

Item 3
File 10-1502

Department:
Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize Modification 5 to a professional services agreement between the San Francisco International Airport (Airport) and T2 Partners, a Joint Venture of Parsons Transportation Group, EPC Consultants, Inc. and the Allen Group, LLC, to provide the Airport with Construction Management (CM) services for the Terminal 2 Boarding Area D Renovation Project, in the amount of \$1,710,000, for a new total not-to-exceed agreement amount of \$16,850,000, and to extend the agreement by five months to July 31, 2011.

Key Points

- The proposed resolution would authorize the fifth and final modification to a CM services agreement previously approved by the Board of Supervisors on March 25, 2008 (File 08-0140). The agreement has been modified four times. Modification 4 increased the not-to-exceed agreement amount by \$140,000, from \$15,000,000 to \$15,140,000
- Modification 5 would authorize T2 Partners to conduct final CM services for the Airport's Terminal 2 through substantial completion, anticipated to be March 2, 2011, and the commencement of airline operations in Terminal 2 in April 2011.
- As of December 31, 2010, the Airport had received CM services from T2 Partners totaling \$608,773 in excess of the modified not-to-exceed agreement amount of \$15,140,000. The Airport has not paid T2 Partners in excess of the \$15,140,000 agreement not-to-exceed amount.
- Although the proposed Modification 5 was approved by the Airport Commission on September 21, 2010, the Airport did not submit the proposed resolution to the Board of Supervisors until December 14, 2010. Such delay resulted in the Airport's CM services costs exceeding the Airport's expenditure authority by the above noted \$608,773.

Fiscal Impact

- The proposed resolution would authorize Modification 5 to the Airport's CM agreement with T2 Partners to increase the existing not-to-exceed agreement amount of \$15,140,000 by \$1,710,000 to a new not-to-exceed agreement amount of \$16,850,000. The source of funds would be the sale of Airport Revenue Bonds previously approved by the Board of Supervisors.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

In accordance with City Charter Section 9.118(b), (a) any contract or agreement that exceeds \$10,000,000 in anticipated expenditures, and (b) any contract amendment that exceeds \$500,000 is subject to Board of Supervisors approval.

Background

On March 25, 2008, the Board of Supervisors approved a professional services agreement between San Francisco International Airport (Airport) and T2 Partners, a Joint Venture of Parsons Transportation Group, EPC Consultants, Inc. and the Allen Group, LLC, for construction management (CM) services for the Airport's Terminal 2 Boarding Area D Renovation Project (File 08-0140). The Airport selected T2 Partners based on a competitive Request For Proposals (RFP) process. The professional services agreement was for a one-year term in the amount of \$3,500,000, with annual options for renewal for up to nine years, for a total agreement amount not to exceed \$15,000,000.

The CM services provided to the Airport by T2 Partners under the subject agreement has included project planning, design services, construction management, project coordination with Airport operations, document control of all project-related files, budget and scheduling services, and project reports, all related to the Airport's new Terminal 2, which is anticipated to open for commercial service in April of 2010. The estimated total construction costs for Terminal 2 is \$366,000,000.

Modification History

The professional services agreement with T2 Partners has been modified four times since its initial approval. Each of those four previous modifications were approved by the Airport Commission but did not require Board of Supervisors approval. A summary of the previous four modifications, as well as the proposed fifth modification, is shown in Table 1 below.

Table 1: Summary of Agreement Modifications

	Modification Cost	Agreement Amount	Board of Supervisors Not-to-Exceed Amount	Agreement End Date
Original Agreement	-	\$3,500,000	\$15,000,000	December 31, 2008
Modification 1	\$5,920,000	\$9,420,000	\$15,000,000	December 31, 2009
Modification 2*	-	\$9,420,000	\$15,000,000	December 31, 2009
Modification 3	-	\$9,420,000	\$15,000,000	February 28, 2011
Modification 4	\$5,720,000	\$15,140,000	\$15,000,000	February 28, 2011
<i>Modification 5 (proposed)</i>	<i>\$1,710,000</i>	<i>\$16,850,000</i>	<i>\$16,850,000</i>	<i>July 31, 2011</i>

* While other modifications amended that agreement amount and/or the end date, Modification 2 added baggage screening requirements to the agreement, but did not have an impact on cost or timing of the agreement.

Modification 4, shown in Table 1 above, increased the total agreement amount by \$5,720,000 to a total agreement amount of \$15,140,000, which exceeds the Board of Supervisors' previously authorized not-to-exceed agreement amount of \$15,000,000 by \$140,000. However, according to Deputy City Attorney Cheryl Adams, the Airport was not required to seek Board of Supervisors approval for Modification 4, because the \$140,000 net increase from Modification 4 was less than \$500,000 per City Charter Section 9.118(b).

Mr. Ivar Satero, Airport Deputy Director, noted, "For CM contracts, we do not award the entire contract at the beginning, but modify the contract annually to ensure that we are satisfied with the services before committing to another year. This provides for better cost control by providing clear definition to the services at the beginning of the year, and accountability at the end of the year when we prepare the modification."

On September 21, 2010, the Airport Commission approved the subject requested Modification 5 to the Airport's CM services agreement with T2 Partners.

Project Delays Key to CM Services Exceeding Budget

When the Board of Supervisors approved the subject agreement on March 25, 2008, the Airport anticipated that it would need \$13,000,000 for the agreement and a \$2,000,000 contingency to allow for hiring of additional consultant services if tasks could not be completed by Airport staff, for a total authorized not-to-exceed agreement amount of \$15,000,000. With the proposed Modification 5, the new not-to-exceed amount would be \$16,850,000, which is \$1,850,000 or 12.3 percent above the previously authorized Board of Supervisors not-to-exceed agreement amount of \$15,000,000.

According to Mr. Satero, while a number of factors have increased the cost of the CM services for the Terminal 2 Project, delays in project completion were the key drivers in the Airport's CM service needs exceeding the Board of Supervisors previously approved not-to-exceed amount of \$15,000,000. Mr. Satero reported, "We had developed the budget based on the original schedule, with contingency for unforeseen issues. If the project kept to the original schedule, we would have completed the CM contract within the original budget of \$15,000,000. In fact, we would have finished at \$14,250,000 ... This would have been significantly within-budget performance. The schedule extension caused us to exceed the original approved amount of \$15,000,000. The Airport added major scope to the project, which caused the extension to the schedule. Therefore, the Airport was aware, and has forecast a cost increase for the CM contract for at least a year." Mr. Satero added, "The CM contract is coming in at under 5% of the cost of construction. We typically budget for 5%."

The subject proposed Modification 5 would increase the previously authorized not-to-exceed CM services Agreement amount of \$15,140,000 by \$1,710,000 to a total of \$16,850,000, or 4.6 percent of the total estimated Terminal 2 construction costs of \$366,000,000.

The Airport Has Reached the Limit of Its Expenditure Authority

According to Mr. Satero, as of January 13, 2011, the Airport had paid T2 Partners \$14,943,637, or 98.7 percent of the previously modified agreement amount of \$15,140,000, such that there is a remaining authorized amount of \$196,363 under the existing agreement.

However, the Budget and Legislative Analyst notes that according to Mr. Satero, as of December 31, 2010, the Airport had received CM services from T2 Partners totaling \$608,773 in excess of the total not-to-exceed agreement amount of \$15,140,000. The Airport has not yet paid T2 Partners for the amount of \$608,773 owed to T2 Partners.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize Modification 5 to an existing professional services agreement between the Airport and T2 Partners, to (a) provide the Airport with additional construction management services for the Airport's Terminal 2/Boarding Area D Renovation Project, in the amount of \$1,710,000, from a modified not-to-exceed agreement amount of \$15,140,000, to a new not-to-exceed agreement amount of \$16,850,000, and (b) extend the term of the modified agreement period by five months from March 1, 2011 to July 31, 2011.

As noted in the Background section above, under the subject agreement which commenced March 31, 2008, T2 Partners has provided CM services for the Airport's new Terminal 2 Boarding Area D Renovation Project, including project planning, design services, construction management, project coordination with Airport operations, document control of all project-related files, budget and scheduling services, and project reports. The agreement has been previously modified four times, as shown in Table 1 above. The Airport anticipates substantial completion of the Terminal 2/Boarding Area D Renovation Project on March 2, 2011, with airlines operations to begin in Terminal 2 in April 2011.

According to Ms. Cathy Widener, Governmental Affairs Manager for the Airport, the proposed Modification 5 would be the final modification to the CM agreement, and would allow the continuance of CM services necessary to complete the Airport's Terminal 2/Boarding Area D Renovation Project.

The Airport is anticipating substantial completion of the Terminal 2 construction on March 2, 2011, or two days following the end of the existing CM agreement termination date of February 28, 2011. However, Mr. Satero advises that remaining CM tasks need to be completed during the proposed five-month agreement extension period from March 1, 2011, to July 31, 2011, including reconciliation of change orders, construction management of such change orders, resolving outstanding design issues, and project closeout.

FISCAL IMPACTS

The proposed resolution would authorize Modification 5 to the Airport's CM agreement with T2 Partners to increase the existing agreement not-to-exceed agreement amount of \$15,140,000 by \$1,710,000 to a new not-to-exceed agreement amount of \$16,850,000. The \$1,710,000 increase would be funded from Airport Revenue Bonds, the proceeds of which were previously appropriated by the Board of Supervisors on May 13, 2008 (File 08-0590). The costs of the Airport Revenue Bonds will be repaid from general Airport revenues as appropriated by the Board of Supervisors in the Airport's annual operating budgets.

Table 2 below identifies the Airport's anticipated spending rate for the proposed \$1,710,000 Modification 5. As shown in Table 2, the Airport anticipated the need for expenditure authority in excess of the \$15,140,000 previously approved by the Airport Commission as early as November 2010. As noted above and as shown in the November and December 2010 rows in Table 2 below, as of December 31, 2010, the Airport has received \$608,773 (\$250,366 + \$358,407) in CM services in excess of the currently authorized \$15,140,000 not-to-exceed agreement amount. The Airport has not yet paid the \$608,773 owed to T2 Partners.

**Table 2: Anticipated Spending Rate for
Proposed \$1,710,000 Modification 5**

Time Period	Modification 5 Monthly Total	CM Services Agreement Cumulative Total
Board of Supervisors Expenditure Authority, as Legally Modified by the Airport Commission	-	\$15,140,000
November 2010	\$250,366	15,390,366
December 2010	358,407	15,748,773
January 2011	331,054	16,079,828
February 2011	280,352	16,360,179
March 2011	254,186	16,614,365
April 2011	139,532	16,753,897
May 2011	56,878	16,810,775
June 2011	39,226	16,850,000
Total	\$1,710,000	\$16,850,000

POLICY CONSIDERATION**The Airport Has Received \$608,773 in CM Services from T2 Partners
In Excess of its Currently Authorized Expenditure Authority of \$15,140,000**

As noted above, as of December 31, 2010, the Airport had incurred \$15,748,773 in CM services costs from T2 Partners, which is \$608,773 more than the previously authorized not-to-exceed agreement amount of \$15,140,000.

As noted by Mr. Satero in page 1 of the attached memorandum, “The Consultant (T2 Partners) is aware of this circumstance, and is continuing to provide services due to the importance of the project to the Airport, and the crucial three months remaining until terminal opening.”

According to Mr. Satero, although the proposed Modification 5 was approved by the Airport Commission on September 21, 2010, the Airport encountered numerous external and internal delays in submitting the proposed resolution to the Board of Supervisors. These delays resulted in the Airport’s CM services costs exceeding the Airport’s expenditure authority.

Mr. Satero describes the reasons for these delays in page 2 of the attached memorandum.

In page 1 of the attached memorandum, Mr. Satero further explains:

If the Airport had decided to direct T2 Partners to halt services at the point of the funds being exhausted, the Terminal 2 project would have been put at significant risk for not completing on schedule, and therefore not opening on schedule. Virgin America, American Airlines, and 22 concessionaires are all at various stages of build-out of their facilities in Terminal 2, and a delayed opening would have had major impacts on their capital costs, and operating revenues. Also, another significant capital project for the renovation of Boarding Area E (\$40M), along with a number of related airline moves are committed to by the Airport based on the Terminal 2 opening date of April 14, 2011.

In conclusion, the Airport did not submit the subject resolution to the Board of Supervisors in a timely manner and, as a result, the Airport has exceeded its expenditure authority on the subject CM agreement. However, the Budget and Legislative Analyst notes that halting CM services in anticipation of Board of Supervisors approval would have resulted in further delays in the Terminal 2 opening that would have resulted in even greater increased costs and decreased revenues for the Airport.

RECOMMENDATION

Approve the proposed resolution.

MEMORANDUM

TO: Budget Analysts' Office
San Francisco Board of Supervisors

FROM: Ivar Satero, Airport Deputy Director
Bureau of Design & Construction

DATE: January 18, 2011

PROJECT: File 10-1502 – Modification No. 5 to Contract No. 8757.9, Construction Management Services for Terminal 2/Boarding Area D Renovations with T2 Partners, A Joint Venture of Parsons Transportation Group, EPC Consultants, Inc. and The Allen Group, LLC

SUBJECT: Timeline of Submission to Board of Supervisors

As per your request, we are providing additional information regarding the timing of the submission to the Board of Supervisors of the proposed Modification No. 5 to Contract 8757.9, Construction Management Services for Terminal 2/Boarding Area D Renovations with T2 Partners, A Joint Venture of Parsons Transportation Group, EPC Consultants, Inc. and The Allen Group, LLC (Consultant). As you are aware, the earned work currently exceeds the contract amount, caused by several unique circumstances, more fully discussed below.

The Consultant is aware of this circumstance, and is continuing to provide services due to the importance of the project to the Airport, and the crucial three months remaining until terminal opening. If the Airport had decided to direct T2 Partners to halt services at the point of the funds being exhausted, the Terminal 2 project would have been put at significant risk for not completing on schedule, and therefore not opening on schedule. Virgin America, American Airlines, and 22 concessionaires are all at various stages of build-out of their facilities in Terminal 2, and a delayed opening would have had major impacts on their capital costs, and operating revenues. Also, another significant capital project for the renovation of Boarding Area E (\$40M), along with a number of related airline moves are committed to by the Airport based on the Terminal 2 opening date of April 14, 2011.

This contract modification was prepared and submitted for Airport Commission approval in September, with the modification approved on September 21, 2010. Staff was well aware of the requirement for Board approval due to the proposed modification amount of \$1,710,000 resulting in a proposed new contract amount of \$16,850,000, which is in excess of the current Board limit of \$15,500,000.

Under normal circumstances, the approval process was started early enough to provide for uninterrupted funding. Staff was anticipating a fairly straightforward approval process, and allowed for a typical 8-week period following Commission approval, to obtain Board approval.

This would have resulted in a Board-approved modification by mid-November. Based on the current Board limit of up to \$15,500,000, sufficient funding was available to maintain continuous services through early December.

However, several issues contributed to the delay, as follows:

- Staff did not anticipate that the contract had to be signed by consultant and the City Attorney's Office before submitting for Board approval;
- Airport Staffs internal prioritization of other time-critical items requiring Board approval, both to assist Airport staff with balancing this peak workload condition and to assist the Budget Analysts' Office; and,
- Holiday periods and Board Recess in December.

The sequence of events is as follows:

- Commission approved Modification No. 5 on September 21, 2010
- Draft Board package prepared on October 6th
- Final Board package prepared on October 14th, with requirement that contract be signed by T2 Partners and City Attorney's Office (Otherwise, Board package would have been submitted on this date)
- Contract modification prepared and sent to Legal and Airport's Contract Administration Unit (CAU) for review and comment on October 20th
- Modification No. 5 sent for Consultant signature on November 2nd
- Consultant returned the signed modification on November 14th
- Board package approved internally on November 16th, with signed contract
- Item submitted to Board on December 1st, and referred to the Finance Committee at the December 14th meeting of the Board
- Based on the December 14th referral to committee, Airport Governmental Affairs (AGA) staff informed Bureau of Design & Construction (BDC) staff that the Board would not hear Mod. 5 until January 10, 2011 for approval and that the budget analyst would review during the recess

As noted above, AGA staff began working with BDC staff following Commission approval in September. At the same time, both the staffs of AGA and BDC, along with the Airport CAU, were working on two other critical Board items, namely the Master Architect agreement with HNTB related to the Airport's Replacement Air Traffic Control Tower project (file no. 10-1453), and an Other Transaction Agreement (OTA) with the TSA for improvements to the Airport's baggage handling inline explosive detection systems. In addition, the Airport had three (3) other critical items for the Board, namely the Terminal 1 food court closures (file no. 10-1346), the award of a new retail lease in Terminal 2 (file no. 10-1460), and the establishment of a new promotional special fund (file no. 10-1410) and considered them also of higher priority due to the Terminal 2 Renovations construction schedule, and internally prioritized all of these items, in recognition of the workload they would create for the Budget Analysts' Office.

T2 Partners is aware of this circumstance, and is continuing to provide services on the project. BDC staff regrets that we did not execute this contract modification with the appropriate focus on schedule, and with sufficient time contingency to accommodate City processes. Airport Governmental Affairs makes every effort to never be in a position to ask for retroactive authority from the Board and in retrospect should have made the Budget Analysts' Office aware of this situation.

If you have any questions regarding this, please don't hesitate to call.