

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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April 7, 2023

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** April 12, 2023 Budget and Finance Committee Meeting

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<p><b>Item 1</b>  <b>File 23-0206</b>  <i>(Continued from 4/5/23 meeting)</i></p>	<p><b>Department:</b>                  Department of Early Childhood (DEC)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p><b>Legislative Objectives</b></p>	
<ul style="list-style-type: none"> <li>• The proposed resolution would retroactively approve a grant agreement between the Department of Early Childhood and Children’s Council to provide workforce compensation administrative services for the Early Care and Education Workforce Development and Compensation Initiatives for the period of October 1, 2022, through June 30, 2025, in an amount not to exceed \$164,346,004.</li> </ul>	
<p><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>• In September 2018, the Board of Supervisors approved an ordinance amending the Administrative Code to establish the Early Care and Education for All Initiative, to be funded by Baby Prop C revenues, including procedures concerning a spending plan and reporting requirements (File 18-0807).</li> <li>• The Children’s Council was competitively awarded two contracts to administer two programs: (1) early educator stipends (approved in 2022), and (2) the proposed agreement, to provide funding for wage and benefit enhancements and pay for changes to working conditions and workforce skill enhancements. Because of the delay in executing the proposed agreement, certain educators have received additional stipends in lieu of wage enhancements though the previously approved agreement.</li> <li>• The target population of the proposed grant agreement is “Green Tier” early care and education programs and agencies that serve 50 percent or more income eligible children (below 85% of State Median Income) in their agency/program.</li> </ul>	
<p><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>• Approximately 99.1 percent of projected expenditures are funded by City funds (Baby Proposition C), and approximately 0.9 percent are funded by state funds. A 10 percent contingency, if needed, would be funded depending on funding sources available.</li> </ul>	
<p><b>Recommendations</b></p>	
<ul style="list-style-type: none"> <li>• Amend the proposed resolution to request that the Department of Early Childhood provide a written report to the Board of Supervisors in June 2023 reconciling total disbursements provided under the stipend program and the wage enhancement program, including the number of educators receiving increased wages or stipends, to ensure that early educators do not improperly receive wage supplements under both programs.</li> <li>• Request the Controller’s Office to provide technical assistance with the reconciliation and assess each program’s internal controls pertaining to disbursing funds.</li> <li>• Approve the proposed resolution, as amended.</li> </ul>	

## 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

### **Proposition C (“Baby Prop C”) and the Early Care and Education for All Initiative**

On June 5, 2018, San Francisco voters passed Proposition C (colloquially known as “Baby Prop C”), a Commercial Rent Tax for Child Care and Early Education by authorizing an additional tax on commercial property/leases with annual gross receipts over \$1 million that would provide additional City funding to support early care and education services for children aged zero to five years old. In September 2018, the Board of Supervisors approved an ordinance amending the Administrative Code to establish the Early Care and Education for All Initiative, to be funded by Baby Prop C revenues, including procedures concerning a spending plan and reporting requirements (File 18-0807). In order to reflect the language in the original ballot measure, the ordinance stated that the spending plan be designed to “provide financial support for measures to increase the compensation of early care and education professionals and staff by not less than 10 percent with an ultimate goal of achieving parity in compensation with K-12 educators who have commensurate experience, in a manner designed to improve the quality and availability of early care and education.”

### **Workforce Compensation Initiative and Competitive Process**

To address this goal, in April 2022, the Human Services Agency (HSA), Office of Early Care and Education and First 5 San Francisco (now Department of Early Childhood<sup>1</sup>) announced the: (a) Early Care and Education Workforce Compensation Initiative Request for Applications from City-supported Early Learning San Francisco (ELS) centers and Family Child Care (FCC) homes; and (b) Request for Proposals (RFP) from organizations to provide administrative services for the Initiative. The initiatives were planned in the following phased approach, with a goal to improve outcomes for San Francisco children through the support of the Early Care and Education workforce:

- Phase One Workforce Compensation for Early Educators: Administration and distribution of funds to early educators and qualified programs that support increased wages.
- Phase Two Workforce Benefits and Compensation for Other Early Childcare Education Staff: Administration and distribution of funds to qualified programs and early educators

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<sup>1</sup> Effective July 1, 2022, the Office of Early Care and Education and First 5 San Francisco Children and Families Commission unified under a new Department of Early Childhood (DEC).

that support compensation including support for retirement benefits.<sup>2</sup> This also includes funding for other early care and education staff working less directly with children, families, and teachers but are providing essential supports and contributions towards children’s development (e.g., Program Director, Site Supervisor, Family Advocates, Enrollment Specialists, Curriculum Development Specialist, etc.). This does not include purely administrative roles.

- Phase Three Working Conditions: Addressing working conditions of early educators in qualified programs (e.g., time outside of the classroom for observations, curriculum planning time, team meetings, mental health consultation, etc.).
- Phase Four Workforce Educational Pathways: Supporting early educators towards higher education degrees, increasing skills, and Commission on Teacher Credentialing (CTC) permit attainment.

The Children’s Council of San Francisco (Children’s Council) and Public Consulting Group were the two respondents to the RFP. A three-member selection panel reviewed the proposals and scored them, as shown in Exhibit 1 below.<sup>3</sup>

**Exhibit 1: Proposers and Scores from RFP**

<b>Proposer</b>	<b>Average Score (out of 130)</b>
Children’s Council	113
Public Consulting Group	112

Source: DEC

According to Department of Early Childhood staff, because the initial scores of the two respondents were within two points (87.3 out of 100 points for Children’s Council and 86.0 for Public Consulting Group), it is the practice of HSA’s Contracts Division to require applicants answer three additional questions. These supplemental questions were worth 10 points per question and were used to determine the most qualified grantee. Consequently, the total possible points were 130. The Human Services Agency, Office of Early Care and Education, and First 5 San Francisco notified Children’s Council on August 29, 2022 that their organization was selected for a tentative award of a contract, pending successful negotiations and approval.

**Existing Children’s Council Grant Agreement**

Starting in October 2022, early educators working in City-supported Early Learning San Francisco (ELS) centers and Family Child Care (FCC) homes were to receive Phase One compensation funds through either: (a) a direct stipend through the Compensation and Retention of Early Care Educator Stipends (CARES 3.0) program if they work at a FCC home or center serving less than 50 percent income-eligible children; or (b) through their ongoing salaries through an Early Educator

<sup>2</sup> This includes employer matching contributions towards retirement or for new or enhanced benefits that meet the needs of the agency/program.

<sup>3</sup> The panel consisted of a Senior Administrative Analyst from the Juvenile Probation Department, the Chief Finance Officer from a San Francisco economic development nonprofit, and an Administrative Analyst from First 5 San Francisco.

Salary Support Grant to their program or agency if they work in centers serving 50 percent or more income eligible children.

Children's Council currently provides childcare subsidy administration and other related activities, including the CARES 3.0 direct stipends under a previously approved grant agreement<sup>4</sup> and under this proposed grant agreement would also provide funding through the Early Educator Salary Support Grants to eligible programs/agencies and associated cost to administer the initiatives.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve a grant agreement between the Department of Early Childhood and Children's Council to provide workforce compensation administrative services for the Early Care and Education Workforce Development and Compensation Initiatives for the period of October 1, 2022, through June 30, 2025, in an amount not to exceed \$164,346,004. Under the terms of the RFP, the grant agreement could be extended for up to two additional years, depending on funding availability and need.

According to DEC staff, the grant is retroactive because of the urgency to implement increased workforce compensation, which was announced in April 2022. However, delays were caused by the competitive selection process and the need for supplemental questions and scoring (as previously mentioned); other delays<sup>5</sup> included developing the scope of work, implementing the agreement, and the formation of the new Department of Early Childhood.

### Services

Under the proposed grant agreement, the Children's Council will provide workforce compensation administrative services for the four Early Care and Education Workforce Compensation Initiatives listed above. According to DEC staff, Phases One (compensation) and Two (benefits) were implemented in October 2022, Phase Three (working conditions) was estimated to be implemented in March 2023, but is currently in planning and development

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<sup>4</sup> In September 2022, the Board of Supervisors retroactively approved a grant agreement between the City and Children's Council for the provision of Early Care and Education Integrated Services to support the City's implementation of the San Francisco Citywide Plan for Early Care and Education for the period of July 1, 2022, through June 30, 2024, in an amount not to exceed \$364,091,448 (File 22-0801). The teacher stipends provided as part of the existing Children's Council grant approved in September 2022 are annual stipends to teachers at city-funded childcare sites serving 0-49 percent subsidy-eligible children. In contrast to the proposed grant agreement, these stipends did not raise the ongoing salaries of the teachers but instead provided one-time annual support to qualifying educators through lump sum payments.

<sup>5</sup> In addition, the RFP was originally issued through the HSA Contracts division, prior to formation of the new Department of Early Childhood (DEC) effective July 1, 2022. However, DEC staff states that the ordinance establishing the department (File 22-0808) was not implemented until October 2022, which caused challenges in executing contracts and developing and establishing budgets in the City's financial and procurement system. DEC staff also state that because the proposed grant addresses a new initiative, negotiations took longer than expected to determine the proper staffing levels necessary to complete the required scope of work and timeline of deliverables. Further, at the request of the Green Tier eligible programs DEC was asked to delay the implementation until October 1, 2022 to provide additional planning time to provide input to DEC and prepare for implementation of newly developed wage scales, policies, and procedures.

phase, and Phase Four (educational pathways) will begin implementation this Spring via a stipend program for course completion towards higher education according to DEC staff.

The target population of the proposed grant agreement are “Green Tier” early care and education programs and agencies that have been qualified and awarded funding through the Early Educator Salary Support Grant. “Green Tier” programs serve 50 percent or more income eligible children (below 85% of State Median Income (SMI)) in their agency/program. DEC determined eligibility of programs and agencies based on their responses to the Request for Applications.

Children’s Council will provide services in the following areas:

- Administer grants, disburse funding, and issue and track payments to eligible early care and education programs and agencies on behalf of the DEC, which includes maintaining internal fiscal controls for all expenditures and payments requests; with an estimated annual disbursement starting at \$40 million and increasing to \$60 million as new initiatives are implemented;
- Administer and monitor ongoing eligibility, grant determination and fund distribution to early care and education programs and agencies, which includes reviewing and monitoring programs’ financial information related to wages and compensation, monitoring for changes in programs’ qualifications and eligibility criteria and adjusting grant awards as necessary, communicating with programs about payments and reporting requirements, and tracking and reporting on payments and tax information;
- Provide data collection, monitoring and reporting as part of an established plan that includes verifying that program staff rosters match the staff report in the Workforce Registry, regular reviews of wage records from program payroll reports to confirm appropriate wages, and verifying offered benefits including review of vendor invoices and employer check stub documentation, collecting and tracking staff data such as education/permit levels, hourly wages, and staff retention and working with DEC staff to assess program measures including funding uptake and outcomes on the early care and education workforce; and
- Provide technical assistance and communication (such as trainings, webinars, and one-on-one technical assistance) to early care and education programs and agencies receiving funding, which will include supporting their understanding of program requirements on compensation goals and reporting requirements, and utilization of tools to collect and track data for reporting requirements. Services will be provided in English, Spanish, and Cantonese.

### **Funding Awards**

Under the proposed grant, Children’s Council disburses funding for grants directly to eligible programs and/or agencies to increase teacher wages, and compensation increases depend on job positions/title, permit level, whether full-time or part-time, education (degree and early childcare education units), among other factors. Funding awards are determined by the

Children’s Council on a quarterly basis, based on the following DEC established funding formulas for Phases One and Two. Phases Three and Four formulas are still under development.

- Phase One (Workforce Compensation for Early Educators), grant amounts include the following components: (a) a base award calculated as the difference between each teacher’s wages prior to the initiative and each teacher’s required minimum compensation wage<sup>6</sup>, based on education/permit level and role; (b) additional flexible funding<sup>7</sup> equal to \$4.20 per hour (15 percent of the minimum hourly wage (\$28)) to allow for changes to wages beyond the minimum compensation requirements; and (c) an additional 15 percent to account for payroll taxes.
- Phase Two (Workforce Benefits and Compensation for Other Early Childcare Education Staff) grant amounts are fixed amounts based on the number of qualifying staff, ranging from \$10,000 to \$25,000 annually per qualifying staff.<sup>8</sup>

Fund distribution is based on detailed staffing worksheets and payroll forms submitted by the eligible programs (Green Tier sites) in advance and requires verification of target student population, staff employment, education, and pre-grant wages.

### **Performance Monitoring**

Under the proposed grant agreement, the Children’s Council will submit an annual performance report detailing the progress on all service and outcome objectives by July 31<sup>st</sup> each year, with the first report due July 31, 2023. According to DEC staff, the grantee has met the following deliverables to date: (1) distribution of funding to qualified programs to begin implementation of the initiative by October 1, 2022, (2) development and submission of a revised staffing plan by December 15, 2022, and (3) development of templates and reporting procedures by December 1, 2022.

The proposed grant agreement does not define specific performance measures but requires that the grantee develop evaluation tools to analyze service trends and data to measure the success of the initiatives in these areas: (1) increased compensation, (2) early educator job satisfaction (via surveys), (3) paid planning time offered, (4) educational attainment measures such as attaining postsecondary degrees, (5) educator recruitment, (6) educator retention, (7) health care access, (8) fringe benefits, (9) racial equity, (10) workforce registry participation, and (11) workforce registry data quality.

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<sup>6</sup> The required minimum compensation wages are \$28 per hour for assistant teachers and between \$28 and \$39.27 per hour for lead teachers depending educational attainment and permit levels. Minimum hourly wages for lead teachers were established to provide a pathway to hourly wages comparable to preschool teachers and Transitional Kindergarten teachers at SFUSD for Lead Teachers with equivalent educational qualifications.

<sup>7</sup> The flexible funding (referred to as a compression grant) is not tied to an individual staff but funds are pooled to allow agencies to create internal wage scales above the minimum requirement and may also be used for increased costs to agencies related to retirement contributions.

<sup>8</sup> Green Tier centers with three or fewer eligible staff for Phase Two grants receive \$25,000 per position annually. Green Tier centers with 4-10 eligible staff, receive \$15,000 per position annually, and Green Tier centers with 11 staff or more, receive \$10,000 per position annually.

A summary of service and outcome objectives from the proposed grant agreement include the following:

- Develop a regular schedule of monthly trainings of required systems in English, Spanish and Cantonese;
- Provide tailored trainings related to grant administration to all eligible recipients, including reporting requirements, submission timelines, allowable expenses, and restricted versus unrestricted funds;
- Provide ongoing technical assistance via chat, email, phone or in-person at traditional and non-traditional (as needed) hours to programs or educators addressing and resolving technical issues;
- Reach out to providers via email, phone, or in person regarding eligible staff who have not updated their profile within the prior three months to confirm accuracy of all data in the Workforce Registry;
- Issue approved payments to eligible programs or educators in a timely and accurate manner;
- Maintain an accounting of payments by grant type, program/educator, or other methods and maintain accurate ledgers;
- Issue 1099s to eligible recipients in a timely and accurate manner as required by law and provide replacements as requested or needed (if applicable); and
- Perform monitoring activities for eligible educators and programs at specified intervals.

#### *Fiscal and Compliance Monitoring*

DEC would also complete annual monitoring reports to assess program performance as well as fiscal and compliance status. The most recent fiscal and compliance monitoring report (FY 2021-22) for Children's Council had no findings identified and reported that the agency was in conformance with all governance best practices.

#### **FISCAL IMPACT**

The proposed grant agreement would have an amount not to exceed \$164,346,004 for Children's Council for the period of October 1, 2022 through June 30, 2025. Exhibit 2 below shows projected sources and expenditures for the proposed grant agreement.



**Exhibit 2: Projected Sources and Expenditures for Proposed Grant**

	<b>FY 2022-23 (prorated from 10/1/22)</b>	<b>FY 2023-24</b>	<b>FY 2024-25</b>	<b>Total</b>
<b>Sources</b>				
Prop C Program Administration	\$1,251,320	\$1,746,626	\$1,793,717	\$4,791,662
Prop C Workforce Compensation Payments to Clients	44,748,680	49,253,374	49,206,283	143,208,338
QCC Workforce Pathways Grant Payments to Clients <sup>9</sup>	468,486	468,486	468,486	1,405,458
<b>Total Sources</b>	<b>\$46,468,486</b>	<b>\$51,468,486</b>	<b>\$51,468,486</b>	<b>\$149,405,458</b>
<b>Expenditures</b>				
Salaries & Benefits	\$582,665	\$1,017,434	\$1,070,593 <sup>10</sup>	\$2,670,692
Operating Expenses	505,439	501,371	489,161	1,495,971
Indirect Costs (15%)	163,216	227,821	233,963	624,999
<i>Subtotal w/o Direct Client Payments</i>	<i>\$1,251,320</i>	<i>\$1,746,626</i>	<i>\$1,793,717</i>	<i>\$4,791,662</i>
Direct Client Payments	45,217,166	49,721,860	49,674,769	144,613,796
<i>Phase I – Compensation</i>	<i>26,000,596</i>	<i>30,851,110</i>	<i>33,180,772</i>	<i>90,032,428</i>
<i>Phase II – Benefits</i>	<i>3,913,174</i>	<i>4,042,309</i>	<i>4,155,494</i>	<i>12,110,977</i>
<i>Phase I/II Expansion</i>	<i>3,834,910</i>	<i>3,359,955</i>	<i>870,067</i>	<i>8,064,931</i>
<i>Phase III – Working Conditions</i>	<i>11,000,000</i>	<i>11,000,000</i>	<i>11,000,000</i>	<i>33,000,000</i>
<i>Phase IV – Education Pathways</i>	<i>468,486</i>	<i>468,486</i>	<i>468,486</i>	<i>1,405,458</i>
<b>Total Expenditures</b>	<b>\$46,468,486</b>	<b>\$51,468,486</b>	<b>\$51,468,486</b>	<b>\$149,405,458</b>
Contingency (10%)	4,646,849	5,146,849	5,146,849	14,940,546
<b>Total Not to Exceed Amount</b>	<b>\$51,115,335</b>	<b>\$56,615,335</b>	<b>\$56,615,335</b>	<b>\$164,346,004</b>

Source: Proposed Grant Agreement

As shown above, approximately 96.8 percent of total grant funds (excluding the contingency) are direct client payments. Approximately \$2.7 million (1.8 percent) of the budget for the proposed grant will be used to fund 9.65 full time equivalent (FTE) employees,<sup>11</sup> approximately \$1.5 million (1.0 percent) will be used towards operating expenses, including rent, office supplies and postage, staff training, consulting and temporary staffing,<sup>12</sup> software and licensing, and \$624,999

<sup>9</sup> According to DEC staff, annual grant funding is received by the department from the California Department of Education (CDE)/California Department of Social Services (CDSS) to support the educational attainment of early educators of San Francisco through stipends and reimbursement.

<sup>10</sup> DEC staff states that the increased cost in FY 2024-25 for salaries & benefits is because of annual Cost of Living (COLA) increases that were negotiated as part of a Children's Council's union bargaining agreement, year one of the contract is also prorated to 9 months.

<sup>11</sup> Department staff state that staff and operating requirements to implement the grant were proposed in response to the competitive RFP. The proposed expenses were then reviewed and revised on a line-by-line/staff-by-staff basis to ensure each expense was justified and necessary. Staffing requirements were ultimately adjusted down after review.

<sup>12</sup> According to DEC staff, because this is a new initiative, the Children's Council required the use of temporary staffing and consultants until properly staffed to execute work, and to develop processes and systems necessary to successfully administer the initiatives. DEC staff are anticipating that the expenses for consultants and temporary staffing will reduce over the term of the grant as more staff are hired.

is for indirect costs. A 10 percent contingency is included to account for uncertainty in growth in future years of the initiative according to DEC staff.

### **Funding Sources**

Approximately 99.1 percent of projected expenditures are funded by City funds (Baby Proposition C), and approximately 0.9 percent are funded by state funds. The contingency, if needed, would be funded depending on funding sources available.

## **POLICY CONSIDERATION**

The Children's Council provides annual stipends to early education teachers under an existing grant agreement approved by the Board of Supervisors in September 2022 (File 22-0802). These stipends, which are available to teachers at city-funded childcare sites in which less than 50 percent of the families meet the income-eligibility for subsidies, do not raise the ongoing salaries of the teachers but instead provide one-time annual support to qualifying educators through lump sum payments. In contrast, under the proposed grant agreement between DEC and the Children's Council, the Children's Council disburses funding directly to early care and education programs, in which 50 percent or more of the families meet the income-eligibility for subsidies (Green Tier centers), to increase teacher wages.

The Green Tier center funding for teacher wages was to be implemented in October 2022. Because the funding for teacher wages could not be distributed to eligible programs due to delays in implementing the proposed agreement between the Children's Council and DEC, DEC has allowed the Children's Council to distribute funds to Green Tier centers for teacher wages under the existing grant agreement with Children's Council. According to DEC Executive Director Ingrid Mezquita, the Children's Council will conduct a reconciliation of funds distributed to Green Tier centers for teacher wage under the existing grant agreement for annual stipends to ensure that early educators do not improperly receive wage supplements under both programs likely starting in June 2023.

Also, according to Executive Director Mezquita, Children's Council has incurred expenses for program planning, but these expenses have not yet been paid pending contract approval.

We recommend that the Board of Supervisors request that that the Department of Early Childhood provide a written report to the Board of Supervisors in June 2023 reconciling total disbursements provided under the stipend program and the wage enhancement program, including the number of educators receiving increased wages or stipends, to ensure that early educators do not improperly receive wage supplements under both programs. We also recommend the Controller's Office provide technical assistance with the reconciliation and assess each program's internal controls pertaining to disbursing funds.

## **RECOMMENDATIONS**

1. Amend the proposed resolution to request that the Department of Early Childhood provide a written report to the Board of Supervisors in June 2023 reconciling total disbursements provided under the stipend program and the wage enhancement program, including the

number of educators receiving increased wages or stipends, to ensure that early educators do not improperly receive wage supplements under both programs.

2. Request the Controller's Office to provide technical assistance with the reconciliation and assess each program's internal controls pertaining to disbursing funds.
3. Approve the proposed resolution, as amended.

<p><b>Item 4</b> <b>File 23-0172</b></p>	<p><b>Department:</b> San Francisco Public Library</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would authorize the San Francisco Public Library to accept and expend a grant in the amount of \$13,210,129 from the California State Library Building Forward, Library Infrastructure Program. The grant requires that the Library match the State funds at an equal dollar-for-dollar basis during the grant period.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The funding would be used to finance a portion of two San Francisco Public Library Branch Renovation Projects, with \$5,280,042 going towards the Mission Branch Renovation Project and \$7,930,087 for the Chinatown Branch Renovation Project.</li> <li>• All grant project costs must be incurred over an approximately three-year period, from the date of the agreement execution, pending approval of the Board of Supervisors, to March 31, 2026.</li> <li>• In accordance with the guidelines of the State Building Forward Library Infrastructure Grant Program, funds will be used to enhance critical library systems, critical maintenance, construction management, infrastructure, and life safety. Both libraries, once renovated, will be able to provide air-conditioning and filtration for respite from heat and poor air quality, and both libraries will be fully electric to advance the City’s Climate Action Plan goals, operating on electricity provided by the City’s municipal hydroelectric power and solar energy from rooftop solar panels. Both projects will also provide larger program rooms and expanded teen space.</li> <li>• The Mission Branch Renovation Project construction phase is imminent, and the estimated completion date is April 2025. The Chinatown Branch Renovation Project is still in the design phase, and the estimated completion date is May 2026.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The City’s Library Preservation Fund would provide matching funds totaling \$13,210,129, plus additional funds for both projects. The Chinatown Branch Renovation Project is also funded by the General Fund and the Education Revenue Augmentation Fund (ERAF).</li> <li>• The proposed state grant would finance approximately 27 percent of the total Chinatown Library Renovation Project cost of \$29.4 million, and approximately 21.4 percent of the total Mission Library Branch Renovation Project cost of \$24.7 million.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

City Administrative Code Section 10.170-1 states that accepting and expending Federal, State, or third-party grant funds in the amount of \$100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

**BACKGROUND****California State Library Building Forward, Library Infrastructure Program**

The Building Forward Library Infrastructure Grant Program provides California's public libraries with funding for capital projects that address critical maintenance needs, improve energy efficiency and sustainability, and expand access digitally and physically.<sup>1</sup> In round one of the grant allocation, an independent advisory panel awarded over \$313 million in grants to 246 local libraries. The maximum grant amount per public library building is \$10 million. The funded projects include HVAC system upgrades and repairs, roof replacements, expansions, and renovations.

In 2022, the San Francisco Public Library (SFPL) applied for and was awarded \$13,210,129 in funds for the Mission Branch Library and Chinatown Branch Library Renovation Projects, which are both part of SFPL's ten-year Capital Plan (FY 2024-33).

**Mission Branch Library Renovation Project**

The Mission Branch Library is located at 300 Bartlett Street in San Francisco. It was built in 1914 and renovated in 1997 to provide seismic and accessibility upgrades which resulted in removal of historic architectural features. The Mission Branch Library Renovation Project provides a complete library renovation and restoration of historic features.

As of March 2023, the Project has been initiated, and according to Library staff, the construction phase is imminent. To date, approximately \$6.08 million of the total budget of \$24.7 million has been spent. The estimated completion date for the Mission Branch Renovation Project is April 2025.

*Competitive Construction Contract Solicitation*

On June 7, 2022, the Department of Public Works issued a competitive solicitation for the construction contract for the Mission Branch Library Renovation Project. On December 2, 2022, in accordance with the Best Value Delivery vendor selection method, in which the qualifications of the firm are taken into account in addition to the cost of services, SJ Amoroso Construction Co., LLC was awarded the construction contract. The San Francisco Department of Public Works is providing Project Management and Construction Management services.

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<sup>1</sup> The State Budget Act of 2021 (SB 129) allocated \$439 million in one-time funds to the California State Library to address critical maintenance needs of public library facilities throughout the state.  
<https://www.library.ca.gov/grants/infrastructure/>

### **Chinatown Branch Library Renovation Project**

The Chinatown Branch Library is located at 1135 Powell Street in San Francisco. It was built in 1921. In 1996, it was renovated and expanded to twice its original size. The Chinatown Branch Library Renovation Project would restore historical features as well as provide building safety upgrades. The Chinatown Branch Project is still in the design phase. According to Library staff, as of March 2023, approximately \$1.93 million of the total budget of \$29.4 million has been spent. Staff anticipate that construction will start in May 2024, and the construction contractor is yet to be selected. The estimated completion date for the Chinatown Branch Renovation Project is May 2026.

#### **DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would authorize the San Francisco Public Library to accept and expend a grant in the amount of \$13,210,129 from the California State Library Building Forward, Library Infrastructure Program. The grant requires that the Library match the State funds at an equal dollar-for-dollar basis during the grant period. All grant project costs must be incurred over an approximately three-year period, from the date of Agreement execution, pending approval of the Board of Supervisors, to March 31, 2026.

The funding would be used to finance a portion of two San Francisco Public Library Branch Renovation Projects, with \$5,280,042 going towards the Mission Branch Renovation Project and \$7,930,087 for the Chinatown Branch Renovation Project.

#### **Use of Funds**

In accordance with the guidelines of the State Building Forward Library Infrastructure Grant Program, funds will be used to enhance critical library systems, critical maintenance, construction management, infrastructure, and life safety. Both libraries, once renovated, will be able to provide air-conditioning and filtration for respite from heat and poor air quality, and both libraries will be fully electric to advance the City's Climate Action Plan goals, operating on electricity provided by the City's municipal hydroelectric power and solar energy from rooftop solar panels. Both projects will also provide larger program rooms and expanded teen space.

For both projects, indirect costs are not included in the grant budget to maximize use of grant funds on program expenditures. Exhibits 1 and 2 below show the grant budgets (including the required City matching funds) for the two projects, which do not reflect total project costs.

#### *Mission Branch*

The funds would be used for the following components of the Mission Branch Library renovation project: structural and seismic upgrades, building façade restoration and repair, ADA improvements, roof repair, elevator replacement, electrical system upgrades, HVAC system replacement, fire protections updates (including fire sprinklers and an updated alarm system) amongst other improvements, as shown in Exhibit 1 below.

*Chinatown Branch*

The grant funds and match would be used for the following components of the Chinatown Branch renovation project: structural and seismic upgrades, building façade restoration and repair, ADA improvements, HVAC system replacements, elevator replacement, roof replacement, and fire protections updates (including fire sprinklers and an updated alarm system), as shown in Exhibit 2 below.

**Exhibit 1. Mission Branch Library Renovation Project Grant Budget**

	State Grant	City Match	Total
<b>Project Administration<sup>a</sup></b>			
Public Works Project Management	\$65,000	\$65,000	\$130,000
Public Works Project Administration Fee	50,000	50,000	100,000
<b>Subtotal</b>	<b>\$115,000</b>	<b>\$115,000</b>	<b>\$230,000</b>
<b>Planning, Design, Other Pre-Construction<sup>b</sup></b>			
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Construction/Implementation</b>			
<u>Construction Management</u>			
Public Works Construction Management and Contract Administration	573,956	573,956	1,147,912
Consultant contract administration	8,100	8,100	16,200
<u>Critical Maintenance</u>			
Façade	114,760	114,760	229,520
Roof Repair	47,565	47,565	95,130
<u>Critical Systems</u>			
New HVAC	620,659	620,659	1,241,318
Rooftop solar	184,975	184,975	369,950
Elevator replacement	132,125	132,125	264,250
Electrical	654,529	654,529	1,309,058
Structural and seismic	2,078,613	2,078,613	4,157,226
<u>Infrastructure</u>			
IT and Security Infrastructure	250,151	250,151	500,302
<u>Life Safety</u>			
Fire sprinklers	192,164	192,164	384,328
Fire alarm system	89,207	89,207	178,414
<b>Subtotal</b>	<b>\$4,946,804</b>	<b>\$4,946,804</b>	<b>\$9,893,608</b>
<i>Project Contingency (4% of Construction Costs)<sup>c</sup></i>	218,238	218,238	436,476
<b>Total</b>	<b>\$5,280,042</b>	<b>\$5,280,042</b>	<b>\$10,560,084</b>

Source: Library grant budget

Notes: a) Under the grant agreement, Project Administration cannot exceed 10 percent of total grant request. b) Planning, Design, and Other Pre-Construction costs are not funded by the grant or matching funds and are funded by other sources. c) A 4 percent change order contingency is included in the total construction cost.

**Exhibit 2. Chinatown Branch Library Renovation Project Grant Budget**

	State Grant	City Match	Total
<b>Project Administration</b>			
Public Works Project Management	\$319,328	\$319,328	\$638,656
Public Works Contract Administration Fee	47,267	47,267	94,534
Public Works Contract Preparation Fee	27,500	27,500	55,000
<b>Subtotal</b>	<b>\$394,095</b>	<b>\$394,095</b>	<b>\$788,190</b>
<b>Planning, Design, Other Pre-Construction</b>			
Consultant Fees <sup>a</sup>	116,404	116,404	232,808
Public Works Salaries & Benefits	866,321	866,321	1,732,642
Environmental Review	45,618	45,618	91,236
Permits	88,807	88,807	177,614
<b>Subtotal</b>	<b>\$1,117,150</b>	<b>\$1,117,150</b>	<b>\$2,234,300</b>
<b>Construction/Implementation</b>			
Public Works Construction management and Contract Administration	810,500	810,500	1,621,000
<u>Critical Maintenance</u>			
Brick Façade	377,500	377,500	755,000
<u>Critical Systems</u>			
HVAC system	1,181,090	1,181,090	2,362,180
Rooftop solar system and battery storage	162,325	162,325	324,650
New elevator	294,450	294,450	588,900
Electrical systems	1,189,349	1,189,349	2,378,698
Structural and seismic systems	1,223,100	1,223,100	2,446,200
New roofing	341,296	341,296	682,592
<u>Infrastructure</u>			
Replacement IT, enhanced WiFi	109,475	109,475	218,950
New security Infrastructure	92,744	92,744	185,488
<u>Life Safety</u>			
Fire sprinklers	166,100	166,100	332,200
Replacement fire alarm system	203,850	203,850	407,700
<b>Subtotal</b>	<b>\$6,151,779</b>	<b>\$6,151,779</b>	<b>\$12,303,558</b>
<i>Project Contingency (4% of Construction Costs)</i>	267,064	267,064	534,128
<b>Total</b>	<b>\$7,930,088</b>	<b>\$7,930,088</b>	<b>\$15,860,176</b>

Source: Library grant budget

Note: a) The consultant fee is a placeholder for multiple potential consultants. Public Works as-needed consultants are selected through an RFQ process. Library consultants are selected from the as-needed pool based on expertise required for the project.

**Grant Disbursement Schedule**

Under the two draft grant agreements, State grant payments will be split into three instalments. The first payment will be 50 percent of the grant amount, contingent upon the submission of all



required documents and approval by the Board of Supervisors. The second payment amount will be 40 percent of the grant amount and will be available after January 31, 2024 following the submission of financial and narrative reports and expenditure detail.<sup>2</sup> The third and final payment of 10 percent of the grant amount will be available following the submission and approval of the final interim grant report and financial claim form.

### **Grant Reporting Requirements**

Under the two draft grant agreements, the San Francisco Public Library must submit to the State Library timely interim and final narrative and financial reports on the progress, activities and expenditures of the projects. The agreements establish 13 report due dates. Failure to submit the reports may result in delays in grant distributions. The State may also, with notice, visit the project sites to monitor the use of grant funds.

### **FISCAL IMPACT**

The Mission Branch and the Chinatown Branch Renovation Projects are funded by the proposed State Building Forward grants, with the City's Library Preservation Fund<sup>3</sup> providing matching funds and additional funds. The Chinatown Branch Renovation Project is also funded by the General Fund and the Education Revenue Augmentation Fund (ERAF), as shown in Exhibit 3 below.<sup>4</sup>

The proposed state grant (as shown in Exhibits 1 and 2 above) would fund approximately 27 percent of the total Chinatown Library Renovation Project cost of \$29.4 million, and approximately 21.4 percent of the total Mission Library Branch Renovation Project cost of \$24.7 million.

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<sup>2</sup> Under both draft grant agreements, if the City's January 31, 2024 financial report shows that the City has not spent any of the initial payment, the second payment will be withheld until the City demonstrates that the project is progressing and additional funding is needed.

<sup>3</sup> The Library Preservation Fund (LPF) consists of a general fund baseline amount which is 2.3 percent of aggregate City and County discretionary revenues, plus a property tax set aside of 2.5 cents for each \$100 in assessed valuation. On November 8, 2022 voters approved a renewal of the LPF through June 2048.

<sup>4</sup> According to the grant application, library staff anticipate that the Friends of the San Francisco Public Library, a non-profit, is anticipated to provide an estimated \$1.4 million for furniture, fixtures, and equipment for the Chinatown Branch Project, but this funding will be evaluated and if needed secured closer to the construction bid phase.

**Exhibit 3. Sources and Uses of Library Renovation Project Funding**

	Mission Branch Library	Chinatown Branch Library
<b>Sources</b>		
CA State Building Forward Grant	\$5,280,042	\$7,930,087
City Match, Library Preservation Fund	5,280,042	7,930,087
Additional Library Preservation Fund	14,100,000	3,539,826
City General Fund	0	8,000,000
ERAF	0	2,000,000
<b>Total Sources</b>	<b>\$24,660,084</b>	<b>\$29,400,000</b>
<b>Uses</b>		
Planning & Design	6,082,779	3,844,591
Construction	15,426,091	20,148,222
Permitting/Inspections	363,563	356,587
Art/Furnishing/Relocation	1,075,500	1,314,462
<b>Subtotal</b>	<b>\$22,947,933</b>	<b>\$25,663,862</b>
Contingency Amount	1,712,151	3,736,138
<i>(% Contingency)</i>	<i>7.5%</i>	<i>14.6%</i>
<b>Total Uses</b>	<b>\$24,660,084</b>	<b>\$29,400,000</b>

Source: Library

**RECOMMENDATION**

Approve the proposed resolution.

<p><b>Item 7</b> <b>File 23-0207</b></p>	<p><b>Departments:</b> Office of Contract Administration (OCA) Municipal Transportation Authority (MTA)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p><b>Legislative Objectives</b></p>	
<ul style="list-style-type: none"> <li>The proposed resolution would approve a new agreement with Michelin North America, Inc. (Michelin) to lease tires for MTA buses and associated services. The initial contract amount is for \$13,500,000 for a five-year term from April 1, 2023 through March 31, 2028, with the option to extend the contract for an additional two years and \$5,400,000, for a potential total not to exceed amount of \$18,900,000 and total seven year term, ending on March 31, 2030.</li> </ul>	
<p><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>Michelin currently provides tire lease and associated services for MTA under a contract that ends on September 30, 2023. According to the Office of Contract Administration (OCA), the current contract end date included a buffer period to allow the City to procure a new tire lease agreement. Actual spending on the existing \$9,995,000 contract was \$9,640,000 as of March 2023.</li> <li>In September 2022, OCA issued a competitive solicitation for tire leasing. Michelin North America, Inc. was the only vendor to submit a bid, but it was deemed non-responsive because they failed to provide the required minimum qualifications documentation. OCA determined that the lack of responsive offers was not due to the solicitation content, and, in accordance with City Administrative Code Section 21.6, OCA selected Michelin to continue providing services under the proposed new agreement. OCA has since determined that Michelin meets the minimum qualifications of the solicitation.</li> <li>The proposed agreement includes a \$151,042 monthly fee to pay for Michelin staff at six MTA bus yards and \$0.00577-\$0.0075 per mile for each bus tire leased by MTA, amounting to approximately \$70,000 per month.</li> </ul>	
<p><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>The cost of staff and tire leasing both increase by 5.5 percent between the current and proposed contract. Contract costs are funded by the MTA operating budget.</li> </ul>	
<p><b>Policy Consideration</b></p>	
<ul style="list-style-type: none"> <li>The current and proposed contract with Michelin does not include any performance metrics. MTA reports Michelin has been performing satisfactorily but does not document satisfactory/compliant performance.</li> <li>We reviewed summary mileage reports provided by MTA that showed the department was tracking the mileage for each of its buses, but the record did not contain information specific to each tire, which is tracked by Michelin.</li> </ul>	
<p><b>Recommendation</b></p>	
<ul style="list-style-type: none"> <li>Approve the proposed resolution.</li> </ul>	

## 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

Since at least 2009, San Francisco Municipal Transportation Authority (MTA) has contracted for rubber tire leasing, maintenance, and disposal for its transit fleet of 860 buses, each of which has six to eight tires.

### Previous Vendors

The contract for tire lease and associated services for MTA buses has previously been provided by the following vendors:

- Bridgestone Americas Tire Operations LLC: April 1, 2009 – March 31, 2014
- Michelin North America, Inc.: October 1, 2014 – September 30, 2018
- Michelin North America, Inc.: October 1, 2018 – September 30, 2023

The ongoing contract between the City and Michelin North America, Inc. (Michelin) provides for the lease by MTA from Michelin of an unlimited number of tires over the contract period with payment determined by the number of new tires, number of miles driven per tire, and maintenance on each tire. Each tire has a serial number and is tracked.

In addition, MTA pays a monthly fee of \$143,125 to Michelin to provide personnel and equipment at six separate MTA bus yards to support tire operations: Flynn, Islais Creek, Kirkland, Potrero, Presidio, and Woods. Michelin handles the entire lifecycle of the tire, including recycling and disposal.

MTA reports that leasing tires rather than purchasing from Michelin is beneficial because leasing reduces costs related to the disposal of the tires, reduces liability related to product quality, and provides for Michelin tire experts in six of the MTA bus yards. According to an April 2022 Personal Services Contract approval request from MTA to the Civil Service Commission, it is common practice for transit agencies to lease tires and contract for support services.

The current contract with Michelin has been modified twice. The first modification increased the contract's not-to-exceed amount by \$1.8 million, extended the contract term by one year, added a new tire size to the contract, but did not increase the existing tire lease costs or labor costs. The second modification extended the contract term by one additional year for a total five-year term and increased the not to exceed amount by \$195,000. The new contract amount totaled \$9,995,000, which is below the \$10 million threshold triggering Board of Supervisors approval.

**Exhibit 1. Tire Lease and Associated Services Contract History (Contract No. 1000012572)**

	Contract Term	Not to Exceed Amount
Original Contract	Oct. 1, 2018-Sept. 30, 2021	\$8,000,000
Modification No. 1	Oct. 1, 2018-Sept. 30, 2022	\$9,800,000
Modification No. 2	Oct. 1, 2018-Sept. 30, 2023	\$9,995,000

Source: OCA

The existing contract term ends September 30, 2023, but because MTA has nearly exhausted the \$9,995,000 contract authority, the Office of Contract Administration is recommending a new contract with a start date in April 2023.

**New Solicitation for Bids**

On September 15, 2022, the Office of Contract Administration (OCA) issued a competitive solicitation for bids for tire lease and associated services for San Francisco Municipal Transportation Agency. Eight suppliers were invited to the public pre-solicitation meeting including: SF Tire & SVC Ctrl Inc DBA Bid O Tires, Michelin North America, Inc., McCoy Tire & Auto Service, KA-PA Tire & Auto Service, Inland Industrial Tire, East Bay Tire Co, Doherty Tire of Sonora, and Bridgestone Americas Tire Operations, LLC. None attended. OCA extended the bid due date by one week to October 11, 2022, but there were still no responsive bidders to the solicitation. Michelin North America, Inc. was the only vendor to submit a bid, but it was deemed non-responsive because they failed to provide the required minimum qualifications documentation. OCA has since determined that Michelin meets the minimum qualifications of the solicitation.<sup>1</sup>

City Administrative Code Section 21.6 states that when OCA issues a solicitation for goods or services and no responsive offers are received, OCA shall first review the solicitation to determine whether it could be altered and reissued in a manner that would be likely to attract a responsive offer. If OCA determines that the lack of responsive offers is not due to the content of the solicitation, OCA may purchase the goods or services from any source. OCA reports that it determined that the vendor requirements could not be changed to attempt to solicit additional bids. Therefore, in accordance with Section 21.6, OCA selected Michelin North America, Inc. to continue providing the contracted services under the proposed new agreement. OCA reports that it only uses Section 21.6 on rare occasions. OCA indicates it has used Section 21.6 six times since 2021, when OCA first started tracking use of this purchasing authority in the City’s Financial and Procurement system.

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<sup>1</sup> Michelin did not initially submit the required documentation to demonstrate they met Minimum Qualifications (MQ) No. 3 or No. 6. However, post-solicitation, Michelin has submitted documentation demonstrating that the company does, in fact, meet these qualifications. MQ No. 3 requires the bidder to submit ten purchase orders or contracts issued within the last three years to the bidder by other entities of similar size and nature as the City and County of San Francisco. MQ No. 6. requires bidders to submit one representative form or document, as an example, demonstrating Bidder’s ability to individually track tires.

**Maximized Current Contract Not to Exceed Amount**

The contract is arriving before the Board of Supervisors for consideration at this time, six months before the expiration of the current five-year contract end date on September 30, 2023 because, according to OCA, the vendor has almost exceeded its not-to-exceed contract amount of \$9,995,000. Actual spending as of early March 2023 is \$9,640,000. According to OCA, the existing contract term had a buffer built in to allow for the procurement of a replacement contract.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve a new agreement with Michelin North America, Inc. to lease tires for MTA buses and associated services. The initial contract amount is for \$13,500,000 for a five-year term from April 1, 2023 through March 31, 2028, with the option to extend the contract for an additional two years and \$5,400,000, for a potential total not to exceed amount of \$18,900,000 and total seven year term, ending on March 31, 2030. Exercising the options to extend would not require Board of Supervisors' approval.

**Scope of Services**

MTA has a fleet of 860 rubber-tire revenue vehicles (buses), stationed across six City bus yards. Each bus needs six to ten tires per vehicle, not including spares. The contractor will lease, service and dispose of all tires used by MTA on its buses. The contractor is responsible for the manufacturing, procuring, and transporting a sufficient supply of tires as required to guarantee the continuity of services to transport the public. The contractor must mount and dismount tires, balance tires, maintain proper tire pressure, recap rear tires, provide emergency road-side service 24 hours/7days per week (required to arrive within 60 minutes of notification), conduct monthly maintenance checks on all tires, and track tires through all stages including proper tire disposal. Michelin is to provide at minimum 16 staff to support its tire services including a Manager, six shop Supervisors, and drivers (of buses to and from the tire areas).

Michelin is to maintain a detailed monthly report for MTA which depicts the tire mileage for each tire (by serial number) on every vehicle.

**Contract Terms**

As shown below in Exhibit 2, the tire leasing cost and monthly tire service cost would increase under the proposed contract. The resolution's not to exceed amount is based on the projected full seven-year term of the contract, using recent spending as a guide.

Michelin is responsible for recycling tires. The contract states that the Fresno-based business Jack's Tire and Oil will be used for tire recycling, and that as of March 2023, the recycling cost per tire is \$1.75.

**Exhibit 2. Michelin Tire Lease and Service Contract Terms, current vs proposed**

	Current Contract (10/1/2018-9/30/2023)	Proposed Contract (4/1/2023-3/31/2028)
Tire Leasing Cost <sup>a</sup>	\$0.00547-\$0.00711 per mile	\$0.00577-\$0.0075 per mile
Est. Lease Cost per Month <sup>b</sup>	\$70,000	\$70,000
Tire Service per Month	\$143,125	\$151,042
Est. Monthly Recycling Fee <sup>c</sup>	\$0	\$595
<b>Total Annual Cost</b>	<b>\$2,557,500</b>	<b>\$2,659,644</b>

Source: MTA

Notes: a) Leasing cost varies across the four different bus tire sizes; b) Lease cost estimate provided by OCA based on historical miles traveled per month. c) MTA estimates that 4,080 tires are scrapped annually, at a cost of \$1.75 per tire. Under the current contract, there is no fee recycling fee.

Under the proposed agreement, Michelin North America, Inc. would invoice the City on a monthly basis of \$151,042 for tire services, or approximately \$113,281 per FTE. This includes providing 24/7 roadside assistance. According to MTA, in FY 2021-22 Michelin provided a total of 1,793 roadside calls, varying from 110 to 184 calls per month. The proposed monthly tire service rate would increase by \$7,917 per month (approximately 5.5 percent) from the current agreement. Similarly, the cost of leasing tires would increase by 5.5 percent.

The current and proposed contracts allow for the vendor to request one annual price adjustment to reflect increases to the US Department of Labor’s Producer Price Index (PPI) for Truck and Bus Pneumatic Tires and regional Consumer Price Index (CPI). Between 2021—the most recent date when contract prices were adjusted via Contract Modification No. 1 – and September 2022, there has been a 29.5 percent increase in the PPI for commodities<sup>2</sup> and an approximately 7.8 percent increase in the CPI for the services in San Francisco-Oakland-Hayward, which are both more than the proposed 5.5 percent increase for labor and materials.

**Reporting Requirements**

The proposed contract requires Michelin to submit an annual usage report detailing the total quantity and dollar value of services ordered, by month, during the preceding calendar year. Additionally, the proposed contract introduces the requirement for Michelin to provide to MTA monthly reports detailing the average tire mileage for each size tire and a summary report of all damaged or destroyed tires.

<sup>2</sup> Bureau of Labor Statistics Commodities Series ID WPU07120105 - Rubber and plastic products - Truck and bus including off-the-highway pneumatic tires.

**FISCAL IMPACT**

Under the proposed contract, Michelin would invoice the city for the cost of tire leasing. This monthly cost varies depending on actual usage and the wear and tear on tires. According to MTA, in January 2023, the total number of tire miles traveled across all buses was 12,958,085 miles. All buses have a mileage counter, and when they reach a certain mileage milestone, Michelin checks the rubber for wear and makes repairs/replacement accordingly. Under the agreement, MTA would pay Michelin between approximately \$0.005 and \$0.007 per tire per mile.

According to MTA, funding for this contract comes from the MTA operating budget, subject to appropriation approval of the Board of Supervisors.

**POLICY CONSIDERATION**

**Performance Management**

The current and proposed contract with Michelin does not include any performance metrics, such as ensuring qualified and sufficient staffing and tire quality and availability. MTA reports Michelin has been performing satisfactorily but does not document satisfactory/compliant performance. We recommend OCA and MTA consider adding performance metrics and performance monitoring to future contracts.

The current and proposed contract do require that Michelin maintain monthly reports of an inventory of all tires, showing location (Bus Number), date installed and/or removed and “other pertinent data.” We reviewed summary mileage reports provided by MTA that showed the department was tracking the mileage for each of its buses, but the record did not contain information specific to each tire, which is tracked by Michelin.

**Single Bidder**

As noted above, although eight suppliers were invited to bid, the solicitation for this contract resulted in one bidder, Michelin, that was deemed non-responsive due to a failure to submit its documentation of minimum qualifications. As we noted in our report on the Granite Rock asphalt products (File 23-0039), this could be an indication that the City’s procurement policies and procedures could be revised to increase competition. At the February 8, 2023 Budget & Finance meeting, at the recommendation of the Budget & Legislative Analyst, the Committee Chair requested the Purchaser and City Administrator to provide a report that: (1) assesses existing procurement strategies and municipal code requirements, (2) evaluates the feasibility of partnering with other governments to increase the number of joint procurements that the City participates in, and (3) provides recommendations to increase the number of bidders for goods, commodities, and services; by June 2023.

**RECOMENDATION**

Approve the proposed resolution.