2021) to approximately 37,000 to 38,000 tows in contract Years 7 and 8 (April 2022 through March 2024). In contract Year 9 (April 2024 through March 2025), volume is projected to increase slightly to approximately 38,940 tows.[3] Enforcement activity is driven by Police and MTA staffing assigned to parking regulation enforcement.

Performance Monitoring

According to data provided by SFMTA, TEGSCO has been meeting or exceeding performance measures for the contract. The three key performance measures are timeliness of revenue deposits into SFMTA's account (within 24 hours), tow truck dispatch response times (35 minutes during peak commute hours and 25 minutes during non-peak hours), and customer service wait times (average of seven minutes). According to David Rosales, SFMTA Principal Administrative Analyst, revenues are consistently deposited within 24 hours, 95 percent of light-duty tows are responded to on time (above the 90 percent target), and the average customer service wait time is less than two minutes from October through December 2024.

FISCAL IMPACT

The proposed Ninth Amendment would increase the not-to-exceed amount of the TEGSCO contract by $15,300,000, for a total not to exceed $136,700,000. Actual and projected contract expenditures are shown in Exhibit 2 below.

[3] There were approximately 25,960 tows from April through November 2024, or 3,245 tows per month. Using a straight-line projection, this projects to approximately 38,940 tows for the full contract year.

Exhibit 2: Actual and Projected Contract Expenditures

Year	Management Fee[4]	Variable Fee	Total Expenditures
Year 1 (Actual)[5]	$8,704,272	$4,413,678	$13,117,950
Year 2 (Actual)	8,203,839	4,776,759	12,980,598
Year 3 (Actual)	8,449,856	5,441,590	13,891,446
Year 4 (Actual)	8,703,444	5,198,730	13,902,174
Year 5 (Actual)	8,928,568	2,155,762	11,084,330
Year 6 (Actual)	8,515,097	3,880,922	12,396,019
Year 7 (Actual)	8,475,823	4,664,564	13,140,388
Year 8 (Actual)	9,164,983	5,238,125	14,403,107
Year 9 (4/2024 – 12/2024, Actual)	7,085,702	4,229,504	11,315,206
Subtotal, Actual Expenditures	*$76,231,584*	*$39,999,634*	*$116,231,218*
Year 9 (1/2025 – 3/2025, Projected)	2,370,000	1,425,000	3,795,000
Year 10 (Projected)	9,810,000	5,898,000	15,708,000
Subtotal, Projected Expenditures	*$12,810,000*	*$7,323,000*	*$19,503,000*
Contingency (5% of Projected Expenditures)			965,782
Total Not-to-Exceed			**$136,700,000**

Source: SFMTA

The Management Fee, which covers TEGSCO's fixed costs, was reduced in contract Years 6 and 7 to the COVID-19 pandemic, but was restored to its prior level in Year 8. Management and Variable Fee projections are adjusted for inflation in Year 10. A five percent contingency is included to cover potential increases in tow volume over the final 15 months of the contract.

SFMTA Towing Program Revenues and Expenses

According to SFMTA, the tow program is a cost-recovery program funded by tow revenues and the SFMTA operating budget. Because the program is funded by fees, SFMTA cannot make a profit from the tow program. Over the 10-year term of the contract, the projected net cost to SFMTA for the tow program, or costs minus revenues, is approximately $70,674,102, as shown in Exhibit 3 below. Net program costs are funded by SFMTA's general revenues, which include General Fund transfers, state and federal grants, transit fares, and other transportation-related

[4] According to SFMTA, the Management Fee was bid out as a flat fee to maintain a consistent level of service, rather than a negotiated amount based on costs to TEGSCO. Costs include staffing, security, office and network infrastructure, storage lot equipment, repairs, capital improvements, administrative costs, and profit.

[5] The Management Fee in Year 1 includes $720,000 in rent payments for the 7th Street facility paid by TEGSCO and reimbursed by SFMTA because Caltrans, the landlord, was not compliant with Chapter 12B of the City's Administrative Code. TEGSCO, which had previously rented the facility directly from Caltrans, paid eight months of rent until the City Administrator's Office approved the Chapter 12B waiver, allowing SFMTA to assume the lease.

fees. Fees do not cover the full cost of the program, which includes the TEGSCO contract, rent, SFMTA enforcement, and SFMTA overhead.

SFMTA tow revenues consist primarily of administrative fees, towing fees, storage fees, and auction revenues. Revenues shown above are net of waivers provided to first-time tows, low-income vehicle owners, and victims of vehicle theft (estimated at $8.25 million in FY 2023-24) and waivers provided to the Police Department to store vehicles involved in crimes (estimated at $3.0 million in FY 2023-24). Without these waivers, the towing program would not require support from the SFMTA operating fund, which also funds transit.

Exhibit 3: Tow Program Costs and Revenues

Contract Year	TEGSCO Contract[6]	Rent[7]	SFMTA Admin & Enforcement Cost[8]	Total Program Cost	Tow Revenues	Net Program Cost
Year 1 (Actual)	$13,117,950	$1,995,469	$9,247,156	$24,360,575	$20,769,426	$3,591,149
Year 2 (Actual)	12,980,598	2,772,010	9,475,761	25,228,369	22,421,291	2,807,078
Year 3 (Actual)	13,891,446	2,909,838	10,166,840	26,968,124	23,768,374	3,199,750
Year 4 (Actual)	13,902,174	3,143,580	10,545,264	27,591,018	23,083,883	4,507,135
Year 5 (Actual)	11,084,330	3,312,260	11,252,133	25,648,723	8,142,522	17,506,201
Year 6 (Actual)	12,396,019	3,377,856	11,570,196	27,344,071	17,029,944	10,314,127
Year 7 (Actual)	13,140,388	3,508,304	11,882,881	28,531,573	22,210,186	6,321,387
Year 8 (Actual)	14,403,107	3,634,742	11,463,391	29,501,240	23,679,217	5,822,023
Year 9 (Projected)	15,110,206	3,766,849	12,355,710	31,232,765	24,392,809	7,839,956
Year 10 (Projected)	15,708,000	3,903,843	12,546,262	32,158,105	23,392,809	8,765,296
Total	**$135,734,218**	**$32,324,751**	**$110,505,594**	**$278,564,563**	**$207,890,461**	**$70,674,102**

Source: SFMTA

Towing Program Costs

According to the Proposition J analysis for this service, it would cost SFMTA $29,889,478 to perform this service with City staff, including $13,967,032 in overhead. Even excluding all of the overhead, the in-house SFMTA cost of $15,922,446 is still higher than the contract budget of $15,708,000. Bringing the towing program in-house would likely not be cost-effective.

Other options to reduce SFMTA transit fund support for the towing program include: (1) reducing or eliminating fee discounts for parking regulation violators, (2) increasing towing fees, (3) increasing enforcement of parking regulations, (4) reducing SFMTA program costs, or (5) some combination of these options.

RECOMMENDATION

Approve the proposed resolution.

[6] Projected TEGSCO contract expenditures do not include the contingency ($965,782 in Years 9-10).
[7] Rent in FY 2024-25 includes approximately $2.4 million for the 7th Street facility and $1.4 million for the Bayshore facility.
[8] Administrative costs include SFMTA administrative staff, parking control officers, dispatch staff, overhead, work orders, and credit card processing charges.

Attachment 1: Vehicle Tows by Category, FY 2023-24 and FY 2024-25 to Date

Category	FY 2023-24	FY 2024-25 (5 Months)[9]	Total
Abandoned	1,248	571	1,819
Accident	287	103	390
Arrest/Investigation/Moving Violation	1,372	543	1,915
CHP	0	0	0
Construction	1,755	698	2,453
Courtesy-Dpt.	170	73	243
Courtesy-Other	0	0	0
Courtesy-SFFD	5	5	10
Courtesy-SFPD	9	4	13
Driveway	6,521	2,919	9,440
Hazard	1,894	846	2,740
Hit & Run	81	28	109
Other	7	3	10
Other Parking Violations	1,734	919	2,653
Owner Request-Tow	38	13	51
Owner Request-Service	7	6	13
Private Property	4	3	7
Relocation	177	72	249
Scofflaw/Citations	125	0	125
Scofflaw/Citations/Registration	83	3	86
Scofflaw/No Vehicle ID	22	8	30
Scofflaw/Registration	4,428	2,308	6,736
Scofflaw/Registration/Moving	97	18	115
Special Event	2,317	802	3,119
Stolen Recovery	2,686	870	3,556
Towaway	10,857	4,850	15,707
Unlicensed/Suspended License	365	85	450
Yellow Zone	1,645	628	2,273
Total	**37,934**	**16,378**	**54,312**

Source: SFPD

[9] Using a straight-line projection, this projects to approximately 39,307 total tows in FY 2024-25.

Item 4 **File 24-1187**	**Department:** Technology (DT)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the first amendment to the City's Enterprise Agreement with SSP Data Inc. (SSP), exercising the option to extend the agreement for three additional years, from May 31, 2026, to May 31, 2029, and increasing the not-to-exceed amount under the agreement from $4.35 million to $40 million.

Key Points

- SSP is a reseller of Palo Alto Network cybersecurity products. SSP was awarded this contract in May 2023 following an invitation for bids in which SSP provided the lowest cost bid. The original agreement consolidated spending on Palo Alto Networks hardware and software that was previously made on multiple contracts.
- DT projects that annual spending under this agreement will increase from $1.45 million to at least $3.5 million, driven by ongoing cybersecurity needs and planned system upgrades.
- Under the current agreement, DT receives a 38 percent discount on software and support and a 33 percent discount on as-needed products. The proposed amendment increases the as-needed discount to 40–70 percent for hardware and software and 12–20 percent for support.

Fiscal Impact

- The proposed amendment increases the contract value from $4.35 million to $40 million, although total projected spending through 2029 is estimated at $41.7 million. Any spending above $40.5 million would require separate Board of Supervisors' approval. DT, the Public Utilities Commission, and the Airport account for two-thirds of projected spending
- DT estimates annual savings of approximately $1 million due to higher discounts for ongoing software subscriptions, and additional potential savings of $3 million per year for hardware replacements.

Recommendation

- 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) any modification to such contracts of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

Palo Alto Network Products and Services

On May 22, 2023, the Department of Technology (DT) contracted with SSP Data Inc. (SSP Data) to purchase Palo Alto Networks software and hardware, which provide cybersecurity hardware, software, and services for City departments. The original agreement has an initial three-year term, from June 1, 2023, through May 31, 2026, with three one-year options to extend, and a not-to-exceed amount of $4,353,000. The current agreement consolidates the annual contracts for maintenance of various hardware and software programs that the City had purchased through the Tech Marketplace over different years before the solicitation, each with different discount rates. The agreement also provides a 33 percent discount for "as needed" Palo Alto products that are not named in the agreement.

The agreement was designed to streamline procurement and achieve cost savings by consolidating City departments' purchases under one agreement. According to DT staff, the agreement provides larger discounts on Palo Alto Networks products and services than the City's Technology Marketplace resellers, resulting in cost savings to the City. Additionally, according to DT, the discounts provided under the agreement exceed those obtained by other public entities, including the State of California.

Procurement

On May 1, 2023, the Office of Contract Administration issued an Invitation for Bids, on behalf of DT, for Palo Alto Networks products. Bids were due on May 15, 2023. The solicitation established that the lowest responsive bid would be selected. Two suppliers (SSP Data and Insight Public Sector, Inc.) responded and met the minimum qualifications of the solicitation. DT selected SSP Data, which submitted the lowest cost bid. The RFP provided for a maximum contract term of up to six years.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a first amendment to the contract between the Department of Technology (DT) and SSP Data Inc. (SSP Data) to extend the term by three years, through May 31, 2029, and increase the not-to-exceed amount to $40 million.

Updated Forecasts

Historically, City departments purchased Palo Alto Networks products through various resellers, which made it difficult for DT to forecast spending under the existing agreement. As departments have consolidated their spending on Palo Alto Networks products into this agreement (versus other reseller contracts), this has provided DT greater visibility into that spending. Based on actual spending under the agreement and rising demand for hardware upgrades, new licenses, and advanced cybersecurity services, the City's spending on this agreement is projected to increase from $1.45 million per year to at least $3.5 million per year. As a result, the Department of Technology projects that spending under the agreement will reach $40 million by May 2029, requiring an amendment to the contract.

Products and Services

This agreement enables City departments to access pre-negotiated discounts and terms for future orders of Palo Alto products and services. There is no financial commitment until an individual department issues a purchase order under this agreement. Under the agreement, DT provides support to City departments considering Palo Alto Networks purchases by identifying solutions to their security needs and minimizing unnecessary license purchases. DT's Cybersecurity Team will review departmental requests for purchase orders.

The products and services covered by the agreement include:

- Software Products: Programs such as PAN-OS (firewall software), Cortex (automated threat detection), Prisma (cloud security), and Strata (antivirus, website protection, and other related cyber security software)
- Equipment: Physical devices such as firewalls, which act as security checkpoints to protect the City's network from potential threats, and their periodic upgrades to ensure reliability and performance.
- Maintenance Services: Regular software updates, equipment repair, and subscription renewals to maintain cybersecurity capabilities.

Performance

The performance of SSP Data under the contract is evaluated based on the contractor's ability to respond to issues within established time limits, which vary by severity level. Response time standards are categorized based on severity level as follows:

- Severity Level 1 (Critical - Product is down; critically affecting the customer's production environment): 15 minutes.
- Severity Level 2 (High - Product is impaired; production is active but significantly impacted): 30 minutes.
- Severity Level 3 (Medium - A product function has failed, customer production not affected): 120 minutes.
- Severity Level 4 (Low - Non-critical issue; does not impact customer business): 240 minutes.

In 2024, SSP Data met these response time standards in 100 percent of instances, with an average response time of 23.2 minutes, according to performance data provided by DT.

FISCAL IMPACT

The proposed amendment increases the contract value from $4,350,000 to $40,000,000. The City anticipates spending more than $40 million through May 2029 on Palo Alto Networks products and services. Although the projected amount ($41.7 million) exceeds the not to exceed amount of the contract, spending will be subject to the $40 million not to exceed amount in the proposed resolution. Purchases under the contract are funded by the various departments that make the purchases, detailed in Exhibit 2 further below.

Exhibit 1: Contract Spending Projection

Description	Amount ($)
Current Not to Exceed Amount	$4,353,000
Subscriptions to Software and Maintenance	
Year 2 Balance (7 Months)	1,276,546
Year 3 (12 Months)	3,438,365
Year 4 (12 Months)	3,575,900
Year 5 (12 Months)	3,718,936
Year 6 (12 Months)	3,867,693
Subtotal, Software and Maintenance (Years 2-6)	15,877,440
As-Needed Products	21,500,000
Total	**$41,730,440**

Source: Proposed Agreement

Actual spending to date is $4,217,559. Annual spending on software and maintenance is projected to be $3.4 million in Year 3, with four percent annual increases. Exhibit 2 below shows the projected spending by department in Year 3, which is based on the prior year cost for each department (plus a four percent increase) with an additional 20 percent discount. DT, the Public Utilities Commission, and the Airport account for two-thirds of projected spending

Exhibit 2: Software and Maintenance Spending by Department, June 2025 to May 2026

Department	Amount	Percent of Total
Department of Technology	$1,250,000	36%
Public Utilities Commission	532,390	15%
Airport	507,785	15%
Library	382,240	11%
San Francisco Unified School District	277,643	8%
Police	140,149	4%
Cal Academy of Science	105,668	3%
City College of San Francisco	86,644	3%
Hetch Hetchy Water & Power	45,455	1%
Fine Arts Museum	42,419	1%
Asian Art Museum	31,008	1%
Superior Court of California	28,770	1%
Water Emergency Transport	8,193	0%
Total	**$3,438,365**	**100%**

Source: Proposed Agreement

As-Needed Products

The proposed contract amendment includes $21.5 million for "as-needed products." This funding reflects the anticipated cost of refreshing or replacing aging hardware systems during the contract's term that have reached end-of-life status, as manufacturers no longer provide updates or security patches. The $21.5 million total is based on an equipment refresh schedule compiled by the Department of Technology, which details the equipment to be replaced, the estimated cost, and the year, plus an average 50 percent discount included in the proposed contract amendment. According to the refresh schedule, the average annual cost will be $6.1 million from 2025 to 2028, with no estimated spending in the final five months of the contract.

Discounts

Totals in Exhibits 2 and 3 include discounts in the proposed contract amendment. Under the current agreement, SSP provides unspecified discounts off the manufacturer's price for subscriptions to software noted in the invitation for bids and a 33 percent discount for other, "as needed," products.

Under the proposed amendment, the value of the discount for as-needed products and services is based on the amount of purchase and ranges from 40 percent to 70 percent for hardware and software and 12 percent and 20 percent for support. The new discount rates apply to the City's purchases once the contract is approved. The discount structure is demonstrated below in Exhibit 3.

Exhibit 3: Discount Structure (Minimum Discount Based on Manufacturer List Price)

Purchase Category	Tier 1 = up to $250K	Tier 2 = 250,001-1,500,000	Tier 3 = 1,500,001-5,000,000	Tier 4 = above $5,000,000
Hardware	40%	45%	50%	56%
Strata Subscriptions	40%	45%	50%	53%
Cortex	50%	55%	60%	70%
Prisma	40%	45%	50%	56%
Support	12%	14%	16%	20%

Source: DT

DT estimates annual savings of approximately $1.0 million annually on Palo Alto Network products from the negotiated discounts under the proposed amended agreement relative to purchasing Palo Alto products through other resellers that are part of DT's Technology Marketplace. In addition, DT estimates annual savings of $3.0 million associated with replacement of hardware based on the 40-70 percent negotiated discount for new hardware.

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 24-1070**	**Department:** Public Utilities Commission

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance amends Administrative Code Chapter 21.43 to expand the San Francisco Public Utilities Commission (SFPUC) General Manager's delegated authority to enter into contracts for power purchases and sales. The annual spending limit for purchasing power would rise from $200 million to $300 million, and the annual revenue limit for selling power would increase from $20 million to $300 million. The ordinance also extends the current program's sunset by five years to July 1, 2030, allows binding arbitration in contracts with any energy supplier, and maintains waivers of certain municipal code contract requirements that are not standard for power contracts.

Key Points

- In July 2022, the Board of Supervisors approved an ordinance to add Chapter 21.43 of the Administrative Code, which approves form electricity purchase and sale contracts for SFPUC, grants Administrative, Environment, and Labor and Employment Code waivers for these contracts, and delegates the SFPUC General Manager to enter into power purchase and sale contracts, so long as the total spending from those contracts is less than $200 million per year and total revenue is less than $20 million per year. The proposed ordinance raises these thresholds to $300 million each.
- Power purchase and sale contracts must often be executed within days or weeks, which prevents the SFPUC from seeking legislative approval for such contracts in advance. Due to an (a) growth in customers, (b) rising energy prices and (c) fulfilling state mandates for energy reserves, the SFPUC is seeking to expand its authority to enter into power contracts and extend the authority for five years.

Fiscal Impact

- Increasing the annual expenditure and revenue caps to $300 million aligns with SFPUC's anticipated power procurement and sales needs through FY 2029–30, driven by increases in customer load, compliance obligations, and higher market prices. Costs will be funded by customer revenues.

Policy Consideration

- The SFPUC requests to increase the annual revenue cap for energy sale contracts procured under Chapter 21.43 from $20 million to $300 million, aligning it with the proposed annual expenditure cap of $300 million. However, according to the SFPUC's FY 2025-2034 Ten Year Financial Plan, wholesale power sales for both Hetch Hetchy Power and CleanPowerSF will not exceed $30 million though FY 2029-30.

Recommendation

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

MANDATE STATEMENT

City Charter Section 9.118(a) states that any contract entered into by a department, board or commission that has anticipated revenue of $1 million or more is subject to Board of Supervisors approval. 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) or modifications of such contracts of more than $500,000 are subject to Board of Supervisors approval.

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

CleanPowerSF and Hetch Hetchy Power

The San Francisco Public Utilities Commission (SFPUC) oversees two distinct power programs: Hetch Hetchy Power (HHP) and CleanPowerSF. HHP provides electricity supply and distribution service primarily to City Departments and residential and business customers in redevelopment areas, and electricity supply to other wholesale customers. HHP's electricity supply is generated principally from hydroelectric power from the Hetch Hetchy system, supplemented by renewable energy purchases. CleanPowerSF is a Community Choice Aggregation (CCA) program that procures all its energy from the market to serve San Francisco residents and businesses that are retail distribution customers of Pacific Gas and Electric Company (PG&E).

CCA programs, established under state law, enable local governments to procure electricity for their communities while relying on investor-owned utilities for transmission, distribution, and billing services. CleanPowerSF began serving customers in 2016 and provides electricity generation service to residents and businesses in San Francisco while relying on PG&E's distribution infrastructure to deliver power to its customers. Its primary objectives are to provide affordable electricity with stable rates, promote local renewable energy projects and job creation, and empower residents to have greater control over their energy mix.

Renewable Energy Goals

California's Renewable Portfolio Standard (RPS), established alongside CCA laws in 2002, sets incremental goals for utilities to procure increasing percentages of energy from renewable sources. The current targets include 44% by 2024, 52% by 2027, and 60% by 2030, with a broader goal of achieving 100% clean energy by 2045. CleanPowerSF aims to meet or exceed these standards, with plans to source at least 70% of its energy from RPS-eligible renewables and 100% from either RPS-eligible or Greenhouse Gas-Free (GHG-Free) sources by 2030.

To secure energy for its customers, SFPUC deals with both short-term (<10 years) and long-term contracts (>10 years) for power purchases and sales. According to SFPUC, short-term contracts have historically involved solicitations with bids due typically the next day. Price bids are held by contractors for as short as a few hours, requiring rapid execution of contracts. While long-term contracts involve lengthier negotiating processes, according to SFPUC, due to growing demands for clean energy, even long-term contracts are necessitating a quick turnaround to remain competitive with other bidders. Despite the existing delegated authority for SFPUC to enter into power contracts (up to certain annual limits, discussed below) without Board of Supervisors approval, the Department has brought a contract without urgent execution timeline to the Board of Supervisors (File 24-0626).

Current Rules and Contracting Authority

In July 2022, the Board of Supervisors approved an ordinance to add Chapter 21.43 of the Administrative Code, which approves form electricity purchase and sale contracts for SFPUC, grants Administrative, Environment, and Labor and Employment Code waivers for these contracts, and delegates the SFPUC General Manager authority under Charter Section 9.118 to execute certain contracts with terms in excess of 10 years or requiring expenditures of $10 million or more or having anticipated revenues of at least $1 million, for a period of three years through June 30, 2025 (File 22-0652). Under that ordinance and subsequent legislation, (Files 23-0281 and 24-0083), SFPUC has authority to approve energy procurement contracts with terms of up to 25 years, provided the total annual expenditures across all such contracts remain under $200 million. Similarly, the SFPUC can approve energy sales contracts with total projected revenues of up to $20 million annually. However, contracts exceeding these total thresholds—either $200 million in annual energy procurement expenditures or $20 million in annual energy sales revenues—require Board of Supervisors approval. The delegated authority to enter into contracts pertains to power supplies, resource adequacy, and related energy reserves. Finally the delegated authority does not apply to projects on City property.

Additionally, Chapter 21.43 authorizes SFPUC to use two widely used industry standard agreements (the Western Systems Power Pool Agreement and Edison Electric Institute Master Agreement), the SFPUC's purchase, storage, and sale agreements, and form contracts developed by California Community Power (CC Power)[1]. The form agreements do not include provisions required under the City's Administrative Code, such as: (1) non-discrimination in contracts (Chapter 12B); (2) MacBride Principles (Chapter 12F); (3) local business enterprise utilization and non-discrimination in contracting (Chapter 14B); (4) consideration of criminal history in hiring (Chapter 12T); (5) consideration of salary history in hiring (Chapter 12K); (6) first source hiring (Chapter 83); (7) competitive bidding requirements (Section 21.1); (8) tropical hardwood and virgin redwood ban (Environment Code Chapter 8); (9) Minimum Compensation Ordinance (Labor and Employment Code Article 111); (10) Health Care Accountability Ordinance (Labor and Employment Code Article 121); (11) public access to meetings and records of non-profit organizations (Administrative Code Section 12L.2); (12) sweatfree contracting Labor and Employment Code Article 151); and (13) food service waste reduction (Environment Code Section 1605). These requirements are waived under Administrative Code Chapter 21.43. In addition, the contracts with investor-owned utilities may include binding arbitration provisions.

[1] CC Power is a Joint Powers Authority comprised of nine California CCA programs, including CleanPowerSF.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance amends Chapter 21.43 of the Administrative Code to delegate authority to the SFPUC General Manager to enter into contracts without Board of Supervisors' approval for (1) energy procurement contracts, raising the annual spending limit from $200 million to $300 million, (2) energy sales contracts, raising the annual revenue limit from $20 million to $300 million, and (3) allow the SFPUC, with approval from the City Attorney, to enter into energy contracts requiring binding arbitration (with any party, not just investor-owned utilities). The ordinance also provides waivers for certain City code provisions, adds two form agreements developed by the United States Department of Energy's Western Area Power Authority (WAPA) to the list of pre-approved pro forma contracts[2], authorizes further immaterial modifications to these agreements, and extends the sunset date of Chapter 21.43 by five years through July 1, 2030. These changes are intended to provide the flexibility needed to respond to the evolving demands of the energy market and comply with state renewable energy requirements.

The proposed ordinance would also maintain waivers for the City Code provisions noted above because they are not included in power purchasing form contracts used by SFPUC.

Increasing Costs and Purchase Volumes

In FY 2024-25, SFPUC projects that up to $158 million in power purchases will be on contracts procured under the existing delegated procurement authority of Administrative Code Chapter 21.43.[3] Starting in FY 2026-27, that spending is projected to increase to $272 million, and increase to $300 million by FY 2029-30. The projections incorporate an increase in spending due to: (a) growth in customers, (b) rising energy prices and (c) fulfilling state mandates for energy reserves to offset sudden changes to power supplies, including loss of transmission lines. To account for the projected increase in energy purchases and sales, SFPUC is requesting to amend Chapter 21.43 to increase the annual expenditure limit to $300 million and extend the sunset date by five years.

Binding Arbitration Provisions

The proposed ordinance also seeks to expand authority to the SFPUC General Manager to include binding arbitration provisions in contracts with all counterparties that request it instead of being limited to contracts with investor-owned utilities. This change acknowledges that many energy suppliers and service providers are beginning to require binding arbitration clauses as a standard industry practice for resolving disputes. By permitting binding arbitration in agreements with a

[2] WAPA Full Load Service Agreement and WAPA Scheduling Coordinator Agreement

[3] According to SFPUC, total power purchases in FY 2024-25 are budgeted at $442 million, of which up to $159 million is on contracts procured under Chapter 21.43. The remaining spending is on smaller (less than $10 million) that do not require Board of Supervisors approval or on large contracts that the SFPUC procured without relying on the delegated authority.

wider array of counterparties, the SFPUC states that it engages more readily with diverse suppliers, enhancing its ability to secure favorable terms and respond swiftly to market opportunities. According to the SFPUC, a binding arbitration process has never been initiated for the energy contracts of CleanPowerSF or Hetch Hetchy Power (though those have been limited to agreements with investor-owned utilities).

Reporting to the Board of Supervisors

The ordinance maintains the requirement that the SFPUC submit quarterly reports to the Board of Supervisors on the duration, product purchased, and cost of purchasing contracts entered pursuant to ordinance. SFPUC must also submit annually CleanPowerSF's program costs, the rates charged to customers to recover those costs, and a comparison of CleanPowerSF rates with PG&E rates.

FISCAL IMPACT

Under the proposed ordinance, the annual expenditure cap for streamlined procurement of power contracts would increase from $200 million to $300 million in annual spending. The streamline authority to enter contracts with projected revenues for power sales will also increase from $20 million to $300 million per year. This increase in spending authority aligns with anticipated growth in energy procurement over $200 million for both Hetch Hetchy Power and CleanPowerSF beginning in FY 2025-26, as detailed in Exhibit 2 below.

Exhibit 2: Projected Power Spending Under Chapter 21.43, by Fiscal Year

FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
$159,000,000	$202,000,000	$272,000,000	$274,000,000	$296,000,000	$300,000,000

Source: PUC

Note: The total reflects contracts already executed under Chapter 21.43, new contract expenditures under 21.43, and a contingency allowance for both Hetch Hetchy Power and CleanPowerSF.

POLICY CONSIDERATION

Revenue Cap Increase

The SFPUC requests to increase the annual revenue cap for energy sale contracts procured under Chapter 21.43 from $20 million to $300 million, aligning it with the proposed annual expenditure cap of $300 million. However, according to the SFPUC's FY 2025-2034 Ten Year Financial Plan, wholesale power sales for both Hetch Hetchy Power and CleanPowerSF will not exceed $30 million though FY 2029-30. The proposed revenue cap of $300 million is ten times more than projected need. SFPUC is requesting a $300 million revenue cap because both the Public Utilities Commission and members of the Board of Supervisors questioned why any revenue cap was necessary when the cap was increased from $10 million to $20 million in 2024 (File 24-0083). The proposed ordinance would likely result in no power sale contracts submitted for Board of Supervisors approval through FY 2029-30.

RECOMMENDATION

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

Item 8 File 24-1106	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

The proposed resolution would authorize the Airport to implement the Specialty Retail Minimum Annual Guarantee Rent Reduction Program for 17 specialty retail concession tenants. The proposed program terms include: (1) A one-time reset of the Minimum Annual Guaranteed (MAG) rent commencing in CY 2025 to the lesser of the existing MAG or 16 percent of gross revenues during CY 2023 for specialty retail leases with a rent commencement date prior to January 1, 2023; (2) Change the method for adjusting the MAG from an annual CPI adjustment to adjusting to the greater of the existing MAG or 85 percent of prior year's base rent, commencing with the next MAG adjustment date for each lease in the program; and (3) a one-time reset of the MAG for CY 2026 equal to the lesser of the MAG for CY 2025 or 16 percent of gross revenues during CY 2025 for the lease with specialty retail tenant Chalo, LLC, which is still in its construction period.

Key Points

- The Airport currently has 17 specialty retail leases, which is a category of concession leases that includes stores that sell items such as confections, gifts, and electronics merchandise. Under the terms of their leases, the 17 specialty retail tenants currently pay rent annually to the Airport equal to the MAG rent or a tiered percentage rent based on gross revenues, whichever is greater. In addition, MAG rent for the specialty retail leases is adjusted annually by the Consumer Price Index (CPI).
- Passenger spending at specialty retail stores at SFO has declined since the pandemic, decreasing by 18 percent from FY 2018-19 to FY 2023-24 and by nine percent from FY 2022-23 to FY 2023-24. In addition, six specialty retail tenants have requested a rent reduction or early lease termination, are behind on rent or are on a payment plan.
- Our review of financial statements from 16 specialty retail tenants confirmed that the majority (11 tenants) incurred losses. Of those 11 tenants, the net losses (as a percentage of revenue) ranged from approximately -0.5 percent to -111.6 percent. The average net income, as a percentage of revenue, across all 16 tenants was -16.1 percent.

Fiscal Impact

- The Airport estimates that the rental reduction program will result in a projected decrease of $1.2 million in rent in CY 2025. The Airport makes an Annual Service Payment to the City's General Fund, equal to 15 percent of concession revenues. The projected $1.2 million decrease in rent would result in decreased transfers to the General Fund of approximately $180,000 in CY 2025. We estimate the impact on the General Fund would be $195,000 in CY 2026.

Recommendation

- 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

Airport Specialty Retail Leases

The Airport currently has 17 specialty retail leases, which is a category of concession leases that include stores that sell items such as confections, gifts, and electronics merchandise, among others. Sixteen of the 17 specialty retail leases commenced between 2015 to 2022 and expire between 2026 and 2035, and one lease with Chalo, LLC (as tenant) is still under construction with an anticipated completion date of March 2025. Appendix I summarizes the 17 specialty retail leases at the Airport.

The Airport previously amended certain leases, including specialty retail leases, to waive certain rents and fees due to the Airport between April 2020 and December 2020 under the Airport's COVID-10 Emergency Rent Relief Program.[1]

Concession Rent

Under the terms of their leases, the 17 specialty retail tenants currently pay rent annually to the Airport equal to the Minimum Annual Guaranteed (MAG) rent or a tiered percentage rent based on gross revenues, whichever is greater. The tiered percentage rent structure for most of the leases[2] is as follows:

- 12 percent of gross revenues up to and including $500,000;
- 14 percent of gross revenues from $500,000 up to and including $1,000,000 and;
- 16 percent of gross revenues over $1,000,000.

In addition, MAG rent for the specialty retail leases is adjusted annually by the Consumer Price Index (CPI), which typically results in an increase of approximately two to three percent per year.

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[1] In January 2021, the Board of Supervisors provided the Airport delegated authority to amend leases to waive MAG and percentage rents under the Airport's COVID-19 Emergency Rent Relief Program (File 20-1278). This Rent Relief Program was funded by federal stimulus monies under the CARES Act.

[2] Percentage rent for the three InMotion leases applies an 8% rate to sales of electronics and hardware and otherwise uses the same tiered structure shown above. Percentage rent for the Genesco lease is equal to 12% of gross revenues up to $1 million plus 14% of gross revenues from $1 million to $2 million, plus 16 percent of gross revenues over $2 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Airport to implement the Specialty Retail Minimum Annual Guarantee Rent Reduction Program for the 17 specialty retail concession tenants (as listed in Appendix I). The proposed rent reduction program terms are as follows:

- A one-time reset of the MAG commencing in CY 2025 to the lesser of the existing MAG or 16 percent of gross revenues during CY 2023 for specialty retail leases with a rent commencement date prior to January 1, 2023;
- Change the method for adjusting the MAG from an annual CPI adjustment to adjusting to the greater of the existing MAG or 85 percent of prior year's base rent, commencing with the next MAG adjustment date for each lease in the program; and
- A one-time reset of the MAG for CY 2026 equal to the lesser of the MAG for CY 2025 or 16 percent of gross revenues during CY 2025 for the lease with specialty retail tenant Chalo, LLC, which is still in its construction period.

The proposed resolution also approves amendments to 17 existing leases to reflect the proposed rent reduction program.

Need for Rent Reduction Program

Passenger spending at specialty retail stores at SFO has declined since the pandemic. According to data provided by the Airport, specialty retail spending has decreased by 18 percent from FY 2018-19 to FY 2023-24 and by nine percent from FY 2022-23 to FY 2023-24. Airport staff believe that the rise in the prices of food and goods is driving the decline in passenger spending on discretionary items.

According to Airport staff, six specialty retail tenants have requested a rent reduction or early lease termination, are behind on rent or are on a payment plan. According to data provided by the Airport, among the specialty retail tenants operating during FY 2023-24, 11 of the 17 leases had MAGs (and total rent) greater than 20 percent of FY 2024 gross sales.[3] According to the memo from the Airport Director to the Airport Commission on the proposed rent reduction program (Airport Memo), the initial business deals were planned with rent not exceeding 13.5 percent to 14.6 percent of gross sales.[4]

[3] This is based on CY 2024 MAG amounts and FY 2023-24 sales, rather than CY 2024 sales because CY 2024 certified sales amounts are not yet available. The calculation assumes that the MAG rent has not been suspended for any months in CY 2024. Section 4 of the leases provides for the MAG rent to be suspended if Airport enplanements drop below 80 percent of the levels of the prior year the lease was awarded for three consecutive months. The MAG is then reinstated if enplanements increase back to at least 80 percent of the levels of the prior year the lease was awarded for two consecutive months. When the MAG is suspended, the tenant would still pay percentage rent, which may be lower than the MAG.

[4] According to the Airport, MAG rent for specialty leases are originally set by projecting sales revenue and applying the existing tiered percentage rent structure (as mentioned above). This amount is then discounted by

Consequently, to support the financial viability of the leases, the Airport is proposing a one-time reset of the MAG commencing in CY 2025 to the lesser of the existing MAG or 16 percent of gross revenues during CY 2023 for specialty retail leases with a rent commencement date prior to January 1, 2023. Based on estimates provided by the airport, this would reduce the MAG in CY 2025 for 13 out of 16 specialty retail leases commencing before January 1, 2023, as shown in Exhibit 1. The Airport decided to set the gross revenues threshold at 16 percent because it is the highest tier of the existing tiered percentage rent structure.

In addition, as previously mentioned, MAG rent for the specialty retail leases is currently adjusted annually by Consumer Price Index (CPI), which typically results in an increase of approximately two to three percent per year. As part of the rent reduction program, the Airport has proposed adjusting the MAG annually to the greater of existing MAG or 85 percent of prior year's Base Rent, which is a more common practice in the industry according to the Airport memo.[5] The Airport states this will provide downside protection for tenants while maintaining steady cashflow for the airport.

Review of Financial Statements

Our review of financial statements from 16 specialty retail tenants[6] confirmed that the majority (11 tenants) incurred losses. Of those 11 tenants, the net losses (as a percentage of revenue) ranged from approximately -0.5 percent to -111.6 percent.[7] The average net income, as a percentage of revenue, across all 16 tenants was -16.1 percent.

FISCAL IMPACT

Reduction in Rent and Annual Service Payment to the General Fund

The Airport estimates that the rental reduction program will result in a projected decrease of $1.2 million in rent in CY 2025, if enplanement activity is more fully recovered. This is based on

approximately 10 to 15 percent to establish the Minimum Acceptable Financial Offer, which becomes the "floor" that the proposer can bid during the competitive solicitation process. The proposer's financial offer comprises approximately 15 out of 100 evaluation points of the solicitation; the other 75 points are allocated to concept and design.

[5] According to Airport staff, the airport conducted email outreach to 84 airports nationwide to survey MAG adjustment practices. Out of 29 airports that responded, 28 use a MAG adjustment process similar to the proposed rent reduction program. Airport staff states that many of the 84 airports are small and not comparable to SFO and therefore may have contributed to a lower response rate.

[6] The Airport provided financial statements from 16 specialty retail tenants (excluding Chalo, LLC which is currently under construction). The majority (14) of financial statements are from 2024, and two are from 2023.

[7] Of the five tenants that did not incur losses, the net income (as a percentage of revenue) ranged from approximately 0.6 to 18.6 percent.

projected CY 2025 sales estimates[8] for all specialty retail leases and assumes an annual MAG adjustment of 3.9 percent CPI[9] increase to the CY 2024 MAG for each lease.[10]

Exhibit 1 shows the cost breakdown by specialty retail lease[11] of the proposed rent reduction program's total projected decrease of $1.2 million in revenue to the Airport in CY 2025.

Exhibit 1: Cost Breakdown of Proposed Airport Rent Reduction Program

Tenant	CY2024 Total Estimated Rent	Existing Leases: Projected CY2025 Total Rent (Without Rent Reduction Program)	Proposed Amendments: Projected CY2025 Total Rent (With Rent Reduction Program)	Difference between Existing and Proposed: (Projected Decrease from Rent Reduction Program)
Air Sun dba Sunglass Hut (Terminal 2)	$142,916	$148,490	$142,916	$5,574
Air Sun dba Sunglass Hut (Terminal 3)	105,033	159,412	159,412	0
Apparel Sourcing and Production, LLC dba We are SF	248,061	257,735	248,061	9,674
Brookstone SFO T-2, LLC dba Brookstone	373,379	387,941	213,109	174,832
Canonica New York, LLC dba The Chocolate Market (Terminal 3)	115,745	120,259	51,867	68,392
Canonica New York, LLC dba The Chocolate Market (Terminal 2)	264,833	275,161	128,267	146,894
Canonica New York, LLC dba The Chocolate Market (International Terminal)	337,099	350,246	182,919	167,327
DFS Group, L.P.	447,619	465,076	185,797	279,279
Genesco Partners Joint Venture #11 dba Johnston & Murphy	383,359	398,310	361,606	36,704
InMotion Entertainment Group, LLC dba iStore	468,769	487,051	436,928	50,123
InMotion SFO-IT, LLC dba InMotion	388,732	403,893	317,915	85,978
InMotion SFO-T3, LLC dba InMotion (E) and Sound Balance	495,025	549,523	549,523	0
L'Occitane Airport Venture, LLC dba L'Occitane	153,455	159,440	94,635	64,805
RAKH, Inc. dba NYS Eyewear	141,917	147,452	88,549	58,903
Rulli, G. R. Chocolates	165,374	171,824	117,971	53,852
WDFG North America, LLC dba Jo Malone, Tom Ford	211,914	227,674	227,674	0
Total	**$4,443,231**	**$4,709,486**	**$3,507,150**	**$1,202,336**

Source: Airport

[8] Projected CY 2025 sales estimates are based on FY 2024 spend rates by boarding area and the projected number of departing enplaned passengers in CY 2025.

[9] According to the Airport, this is based on a 3-year average (CY 2022-2024) of the US Bureau of Labor Statistics Consumer Price Index for All Urban Consumers

[10] The calculation also assumes that the MAG rent for all specialty retail leases will not be suspended in CY 2025.

[11] The cost breakdown excludes Chalo, LLC, which is currently under construction.

Annual Service Payment

The Airport makes an Annual Service Payment to the City's General Fund, equal to 15 percent of concession revenues. The projected $1.2 million decrease in rent would result in decreased transfers to the General Fund of approximately $180,000 in CY 2025.

Calendar Year 2026 Impact

If sales escalate by five percent in CY 2026, we estimate that the proposed amended leases would generate approximately $1.3 million less in base rent in CY 2026 compared to the existing leases, resulting in a reduction in the Annual Service Payment of $195,000. If sales escalate by more than five percent, the cost of the rent reduction program would be less since percentage rent would be greater, which reduces the impact of the lower MAG. These estimates do not include the impact of the one-time MAG adjustment for Chalo, LLC in CY 2026 because there is no historical sales information for this vendor since the store has not yet opened.

Impact on Airport Tenants

According to financial data provided by the Airport, the subject Airport tenants recorded net losses of approximately $2.2 million in CY 2024 though some tenants were profitable. The proposed concession lease amendments would provide approximately $1.2 million in rent relief in CY 2025. The proposed new lease structure increases the Airport's cost sharing of specialty retail financial losses with an impact of approximately $180,000 in the General Fund in CY 2025 and $195,000 in CY 2026. The Airport believes this will reduce the likelihood of tenants requesting an early termination or entering bankruptcy, which would have a greater impact on Airport revenues and by extension on the General Fund.

RECOMMENDATION

Approve the proposed resolution.

Appendix I: Airport Specialty Retail Leases

Specialty Retail Lease Tenant	CY 2024 Minimum Annual Guarantee Rent (MAG)	CY 2024 Estimated Percentage Rent[12]	CY 2024 Estimated Total Base Rent (Greater of MAG or Percentage Rent)	Rent Commencement Date	Lease Expiration Date
Air Sun dba Sunglass Hut (Terminal 2)*^	$142,916	$139,657	$142,916	1/1/2020	6/30/2030
Air Sun dba Sunglass Hut (Terminal 3)*	$68,599	$105,033	$105,033	1/1/2020	6/30/2030
Apparel Sourcing and Production, LLC dba We are SF^	$248,061	$207,485	$248,061	9/1/2021	8/31/2030
Brookstone SFO T-2, LLC dba Brookstone^	$373,379	$168,956	$373,379	3/1/2020	8/31/2030
Canonica New York, LLC dba The Chocolate Market (Terminal 3)	$115,745	$36,000	$115,745	8/1/2019	7/31/2026
Canonica New York, LLC dba The Chocolate Market (Terminal 2)^	$264,833	$115,682	$264,833	4/6/2019	10/5/2031
Canonica New York, LLC dba The Chocolate Market (International Terminal)^	$337,099	$184,371	$337,099	7/1/2018	12/31/2030
Chalo, LLC (under construction as of Feb 2025)	n/a	n/a	n/a	12/1/2024	11/30/2031
DFS Group, L.P.*^	$447,619	$141,427	$447,619	2/1/2019	1/31/2028
Genesco Partners Joint Venture #11 dba Johnston & Murphy^	$383,359	$207,368	$383,359	8/1/2022	8/31/2035
InMotion Entertainment Group, LLC dba iStore*^	$468,769	$257,160	$468,769	8/1/2019	1/31/2035
InMotion SFO-IT, LLC dba InMotion^	$388,732	$221,965	$388,732	1/1/2020	6/30/2033
InMotion SFO-T3, LLC dba InMotion (E) and Sound Balance^	$495,025	$312,693	$495,025	10/1/2020	8/31/2033

12 This is based on FY 2024 gross sales because the Airport states that CY 2024 certified sales amounts are not yet available.

Specialty Retail Lease Tenant	CY 2024 Minimum Annual Guarantee Rent (MAG)	CY 2024 Estimated Percentage Rent[12]	CY 2024 Estimated Total Base Rent (Greater of MAG or Percentage Rent)	Rent Commencement Date	Lease Expiration Date
L'Occitane Airport Venture, LLC dba L'Occitane*^	$153,455	$55,277	$153,455	11/1/2020	10/31/2027
RAKH, Inc. dba NYS Eyewear^	$141,917	$52,062	$141,917	4/1/2021	8/31/2030
Rulli, G. R. Chocolates^	$165,374	$68,873	$165,374	10/1/2021	3/31/2029
WDFG North America, LLC dba Jo Malone, Tom Ford*^	$211,914	$148,846	$211,914	11/18/2015	10/31/2027
Total	**$4,406,796**	**$2,422,856**	**$4,443,231**		

Source: Airport

*Businesses certified as Airport Concessions Disadvantaged Business Enterprises (ACDBEs) under U.S. Department of Transportation regulations. Disadvantaged business enterprises are small businesses that are 51 percent owned by socially and economically disadvantaged individuals, such as members of groups that have historically faced discrimination in hiring (such as women and Black Americans).

^Leases that require Board of Supervisors approval for any changes.

Item 11 **File 25-0102**	**Department:** Office of Economic and Workforce Development (OEWD), Department of Emergency Management (DEM)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 6 to the grant agreement between the Office of Economic and Workforce Development (OEWD) and Mid-Market Foundation for management of the Mid-Market/Tenderloin Community-Based Safety Program, increasing the not-to-exceed amount by $4,000,000, for a total not to exceed $68,851,756, and authorize the OEWD Director to make further immaterial amendments to the grant agreement.

Key Points

- In 2022, OEWD executed a grant agreement with Mid-Market Foundation to provide community ambassador services in the Mid-Market/Tenderloin area. The grant agreement has since been amended five times, extending the term through June 2025 and increasing the not-to-exceed amount to $64,851,756. After agreeing to a reduction in Amendment No. 5, OEWD is now requesting a $4,000,000 increase to provide funding through the remainder of the grant agreement term.
- Mid-Market Foundation subcontracts with Urban Alchemy, Code Tenderloin, and Next Street for ambassador staffing and Urban Place Consulting for program administration. Urban Alchemy is the primary subgrantee. DEM recently analyzed the impact of new ambassador deployments on Ellis Street and Willow Alley and found that 911 calls decreased in these areas.

Fiscal Impact

- The proposed Amendment No. 6 would increase the not-to-exceed amount of the grant by $4,000,000, for a total not to exceed $68,851,756. This increase would be funded by the City's General Fund. The program is not funded beyond FY 2024-25.

Policy Consideration

- There is not currently a consensus between OEWD, the Department of Emergency Management (DEM), and the Mayor's Office to move forward with a successor program after the contract expires. If the City were to issue a new RFP, we recommend that the Board of Supervisors request OEWD and DEM provide objective outcome standards to determine when to ramp down the program and to include a ramp down plan in the RFP.

Recommendation

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

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

In 2021, after conducting a competitive solicitation, the Office of Economic and Workforce Development (OEWD) executed a grant agreement with the Mid-Market Foundation to provide community ambassador services in the Mid-Market/Tenderloin area, for a term of one year and an amount not to exceed $4,500,000. In December 2021, OEWD amended the agreement to increase the not-to-exceed amount to $5,250,000.

In 2022, OEWD entered into a new grant agreement with Mid-Market Foundation for a term of nine months, from July 2022 through March 2023, and an amount not to exceed $9,000,000. The grant agreement has since been amended five times, as shown in Exhibit 1 below.

Exhibit 1: Mid-Market Foundation Grant Agreement Amendments

Amendment	Date	Approval	Description
Original Agreement	7/1/2022	OEWD	Term of 9 months from 7/1/2022 – 3/31/2023, amount not to exceed $9,000,000
No. 1	11/8/2022	Board of Supervisors (File 22-1058)	Extended term through 6/30/2023, increased amount to $20,490,000
No. 2	3/21/2023	Board of Supervisors (File 23-0041)	Extended term through 10/15/2023, increased amount to $33,590,570
No. 3	7/18/2023	Board of Supervisors (File 23-0681)	Extended term through 6/30/2025, increased amount to $60,590,570
No. 4	11/1/2023	OEWD	Increased amount to $61,090,570
No. 5	12/10/2024	Board of Supervisors (File 24-0994)	Increased amount to $64,851,756

Source: Previous contract amendments

In Amendment No. 5, OEWD and the Department of Emergency Management (DEM)[1] had requested the Board of Supervisors to increase the not-to-exceed amount to $68,851,756 to provide funding for the ambassador program through June 2025. After discussions with the Supervisors, the OEWD and DEM Executive Directors agreed to accept an amendment to reduce the not-to-exceed amount to $64,451,756 to fund the program through April 2025. OEWD is now requesting a $4,000,000 increase to provide funding through the remainder of the grant agreement term.

[1] In 2023, DEM assumed programmatic responsibility from OEWD to manage the City's ambassador programs, including the Mid-Market Foundation agreement. DEM added a new Street Ambassador Program Coordinator (0922 Manager I) to oversee these programs. OEWD reduced its staffing for the ambassador programs from 0.30 full-time equivalent (FTE) employees to 0.15 FTE employees and has retained fiscal management of the programs

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 6 to the grant agreement between OEWD and Mid-Market Foundation for management of the Mid-Market/Tenderloin Community-Based Safety Program, increasing the grant amount by $4,000,000, for a total not to exceed $68,851,756, and authorize the OEWD Executive Director to make further immaterial amendments to the grant agreement. The term of the grant would not change and ends on June 30, 2025.

Services Provided

Under the grant agreement, Mid-Market Foundation manages the Mid-Market Community-Based Safety Program, with the purpose of ensuring safety and inviting public space, overdose prevention, and connecting people to services. The Mid-Market Foundation subcontracts with several organizations that provide the following services.[2]

- Urban Alchemy: community ambassadors
- Code Tenderloin: outreach and street cleaning
- Next Street: outreach and street cleaning
- Tenderloin Community Benefit District: park stewardship (no longer active)
- Urban Place Consulting: program administration

A map showing ambassador deployment locations is shown in Exhibit 2 below.

[2] For additional information about Mid-Market Foundation's services, including its subcontractors, hours and locations, and performance and fiscal monitoring, please see the Budget and Legislative Analyst's report to File 24-0994:
https://sfgov.legistar.com/View.ashx?M=F&ID=13588816&GUID=BF672558-5BD7-4D77-9488-42314B873295

Exhibit 2: Ambassador Deployment Location Map

Source: Mid-Market Foundation

Monthly activities performed by community ambassadors are shown in Exhibit 3 below.

Exhibit 3: Mid-Market Community Ambassador Activities, FY 2022-23 through FY 2024-25 Monthly Averages

Activity	FY 2022-23 (Monthly Average)	FY 2023-24 (Monthly Average)	FY 2024-25 (Monthly Average, 5 Months)
Positive Engagements	80,709	163,066	277,917
Inviting Space Interventions	20,843	52,879	123,148
De-Escalation Interventions	2,535	7,310	10,041
311 Calls	146	386	726
911 Calls	12	73	60
Overdose Reversals	8	19	14
Needle Removals	5,698	7,017	10,079
Trash Bags Filled	2,982	4,942	7,465
Total Ambassador Hours	**530,572**	**428,171**	**245,622**
Average Monthly Ambassador Hours	44,211	35,681	49,124
Blockfaces w/Ambassador Presence (Monthly Average)	78	93.25	112

Source: Mid-Market Foundation

The data shows that ambassador activities increased from FY 2022-23 to FY 2023-24 despite a reduction in monthly ambassador hours. In FY 2024-25 (through November 2024), ambassador hours increased, and activities continued to increase. This is largely due to new ambassador locations on the 600 block of Ellis Street and the 100 block of Willow Alley and extended hours on Market Street between 5th and 7th Street.

At the recommendation of the Budget & Legislative Analyst, DEM recently analyzed the impact of ambassador deployments at the Ellis and Willow locations. DEM found that 911 calls decreased by 35 percent on Ellis Street and 49 percent on Willow Alley in October and November 2024 (after the deployments) compared to June and July 2024 (before the deployments), despite an overall five percent increase of 911 calls Citywide. DEM found similar impacts in two other locations where ambassadors had been deployed earlier, Turk and Hyde Streets and the 500 block of Stevenson Street.

FISCAL IMPACT

The proposed Amendment No. 6 would increase the not-to-exceed amount of the grant by $4,000,000, for a total not to exceed $68,851,756. The total program budget for FY 2024-25 would increase to $23,761,186, as shown below in Exhibit 4.

Exhibit 4: Sources and Uses of Funds, FY 2024-25

Sources	Total Amount
General Fund	$11,099,063
Opioid Settlement Funding	11,200,000
Work Order – HSH	785,116
Work Order – HSA	338,506
Work Order – DPH	338,500
Total Sources	**$23,761,186**

Uses	Total Amount
Mid-Market Foundation & Urban Place	$850,400
Ambassador Program Baseline	$14,015,600
Urban Alchemy Field Office	384,000
Subgrant for Neighborhood Safety Improvements[3]	750,000
Increase Ambassador Staffing to FY 2023-24 Levels	4,000,000
Market Street Extended Hours	2,299,000
Ellis Street Expansion	785,120
Willow Alley Expansion	677,066
Total Uses	**$23,761,186**

Source: OEWD

The proposed increase would be funded by the City's General Fund and intended to maintain current ambassador service levels through June 2025.

OEWD reports that grant expenditures to date total approximately $58.6 million. Mid-Market Foundation requested a $2.5 million advance payment in November 2024 and a $3 million advance in January 2025 to ensure that Urban Alchemy had adequate cash flow to make payroll. Payments to Mid-Market are typically made following receipt of an activity report, a deliverable in the grant agreement. The advance payments do not increase the total value of the contract but do change the City's payment schedule.

Mid-Market Foundation has not submitted activity reports pertaining to December 2024, quarterly reports, and semi-annual reports that were due in December 2024 and January 2025 and has not submitted reports on activities on Ellis Street and Willow Alley that were due November 2024, December 2024, and January 2025.

The City is considering issuing a new RFP in Spring 2025 to continue the ambassador program beyond FY 2024-25. The program is not funded beyond FY 2024-25 and would require budget appropriation to continue into FY 2025-26. If the program is not extended, OEWD and DEM would work with Mid-Market Foundation to ramp down the program over the final three months of the grant term.

[3] Subgrants may include activations, support to small businesses and filling vacancies, and pro-social programming. Funds would be programmed as sub-grants to organizations, which could include Urban Alchemy.

POLICY CONSIDERATION

According to Sam Dodge, DEM Director of Street Response Coordination, there is not currently a consensus between OEWD, DEM, and the Mayor's Office to move forward with a successor program after the contract expires in June 2025. If the City were to issue a new RFP, we recommend that the Board of Supervisors request OEWD and DEM provide objective outcome standards to determine when to ramp down the program and to include a ramp down plan in the RFP. Such outcomes could include the count and severity of 911 calls, public safety incidents, public nuisance incidents (such as public drug dealing, drug use, and other disruptive street behavior), the number of visitors to Civic Center Plaza and Tenderloin Children's playground, and sales tax revenue. These outcomes should be evaluated within the Mid-Market community ambassador deployment area during program hours. In addition, the City may want to track employment outcomes for ambassador workers, as this program serves a dual purpose to address street conditions and is a workforce development program, according to OEWD and DEM staff. The City should also move away from a deliverable-based payment schedule to payments based on actual expenses, such as hours worked and other direct and indirect costs.

In addition, as we noted in our prior reports on this agreement, the program structure is expensive as it includes the Mid-Market Foundation, the grantee, Urban Place Consulting, a subgrantee firm that manages the Mid-Market Foundation's administrative functions, Urban Alchemy, a subgrantee which provides ambassadors but also requires funding for its supervisors and executive management, as well as subgrantees Code Tenderloin, Next Street, and Tenderloin Community Benefit District (TLCBD). By contracting directly with ambassador providers, the City could save at least $850,400 per year in administrative costs for this service.

RECOMMENDATION

Approval of the proposed resolution is a policy matter.