CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

May 1, 2020

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: May 6, 2020 Budget and Finance Committee Meeting

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Item 1 File 20-0315 *(Continued from 4/29/20)*	Department: Real Estate Division (RED) Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve lease amendments between the Human Services Agency (HSA), as tenant, and K.L.W. Investments, LLC, as landlord, for properties located at 3119 Mission Street and 3120 Mission Street, exercising the first of the three five-year extension options for a term from July 1, 2020 to June 30, 2025.

Key Points

- The original lease was approved by the Board of Supervisors in June 2015. HSA uses the leased space for offices and services to clients, including child welfare services, training center and hiring hall to support workforce development operations, workforce development center primarily serving the Mission District, and public benefit assistance serving families engaged in CalWORKS, Medi-Cal, CalFRESH benefits, etc.

Fiscal Impact

- The first year rent under the proposed lease extension is set at $48.45 per square foot, which is approximately 95 percent of fair market value base on an independent appraisal, increasing by 3 percent per year. First year lease costs, including rent and utilities, are $2.6 million, and total estimated lease costs over the five-year extension are $13.9 million.

Policy Consideration

- The market rent appraisal was conducted prior to COVID-19 and therefore does not account for potential future downturns in the commercial real estate market. According to our discussions with Real Estate Division staff, once the lease extension is approved, there is no mechanism to reduce rent in the event of future commercial real estate market downturns. The City has the option to negotiate lower rent prior to exercising the option to extend the lease, including temporarily holding over the lease while negotiating rent, although according to the Director of Real Estate, if the City does not exercise the option to extend, the landlord can revoke the option. In his presentation to the April 29, 2020 Budget and Finance Committee, the Director of Real Estate agreed to discuss with the landlord options for reducing the rent in the proposed lease extensions. The Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter, pending presentation by the Director of Real Estate to the Budget and Finance Committee of either (i) a proposed amendment to the resolution reflecting any newly negotiated terms; or (ii) a return to the Budget and Finance Committee, again seeking approval of the resolution as originally submitted.

Recommendation

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

MANDATE STATEMENT

Administrative Code Section 23.27 requires Board of Supervisors approval of leases of one year or more in which the City is the tenant.

BACKGROUND

The Human Services Agency leases 3119 Mission Street and 3120 Mission Street for the following services:

1) 3119 Mission Street: Child welfare services, training center and hiring hall to support workforce development operations at 3120 Mission Street;
2) 3120 Mission Street: Workforce development center primarily serving the Mission District, and public benefit assistance serving families engaged in CalWORKS, Medi-Cal, CalFRESH benefits, etc.

3119 Mission Street

In June 2015, the Board of Supervisors approved a resolution for a five-year lease agreement between the Human Services Agency and K.L.W. Investments, LLC for 3119 Mission Street. Under this lease agreement, the 3119 Mission Street property includes three buildings – 3119, 3125, and 3127 Mission Street – for a total of 11,085 square feet of office space. Annual base rent was $473,884 ($42.75 per sq. ft.). The lease term was for five years from July 1, 2015 to June 30, 2020 with three five-year options to extend through June 30, 2035 (File 15-0426).

3120 Mission Street

In June 2015, the Board of Supervisors approved a resolution for a five-year lease agreement between the Human Services Agency and K.L.W. Investments, LLC for 3120 Mission Street for 39,251 square feet of office space. Annual base rent was $1,677,980 ($42.75 per sq. ft.). The lease term was for five years from July 1, 2015 through June 30, 2020 with three five-year options to extend through June 30, 2035 (File 15-0427).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve lease amendments between the City, as tenant, and K.L.W. Investments, LLC, as landlord, for properties located at 3119 Mission Street and 3120 Mission Street, exercising the first of the three five-year extension options for a term from July 1, 2020 to June 30, 2025. The combined monthly base rent for both properties is $203,232 for a total annual base rent of $2,438,779 with base rent increasing at three percent per year.

Table 1 below summarizes the terms of the proposed leases for 3119 Mission Street and 3120 Mission Street.

Table 1: Summary of 3119 Mission Street and 3120 Mission Street Proposed Lease Extension

Lease Terms	3119 Mission Street	3120 Mission Street
Landlord	KLW Investments, LLC	KLW Investments, LLC
Square Footage	11,085	39,251
Term	July 1, 2020 through June 30, 2025	July 1, 2020 through June 30, 2025
Option to Renew	Three five-year options to extend through June 30, 2035. Proposed lease amendment would exercise first of three options.	Three five-year options to extend through June 30, 2035. Proposed lease amendment would exercise first of three options.
Tenant and Capital Improvements	None	None
Base Rental Rate	$48.45	$48.45
Base Annual Rent	$537,068	$1,901,711
Utilities & Custodial	$57,614	$123,641 (utilities only paid by the City)
Tax, Insurance, other Operating Expenses	Paid by Landlord	Paid by Landlord
Base Rent Increase Date	Commences July 1, 2021	Commences July 1, 2021
Base Rent Increase Amount	3 percent	3 percent
Parking	15 parking spaces included in rent	N/A

According to Mr. Robert Walsh, Human Service Agency's Director of Facilities and Operations, in addition to the functions previously mentioned, the spaces at 3119 and 3120 Mission Street are also used for agency events such as town halls, community meetings and various types of job training events across the agency. Staff located at 3119 and 3120 Mission Street are predominantly direct service-based (public operations). Mr. Walsh states that there are approximately 12 FTEs at 3119 Mission Street and approximately 174 FTEs at 3120 Mission Street for a total of 186 FTEs for both spaces. There are not expected to be substantive changes in the number of staff located at the spaces.

FISCAL IMPACT

The existing annual rent for 3119 Mission Street from July 1, 2019 to June 30, 2020 is $518,224 equal to approximately $46.75 per square foot per year for approximately 11,085 square feet. Under the proposed lease extension, the rent would increase by approximately 3.6 percent to an annual base rent of $537,068 with an annual base rent rate of $48.45 per square foot per year.

The existing annual rent for 3120 Mission Street from July 1, 2019 to June 30, 2020 is $1,834,984 equal to approximately $46.75 per square foot per year for approximately 39,251 square feet.

Under the proposed lease extension, the rent would increase by approximately 3.6 percent to an annual base rent of $1,901,711 with an annual base rent rate of $48.45 per square foot per year.

In November 2019, an independent appraiser, Colliers International, estimated fair market rent to be $51 per square foot per year for the combined 50,336 square feet of office space for both properties using the direct comparison method and based on recent leases of comparable properties[1]. According to Mr. Josh Keene, Real Estate Division Special Projects and Transactions Manager, the Real Estate Division negotiated a base annual rent at $48.45 per square foot per year for both properties, which is 95 percent of the prevailing fair market rental rate. There will be three percent annual rent escalations over the five-year term of the lease extension[2].

As shown in Table 2 below, over the five-year term of the lease extension from July 1, 2020 through June 30, 2025, total rent to be paid by the Human Services Agency for 3119 Mission Street and 3120 Mission Street is $12,947,810 and the total operating costs is estimated at $1,001,548, resulting in a combined total leasing cost of $13,949,358 for both properties. The operating costs[3] are projected to increase five percent annually. The total leasing costs, including operating costs, would be paid from the City's General Fund, subject to Board of Supervisors appropriation approval in the Human Services Agency's annual budget.

Table 2. Projected Expenditures for Each Property over Lease Extension Term

Year	Base Rent per Square Foot	Annual Base Rent		Total Annual Rent	Operating Costs		Total Costs
		3119 Mission (11,085 sf.)	3120 Mission (39,251 sf.)		3119 Mission (11,085 sf.)	3120 Mission (39,251 sf.)	
1	$48.45	$537,068	$1,901,711	$2,438,779	$57,614	$123,641	$2,620,034
2	$49.90	$553,180	$1,958,762	$2,511,942	$60,495	$129,823	$2,702,260
3	$51.40	$569,776	$2,017,525	$2,587,301	$63,520	$136,314	$2,787,135
4	$52.94	$586,869	$2,078,051	$2,664,920	$66,696	$143,130	$2,874,746
5	$54.53	$604,475	$2,140,392	$2,744,867	$70,031	$150,286	$2,965,184
Total		**$2,851,368**	**$10,096,442**	**$12,947,810**	**$318,355**	**$683,193**	**$13,949,358**

[1] Per City Administrative Code Section 23.27, an appraisal review was not required. The code states the following: "If the consideration to be paid by the City for the lease as base rent is more than $60 per square foot per year, the Director of Property, on behalf of the department concerned, shall obtain an Appraisal Review for such Appraisal."
[2] According to Mr. Keene, the landlord and the City agreed to change the rent escalation from $1.00 per sq. ft. per year in the original lease to 3 percent per year because 3 percent is the commercially standard escalation for office space.
[3] This includes utilities and custodial services for 3119 Mission Street and utilities for 3120 Mission Street.

POLICY CONSIDERATIOIN

As noted above, the leased space at 3119 and 3120 Mission Street is used for office space and service provision to HSA clients, including child welfare, workforce development, and other services.

The rent under the proposed lease extension is set at approximately 95 percent of fair market rent, as determined by an independent appraisal, increasing by 3 percent per year, consistent with Real Estate Division practice. However, the market rent appraisal was conducted prior to COVID-19 and therefore does not account for potential future downturns in the commercial real estate market. According to our discussions with Real Estate Division staff, once the lease extension is approved, there is no mechanism to reduce rent in the event of future commercial real estate market downturns. The City has the option to negotiate lower rent prior to exercising the option to extend the lease, including temporarily holding over the lease while negotiating rent. Under the terms of the existing lease, if the City does not exercise the extension option, the lease becomes month-to-month with the rent subject to negotiations. In the absence of agreement between the City and the landlord, the holdover rent increases to 125 percent of prior rent for the first 60 days, increasing to 200 percent after 60 days until either side elects to terminate with 30 days' notice. According to the Director of Real Estate, if the City does not exercise the option to extend, the landlord can revoke the option.

In his presentation to the April 29, 2020 Budget and Finance Committee, the Director of Real Estate agreed to discuss with the landlord options for reducing the rent in the proposed lease extensions. The Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter, pending presentation by the Director of Real Estate to the Budget and Finance Committee of either (i) a proposed amendment to the resolution reflecting any newly negotiated terms; or (ii) a return to the Budget and Finance Committee, again seeking approval of the resolution as originally submitted.

RECOMMENDATION

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

Item 2 **File 20-0136** *(Continued from 4/29/20)*	**Department:** Human Services Agency (HSA), Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would exercise the option to extend the lease at 2 Gough Street between RACHRIS, LLC as landlord and the Human Services Agency (HSA) as tenant, for a term of five years, from July 2020 through June 2025.

Key Points

- The original lease was approved by the Board of Supervisors in February 2015, with one five-year option to extend. The HSA's Department of Disability and Aging Services maintains a Benefits and Resources Hub at 2 Gough Street, which is the primary location serving older adults, adults with disabilities, and veterans. Residents may drop into the Hub to access information and services, including CalFresh, Medi-Cal, Adult Protective Services (APS), In-Home Supportive Services (IHSS), and veterans' services.

Fiscal Impact

- The first year rent under the proposed lease extension is set at $52.70 per square foot, which is approximately 95 percent of fair market value base on an independent appraisal, increasing by 3 percent per year. First year lease costs, including rent, janitorial services, utilities, and a portion of building operating costs, are $0.85 million, and total estimated lease costs over the five-year extension are $4.5 million.

Policy Consideration

- The market rent appraisal was conducted prior to COVID-19 and therefore does not account for potential future downturns in the commercial real estate market. According to our discussions with Real Estate Division staff, once the lease extension is approved, there is no mechanism to reduce rent in the event of future commercial real estate market downturns. The City has the option to negotiate lower rent prior to exercising the option to extend the lease, including temporarily holding over the lease while negotiating rent, although according to the Director of Real Estate, if the City does not exercise the option to extend, the landlord can revoke the option. In his presentation to the April 29, 2020 Budget and Finance Committee, the Director of Real Estate agreed to discuss with the landlord options for reducing the rent in the proposed lease extensions. The Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter, pending presentation by the Director of Real Estate to the Budget and Finance Committee of either (i) a proposed amendment to the resolution reflecting any newly negotiated terms; or (ii) a return to the Budget and Finance Committee to seek approval of the resolution as originally submitted.

Recommendation

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

MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer and where the City is the tenant is subject to Board of Supervisors approval by resolution.

BACKGROUND

The Human Service Agency's (HSA) Department of Disability and Aging Services maintains a Benefits and Resources Hub at 2 Gough Street. The leased premises consist of approximately 13,938 square feet on the first and second floors of the building. The Benefits and Resources Hub is HSA's primary location catering to older adults, adults with disabilities, and veterans. Residents may drop into the Hub to access information and apply for various services, including CalFresh, Medi-Cal, Adult Protective Services (APS), In-Home Supportive Services (IHSS), and veterans' services.

In February 2015, the Board of Supervisors approved a lease between HSA as tenant and RACHRIS, LLC as landlord, for a term of five years, from July 2015 through June 2020, and initial annual base rent of $487,836, with three percent annual increases (File 15-0006). The lease allowed for one five-year option to extend at prevailing fair market rent.[1]

The Real Estate Division (RED) has exercised the five-year lease extension and negotiated initial annual base rent of $734,533, or $52.70 per square foot, with three percent annual increases thereafter. An appraisal conducted by Colliers International in October 2019 based on leases of comparable properties determined fair market rent to be approximately $55 per square foot annually.[2] Therefore, the proposed annual rental rate of $52.70 per square foot is below prevailing fair market rent.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a lease extension with RACHRIS, LLC for the HSA facility at 2 Gough Street for a term of five years, from July 2020 through June 2025, with initial annual base rent of $734,533, and three percent annual increases thereafter. Under the lease, HSA would also pay utility and janitorial costs, and 49 percent of operating costs[3] that exceed the initial base year amount of $139,380. Key terms of the proposed lease extension are shown in Table 1 below.

[1] According to Mr. Keene, the resolution for File 15-0006 approving the initial lease incorrectly stated that the base rent for the extension period would be set at 95 percent of prevailing fair market rent. The lease actually stated that base rent would be set at prevailing fair market rent.

[2] An appraisal review was not required because the proposed annual rent is below $60 per square foot.

[3] Operating costs include taxes, insurance, management expenses, repairs, maintenance, and utility and janitorial costs for common areas.

Table 1: Key Terms of Proposed Lease Extension

Square Feet	13,938
Term	Five years, from July 1, 2020 through June 30, 2025
Annual Base Rent	$734,533 ($52.70 per square foot)
Rent Increases	3% per year
Utilities and Janitorial Services	Paid by City
Operating Costs	City pays 49% of annual amount exceeding $139,380

FISCAL IMPACT

Under the proposed lease extension, HSA would pay $734,533 in initial base rent, with three percent annual increases. Over the five-year extension term, HSA would pay approximately $3,899,735 in base rent. HSA would also pay utility and janitorial costs, and 49 percent of operating costs that exceed the initial base year amount of $139,380. According to Mr. Joshua Keene, RED Special Projects and Transactions Manager, the initial annual utility and janitorial costs are estimated at approximately $70,000 and initial annual operating costs are estimated at approximately $42,000. The utility and janitorial costs and operating costs are projected to increase five percent annually. Over the five-year extension term, total expenditures would be approximately $4,518,606, as shown in Table 2 below.

Table 2: Projected Expenditures over Lease Extension Term

Year	Base Rent	Utilities and Janitorial Costs	Operating Costs	Total Cost
1	$734,533	$70,000	$42,000	$846,533
2	756,569	73,500	44,100	874,169
3	779,266	77,175	46,305	902,746
4	802,644	81,034	48,620	932,298
5	826,723	85,085	51,051	962,860
Total	**$3,899,735**	**$386,794**	**$232,077**	**$4,518,606**

According to Mr. Keene, the funding source for the rent, utilities and janitorial costs, and operating costs is the City's General Fund.

POLICY CONSIDERATION

As noted above, the leased space at 2 Gough Street is used by the Department of Disability and Aging as office space and to provide services to older adults, adults with disabilities, and veterans, including assisting with access to CalFresh, Medi-Cal, Adult Protective Services (APS), In-Home Supportive Services (IHSS), and veterans' services.

The rent under the proposed lease extension is set at approximately 95 percent of fair market rent, as determined by an independent appraisal, increasing by 3 percent per year, consistent with Real Estate Division practice. However, the market rent appraisal was conducted prior to COVID-19 and therefore does not account for potential future downturns in the commercial real estate market. According to our discussions with Real Estate Division staff, once the lease extension is approved, there is no mechanism to reduce rent in the event of future commercial real estate market downturns. The City has the option to negotiate lower rent prior to exercising the option to extend the lease, including temporarily holding over the lease while negotiating rent. Under the terms of the existing lease, if the City does not exercise the extension option, the lease becomes month-to-month with the rent subject to negotiations. In the absence of agreement between the City and the landlord, the holdover rent increases to 150 percent of prior rent for until either side elects to terminate with 30 days' notice. According to the Director of Real Estate, if the City does not exercise the option to extend, the landlord can revoke the option.

In his presentation to the April 29, 2020 Budget and Finance Committee, the Director of Real Estate agreed to discuss with the landlord options for reducing the rent in the proposed lease extensions. The Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter, pending presentation by the Director of Real Estate to the Budget and Finance Committee of either (i) a proposed amendment to the resolution reflecting any newly negotiated terms; or (ii) a return to the Budget and Finance Committee, again seeking approval of the resolution as originally submitted.

RECOMMENDATION

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

Item 3 Files 20-0356	Department: Airport Commission

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the 14th modification to the existing contract between the Airport and T1 Partners for program management services for the T1 Program, increasing the contract amount by $6 million from $32 million to a new not-to-exceed amount of $38 million, and extending the contract term through July 7, 2023.

Key Points

- The Board of Supervisors approved the original contract with T1 Partners in 2013, following a competitive solicitation. Under the contract, T1 Partners provides program management services to the Harvey Milk Terminal (Terminal 1) renovation project (T1 Program). These services include terminal program planning and phasing, program- level costs and schedule controls, contractor solicitation and contract preparation, coordination of program management with construction management, cost estimating, and other program services.
- The original contract was for one year with nine one-year options to extend. The Airport previously exercised six of the nine one-year extension options to July 2020 (and modified the contract 13 times) within the original $32 million contract amount; the proposed 14th modification exercises the final three one-year extension options.

Fiscal Impact

- Actual and forecasted contract spending through FY 2019-20 is $32 million and forecasted expenditures through FY 2022-23 are $38 million. Source of funding for this project will come from Airport Revenue Bonds that are funding Ascent Program – Phase 1 under the Airport's Capital Improvement Plan.

Policy Consideration

- The T1 Program budget is $2.6 billion, of which $2.0 billion had been spent as of March 31, 2020. According to the Airport Finance Director, the Airport has sufficient funds to complete the T1 Program, including $1 billion in available Airport Revenue Bond proceeds as of April 30, 2020.
- In order to address the projected revenue shortfall due to COVID-19 and reduced air travel, estimated by the Controller and Mayor's Budget Office to be from $190 to $220 million in FY 2019-20, the Airport will evaluate other projects/programs within Phase 1 of the Ascent Program that can be deferred. In addition, according to the Airport Finance Director, the Airport has other sources of funds to offset reductions in operating revenues, including $254.8 million in Coronavirus Aid, Relief and Economic Stimulus (CARES) Act funds, $530 million in Passenger Facility Fund balance, and $500 million in Commercial Paper authority

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

The Board of Supervisors approved a contract between the Airport and T1 Partners, Joint Venture, a joint venture between The Allen Group, LLC and EPC Consultants, Inc. in June 2013 for program management support services to the Airport's Terminal 1/Boarding Area B Redevelopment Program (T1 Program) (File 13-0393). The program management support services include terminal program planning and phasing, program-level costs and schedule controls, contractor solicitation and contract preparation, coordination of program management with construction management, cost estimating, and other program services.

The original contract was in an amount not to exceed $32,000,0000 over an initial term of one-year with nine one-year extensions for a total term of 10 years to July 2023. The Airport Commission previously approved 13 modifications to the contract within the original $32,000,000 not to exceed amount. Table 1, on the next page, details the history of these contract modifications.

Solicitation of Program Management Support Services Consultant

T1 Partners was selected in April 2013 for T1 program management services following a competitive request for qualifications and proposals (RFQ/RFP) process, in which T1 Partners received the highest score of four proposals.

Table 1. T1 Program Management Support Services Contract Modifications History

No.	Date	Description	Updated Not-to-Exceed Amount
1	8/26/2013	Administrative changes, including new labor and overhead rates.	N/A
2	2/21/2014	Administrative changes, including new labor and overhead rates and new subconsultants	N/A
3	7/8/2014	Increased the contract amount and extended the Contract through 7/7/2015.	$12,260,757
4	2/18/2015	Administrative changes, including new labor and overhead rates and revision of the scope of services.	N/A
5	7/7/2015	Increased the contract amount and extended the Contract through 7/7/2016. Incorporated administrative changes,	$19,760,757

No.	Date	Description	Updated Not-to-Exceed Amount
		including changes to labor and overhead rates and revision of the scope of services.	
6	6/1/2016	Increased the contract amount and extend the Contract through 7/7/2017. Updated standard contractual clauses and modified the base labor and overhead rates.	$23,460,757
7	7/7/2016	Incorporated administrative changes, including changes to labor and overhead rates and revision of the scope of services.	$23,727,757
8	6/6/2017	Increased the contract amount and extended the Contract through 7/7/2018. Incorporated administrative changes, including changes to the labor and overhead rates.	$28,261,000
9	10/1/2017	Incorporated administrative changes, adjusting the overhead and labor rates and updating standard contractual clauses.	N/A
10	6/5/2018	Increased the contract amount and extended the Contract through 7/7/2019.	$30,650,000
11	8/1/2018	Incorporated administrative changes adjusting the overhead rates.	N/A
12	6/4/2019	Increased the contract amount and extended the Contract through 7/7/2020.	$32,000,000
13	1/1/2020	Administratively recognized Parsons Transportation Group, Inc.'s complete withdrawal as a member of the joint venture that is the contractor in the contract.	N/A
14	2/4/2020	Increased the contract amount by $6,000,000 for a new not-to-exceed total contract amount of $38,000,000 and extended the contract through 7/7/2023. Directed to seek Board of Supervisor's approval of Modification No. 14.	$38,000,000 (Proposed)

Source: Modifications No. 1-14.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the 14th modification to the existing contract between the Airport and T1 Partners for program management services for the T1 Program, increasing the contract amount by $6,000,000 from $32,000,000 to a new not-to-exceed amount of $38,000,000 and exercising final three one-year extensions of the contract term through July 7, 2023.

The Airport's practice for professional services contracts for capital projects is to evaluate contractors performance annually before contracts are renewed. While the Airport is seeking Board of Supervisors approval to exercise the final three one-year T1 Partners contract extensions at this time, the Airport will continue to evaluate contract performance and modify the contract annually.

Services Provided

The T1 Program is a major renovation of the Airport's Terminal 1 and Boarding Area B. It includes:

- Complete replacement of the architectural building envelope; replacement of electrical, HVAC (heating, ventilation and air conditioning) systems; and interior architectural renovation and facility upgrades, including consolidation of the passenger screening checkpoint, new airline ticket counters, and new concession space;
- New consolidated baggage handling system and baggage screening system, reducing the number of systems from six to one;
- Renovation of Boarding Area C to bring this facility up to Airport standards; and other improvements.
- Expansion of Boarding Area B gate capacity from 18 to 24 gates.

The T1 Program's scope expanded in November 2017 to move forward elements of Phase 2 into Phase 1 and increase the budget to $2.6 billion. The revised phasing and project scope were approved in response to accelerated forecasted demands for passengers and flight schedules at the time.

Program management support services for the T1 Program include terminal program planning and phasing, program- level costs and schedule controls, contractor solicitation and contract preparation, coordination of program management with construction management, cost estimating, and other program services. T1 Partners is responsible for program-level support, rather than construction project support, to the Airport. Under the proposed 14th modification to the contract, program management support services in FY 2020-21 through FY 2022-23 will consist of overall management expertise and oversight of the Terminal 1/Boarding Area B Redevelopment Program (T1 Program), including design and construction management services, project controls, contract administration, cost estimating, sustainability commissioning, and field inspection services.

Performance Monitoring

The contract does not include specific performance indicators, but T1 Partners, Joint Venture is monitored through an annual evaluation in preparation for exercising each one-year contract extension. The most recent performance evaluation for T1 Partners, Joint Venture, for the Terminal 1 Program Management Support Services was completed March 30, 2020 for the period July 2019- June 2020. The firm was assessed across 30 metrics and rated as "Exceeded" (2 points), "Met" (1 point), or "Below" (0 points) expectations. The firm received 18 "Exceeded Expectations" (36 points) and 12 "Met Expectations" (12 points) for a total of 48 points out of 60. They received no ratings of "Below." The report also states: "The staffing levels for this contract have been streamlined to provide the most effective team makeup. The current team members are extremely dependable, dedicated, and collaborative providing a consistent quality work product."

FISCAL IMPACT

Actual and forecasted contract spending through FY 2019-20 is $32 million and forecasted expenditures through FY 2022-23 are $38 million. Source of funding for this project will come from Airport Revenue Bonds that are funding Ascent Program – Phase 1 under the Airport's Capital Improvement Plan.

Table 2. Funding for T1 Program Management Support Services

Year	Spending	Cumulative Spending
Actual/ Projected Expenditures		
FY 2013-2014 (Actual)	$5,280,050	$5,280,050
FY 2014-2015 (Actual)	$5,893,743	$11,173,793
FY 2015-2016 (Actual)	$7,170,593	$18,344,386
FY 2016-2017 (Actual)	$4,502,026	$22,846,412
FY 2017-2018 (Actual)	$3,745,977	$26,592,389
FY 2018-2019 (Actual)	$2,636,878	$29,229,267
FY 2019-2020 (Actual + Projected)	$2,770,734	$32,000,000
Subtotal to Date	**$32,000,000**	
Proposed Additional Funding		
FY 2020-2021 (Forecast)	$2,447,469	$34,447,469
FY 2021-2022 (Forecast)	$2,298,895	$36,746,364
FY 2022-2023 (Forecast)	$1,253,636	$38,000,000
Subtotal	**$6,000,000**	
Total Spent (Actual + Forecasted)	**$38,000,000**	

Source: Airport Procurement and Contracts, Planning, Design & Constructions Division

According to Victor M. Madrigal Jr., Principal Contracts Analyst with Procurement and Contracts Section at the Airport, annual contract expenditures have decreased from $7.2 million in FY 2015-16 to $2.3 million in FY 2019-20, as planned, because the T1 Program has completed two of the three major phases. As noted above, under the proposed 14th modification to the contract, program management support services in FY 2020-21 through FY 2022-23 will consist of overall management and oversight of the Terminal 1/Boarding Area B Redevelopment Program (T1 Program), including design and construction management services, project controls, contract administration, cost estimating, sustainability commissioning, and field inspection services.

Table 3. Funding Breakdown for T1 Program Management Support Services Additional Funds, FY 2020-2021 through FY 2022-2023

Position	Fully Burdened Hourly Rate (Salary and Overhead)	Total Full Time Equivalent (FTE) Positions	Amount
Program Sustainability Manager	$214	2.00	$856,225
Office Engineer	$122	5.00	$1,219,394
Program Controls Manager	$244	2.85	$1,390,686
Program Management Advisor	$355	1.06	$752,421
BICE – Field Engineer & Inspector	$157	4.00	$1,257,045
Senior Technical Advisor	$301	0.72	$433,872
Variance (Contract Capacity Contingency)			$44,620
Total Salaries			$5,954,262
Other Direct Costs (ODCs)			$45,738
Total			$**6,000,000**

Source: Airport Procurement and Contracts, Planning, Design & Constructions Division

POLICY CONSIDERATION

Potential Revenue Shortfall

The T1 Program budget is $2.6 billion, of which $2.0 billion had been spent as of March 31, 2020. According to Mr. Kevin Kone, Airport Finance Director, the Airport has sufficient funds to complete the T1 Program; the Airport has $1 billion in available Airport Revenue Bond proceeds as of April 30, 2020, and authority to issue an additional $2 billion in Airport Revenue Bonds over the next three years to fund Phase 1 of the Ascent Program.[1] According to Mr. Kone, issuance of an additional $2 billion in Airport Revenue Bonds will depend on Airport revenues being sufficient to cover operating expenses and debt service.

In order to address the projected revenue shortfall due to COVID-19 and reduced air travel, estimated by the Controller and Mayor's Budget Office to be from $190 to $220 million in FY 2019-20, the Airport will evaluate other projects/programs within Phase 1 of the Ascent Program that can be deferred. In addition, according to Mr. Kone, the Airport has other sources of funds to offset reductions in operating revenues, including $254.8 million in Coronavirus Aid, Relief and

[1] The Ascent Program includes the new Airport Grand Hyatt hotel, completed in October 2019, renovation of the Harvey Mil Terminal (Terminal 1/T1 Program), renovation of the International Terminal, new dining and shopping facilities, and a connector between Terminal 2 and Terminal 3.

Economic Stimulus (CARES) Act funds, $530 million in Passenger Facility Fund balance, and $500 million in Commercial Paper authority.[2]

RECOMMENDATION

Approve the proposed resolution.

[2] According to discussions with the Airport, the Airport can issue Commercial Paper – short term, loan interest debt – in lieu of longer term, higher interest debt.

Item 4 Files 20-0401	Department: Human Resources

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance amends Section 2.3 of the Annual Salary Ordinance for FY 2019-20 and FY 2020-21 to add active military service related to the COVID 19 pandemic to the events for which the City pays for military leave.

Key Points

- Section 2.3 of the Annual Salary Ordinance for FY 2019-20 and FY 2020-21 provides for the City to pay for employees on military leave the difference between their City salary and military pay. The City also pays the employees' share of their retirement contribution while on military leave, and all other benefits to which employees are entitled.

Fiscal Impact

- According to information provided by the City's Department of Human Resources, 123 City employees have been paid for military leave in FY 2018-19 and FY 2019-20 at a cost of approximately $6.8 million, or $55,000 per employee on military leave.
- The number of City employees who have been called up for active military duty due to COVID-19 is not available at this time, so the increased costs to the City are not known. However, based on approximately 1,000 National Guard members being called up statewide, the number of City employees who are called up for active military duty due to COVID-19 is unlikely to be large.

Recommendation

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

MANDATE STATEMENT

City Administrative Code Section 3.10 provides for Board of Supervisors approval of the administrative provisions of the Annual Salary Ordinance.

BACKGROUND

Section 2.3 of the Annual Salary Ordinance for FY 2019-20 and FY 2020-21 provides for the City to pay the difference for employees on military leave between their City salary and military pay. The City also pays the employees' share of their retirement contribution while on military leave, and all other benefits to which employees are entitled.

These provisions apply to employees who are called to active service for more than 30 consecutive days in response to terrorist attacks or active conflict. These provisions do not apply to scheduled training, drills, unit training assemblies, or similar events.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance amends Section 2.3 of the Annual Salary Ordinance for FY 2019-20 and FY 2020-21 to add active military service related to the COVID 19 pandemic to the events for which the City pays the salary difference, retirement contribution, and other benefits for employees.

National Guard Deployment

In March, the President authorized California and other states to deploy the National Guard to respond to COVID 19. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) appropriated $1.4 billion for deployments of the National Guard for the next six months to support state and local response efforts. According to a report by the California Legislative Analyst's Office, approximately 1,000 National Guard members were deployed in California as of April 8, 2020 to respond to the COVID 19 pandemic.

FISCAL IMPACT

According to information provided by the City's Department of Human Resources, 123 City employees have been paid for military leave in FY 2018-19 and FY 2019-20 at a cost of approximately $6.8 million, or $55,000 per employee on military leave. City departments could have additional costs for positions that need to be backfilled through overtime or temporary salaries. The costs of military leave pay are generally absorbed within the respective City departments' budgets through salary or other savings.

The number of City employees who have been called up for active military duty due to COVID-19 is not available at this time, so the increased costs to the City are not known. However, based on approximately 1,000 National Guard members being called up statewide, the number of City employees who are called up for active military duty due to COVID-19 is unlikely to be large.

RECOMMENDATION

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