

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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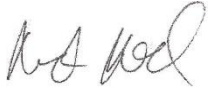
TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: March 5, 2025 Budget and Finance Committee Meeting

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<p>Item 3 File 25-0001</p>	<p>Department: Office of the Treasurer-Tax Collector (TTX)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> The proposed ordinance would amend the Business and Tax Regulations Code to suspend the Empty Homes Tax pending a final decision in ongoing litigation, retroactive to January 1, 2024, and to reinstate the tax so that the tax first applies in the tax year immediately following the calendar year of that final decision. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> In November 2022, San Francisco voters approved Proposition M, which imposed a tax on housing units in buildings with three or more units if the units had been vacant for more than 182 days in a calendar year (Empty Homes Tax). The Empty Home Tax was due to be assessed beginning in calendar year 2024, with an annual tax ranging from \$2,500 to \$5,000 per vacant unit based on square footage of the unit, with taxes increasing to up to \$20,000 per unit for units that have been vacant for three or more years consecutively. In February 2023, lawsuits were filed against the City, claiming that the Empty Homes Tax violates the United States and California Constitutions. In October 2024, a court ruled in favor of the plaintiffs, striking down the Empty Homes Tax as unconstitutional. In December 2024, the City Attorney’s Office filed an appeal of the ruling. The City is prohibited from collecting the Empty Homes Tax at this time. If the court ruling is overturned, the City may be required to collect Empty Homes Taxes going back to calendar year 2024. To avoid the logistical challenges of collecting past taxes, the Treasurer-Tax Collector’s Office has proposed suspending the Empty Homes Tax until the calendar year after all appeals have been exhausted or the deadline for filing appeals has passed. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> The proposed ordinance would suspend collection of the Empty Homes Tax until after ongoing litigation is resolved. The Controller’s Office estimated that the annual revenue from the Empty Homes Tax would be approximately \$9 million in 2024 and increasing to approximately \$15.4 million in 2026 and beyond. The Treasurer-Tax Collector’s Office reports that the actual amount collected would likely be less than the Controller’s estimates because of the ramp up period for collecting new taxes and educating taxpayers to file. The Empty Homes Tax proceeds would go into a new Housing Activation Fund, which would be used for rental subsidies and the acquisition, rehabilitation, and operation of buildings for affordable housing. The proposed ordinance has no direct impact on the General Fund. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> Because the proposed ordinance would waive revenue collection, we consider approval to be a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

BACKGROUND

In November 2022, San Francisco voters approved Proposition M, which imposed a tax on housing units in buildings with three or more units if the units had been vacant for more than 182 days in a calendar year (Empty Homes Tax). The Empty Home Tax was due to be assessed beginning in calendar year 2024, with an annual tax ranging from \$2,500 to \$5,000 per vacant unit based on square footage of the unit, with taxes increasing to up to \$20,000 per unit for units that have been vacant for three or more years consecutively. The Empty Home Tax provides certain exemptions (such as for primary residences with homeowner property tax exemptions) and extensions to fill vacant units (such as repair of an existing unit). Exhibit 1 below shows tax rates by unit size for the first year, second consecutive year of vacancy, and third and subsequent consecutive years of vacancy.

Exhibit 1: Empty Home Tax Rates by Unit Size and Vacancy Duration

Unit Size (square feet)	First Year	Second Consecutive Year	Third and Subsequent Consecutive Years
Less than 1,000 sf	\$2,500	\$5,000	\$10,000
1,000 to 2,000 sf	3,500	7,000	14,000
More than 2,000 sf	5,000	10,000	20,000

Source: Proposed Ordinance

In February 2023, the San Francisco Apartment Association, Small Property Owners of San Francisco Institute, San Francisco Association of Realtors, and other plaintiffs (Debbane, et al.) sued the City, claiming that the Empty Homes Tax violates the United States and California Constitutions. In October 2024, San Francisco Superior Court Judge Charles Haines ruled in favor of the plaintiffs, striking down the Empty Homes Tax as unconstitutional. In December 2024, the City Attorney’s Office filed an appeal of the ruling. Although the City Attorney’s Office believes that the ruling will be overturned on appeal, the City is prohibited from collecting the Empty Homes Tax at this time.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Business and Tax Regulations Code to suspend the Empty Homes Tax pending a final decision in ongoing litigation,¹ retroactive to January 1, 2024, and to reinstate the tax so that the first tax applies in the tax year immediately following the calendar year of the final decision. Passage of the proposed ordinance requires approval by two-thirds of the Board of Supervisors per Article 29A of the Business and Tax Regulations Code.

¹ Eric Debbane, et al. v. City and County of San Francisco, et al., San Francisco Superior Court Case No. CGC-23-604600

According to the proposed ordinance, the City Attorney's Office believes that the ruling striking down the Empty Homes Tax will likely be overturned on appeal. If it is overturned, the City may be required to collect Empty Homes Taxes going back to calendar year 2024. It could take several years for the litigation to be fully resolved, and collection of past taxes may be logistically difficult to collect, as property ownership may change over time and documents to determine tax liability from past years may not be available. To avoid these issues, the Treasurer-Tax Collector's Office has proposed suspending the Empty Homes Tax until the calendar year after all appeals have been exhausted or the deadline for filing appeals has passed.

FISCAL IMPACT

The proposed ordinance would suspend collection of the Empty Homes Tax until after ongoing litigation is resolved. In September 2022, the Controller's Office estimated that the annual revenue from the Empty Homes Tax would be approximately \$9 million in 2024 and increasing to approximately \$15.4 million in 2026 and beyond.² The total fiscal impact of the proposed ordinance depends on the timeframe of the litigation and the number of vacant units that would qualify for the tax during the years that the tax is suspended. According to Amanda Fried, TTX Chief of Policy and Communications, the actual amount collected would likely be less than the Controller's estimates because of the ramp up period for collecting new taxes and educating taxpayers to file. Additionally, the collection of back taxes would be very difficult and taxpayers would likely not have the documentation to respond to audits. Because the proposed ordinance would waive revenue collection, we consider approval to be a policy matter for the Board of Supervisors.

The Empty Homes Tax proceeds would go into a new Housing Activation Fund, which would be used for rental subsidies for low-income households and adults aged 60 or older and the acquisition, rehabilitation, and operation of buildings for affordable housing. The proposed ordinance has no direct impact on the General Fund.

RECOMMENDATION

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

² The Controller's Office had initially estimated that the Empty Homes Tax revenues would be approximately \$20 million in 2024, \$30 million in 2025, and \$37 million in 2026. These figures were included in the November 2022 ballot information for Proposition M, which create the residential vacancy tax. These revenue estimates were prepared in Summer 2022 and are included in the FY 2024-25 and FY 2025-26 budgets and placed on Controller's reserve. The reduced revenue estimates noted above assume that certain vacant units would not be subject to the tax and that the tax would incentivize property owners to fill vacant units.

Item 4 File 25-0081	Department: Airport
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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves Modification No. 2 to the contract between San Francisco International Airport (Airport) and Consor PMCM, Inc (Consor) for project management support services related to the Cargo Building 626.1 Project. This modification increases the contract value by \$10.3 million (from \$2.7 million to \$13 million) and extends the contract term from May 2, 2024, through May 1, 2029.

Key Points

- A Request for Proposals issued in August 2023 led to the selection of Consor, the top-ranked proposer, for project management support services for the Cargo Building 626.1 project. The Airport entered into a one-year contract with Consor for \$2.7 million. The Cargo Building 626.1 Project is part of the Airport’s broader West Field Cargo Redevelopment plan, designed to modernize facilities, improve operational efficiency, and support future cargo demands.
- Under the proposed contract modification, Consor will oversee construction management, design reviews, compliance monitoring, site inspections, budgeting, scheduling, and coordination with Airport divisions and external stakeholders.

Fiscal Impact

- The modification increases the total contract value from \$2.7 million to \$13 million, driven by the extension of the agreement’s duration from one year to five years. The Airport initially awarded a one-year term to validate the project’s scope and schedule before committing to a long-term agreement.
- The overall budget for the Cargo Building 626.1 Project is \$244.5 million, with project management services comprising approximately 5.4 percent of total costs.
- The project is funded by the Airport Capital Fund, primarily supported by Airport Revenue Bonds, with no federal grants allocated.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Charter Section 9.118(b) states that any agreement entered into by a department, board, or commission that (1) exceeds ten years in term, (2) requires expenditures of \$10 million or more, or (3) results in a modification of more than \$500,000 shall be subject to Board of Supervisors approval.

BACKGROUND**San Francisco International Airport West Field Cargo Redevelopment**

In 1992, the City certified a Master Plan Environmental Impact Report to address growing passenger and cargo requirements at San Francisco International Airport (Airport). Among the objectives was modernizing cargo facilities in the West Field (an area owned by the Airport) to increase operational efficiency. Five addenda were prepared in 2003, 2015, 2021 (two separate addenda), and 2022, covering the demolition of outdated structures and construction of modern replacements to meet current and future cargo and ground service equipment capacity needs.

Cargo Building 626.1 Project

The Airport's Cargo Building 626.1 Project supports the Airport's broader West Field redevelopment efforts. The project includes constructing a 289,000-square-foot, two-story cargo facility, demolishes Building 624 (a storage shed no longer in use), and coordinating with adjacent projects, paving upgrades, and potential ground service equipment facilities. The total project budget is \$244.5 million, with completion anticipated around April 2028. A map of the project area is included in Appendix A to this report.

Request-For-Proposals

In August 2023, the Airport issued a combined Request for Proposals and Request for Qualifications to secure two project management support services contracts to support the Cargo 626.1 project (this contract) and the Cargo Building 720.1 & GSE Building 742 project (File 25-0082).

Seven proposals were received; however, one proposal was deemed non-responsive for failing to meet LBE requirements. The firms and final scores are detailed below in Exhibit 1¹. Proposals were evaluated based on experience (80 points), personnel (120 points), project approach (100 points), and an oral interview (250 points), for a total maximum score of 550 points.

¹ The panel consisted of two Project Managers from Public Works and two Project Managers from the Airport.

Exhibit 1: Final Request for Proposal Rankings (Out of 550 Possible Points)

Rank	Proposer	Total Score
1	Conсор PMCM, Inc.	488
2	West Field Consultants, JV (WSP and AGS)	482
3	MCK Americas, Inc.	454
4	InnoActive Group	445
5	Deol Data, Inc.	184
6	Innovative Project Solutions	138

Source: Airport

As the request was issued for two separate projects (Cargo Building 626.1 and Building 720.1 & GSE Building 742), each proposer submitted a “preferred project” in a sealed envelope. The Airport awarded the top-ranked firm, Conсор PMCM, Inc. (Conсор), its chosen project (Cargo Building 626.1). The second-ranked firm, West Field Consultants, a Joint Venture, was then awarded the second project (Building 720.1 & GSE Building 742).

Contract History and Previous Modifications

On February 6, 2024, the Airport Commission awarded a project management support services contract for the Cargo Building 626.1 Project to Conсор for an initial term of one year (May 2, 2024, through May 1, 2025) and four optional one-year extensions, with a not-to-exceed amount of \$2.7 million. As originally planned, the Airport started with a one-year term to validate scope and schedule before committing to five years.

On October 1, 2024, the Airport Commission approved Modification No. 1, updating overhead rates with no change in cost or term.

On December 17, 2024, the Airport Commission approved Modification No. 2, increasing the contract amount by \$10.3 million (from \$2.7 million to \$13 million), updating overhead rates², and exercising all four optional one-year extensions, extending the term through May 1, 2029.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves Modification No. 2 to the Airport’s contract with Conсор PMCM, Inc. (Conсор) for project management support services, increasing the contract amount by \$10.3 million (from \$2.7 million to \$13 million) and exercising the four-year extension, for a total term of May 2, 2024, through May 1, 2029. The extension covers design, construction, and closeout for the Cargo Building 626.1 project. The resolution also confirms the Board adopts

² Chaves & Associates' field office overhead rate was increased from 138.11 percent to 145 percent, while the home office rate (previously 145 percent) was made not applicable. This adjustment was made because the subconsultant provided an annual audited rate.

findings from the Master Plan Environmental Impact Review and addenda related to the project and updates overhead rates for one sub-consultant.

Scope of Work

Under the proposed modification, Consor will continue project management duties, including reviewing the design-builder’s work, monitoring construction for compliance, managing daily tasks, performing regular site inspections, tracking budgets, maintaining schedules, and estimating costs. Consor will coordinate with the Airport’s divisions, tenants, and external agencies, reducing conflicts and facilitating communication.

Project Status

The Airport reports construction and demolition are on schedule, with final completion expected around April 2028.

Environmental Review

The Planning Department reviewed multiple addenda to the Master Plan EIR, most recently in September 2024. According to the Airport, the project is within the scope of the 1992 EIR, with no new significant environmental impacts identified. The proposed resolution would have the Board of Supervisors affirm that determination.

Local Business Enterprise Program Participation

Consor has a 20 percent subcontracting requirement pursuant to the Local Business Enterprise program. To date, participation is 14.31 percent of the original contract value. Exhibit 2 below details the firms, their services, and percentage of the contract they are fulfilling.

Exhibit 2: Subcontractors Utilization To-Date and Projected Utilization

Firm	Service	Type and Size*	LBE Participation
Townsend Management, Inc.	Design Management/SEP	Micro MBE	6%
Chaves & Associates	Document Control	Micro WBE	4
RES Engineers, Inc.	Special Inspections, Materials Testing	Small MBE	4
Saylor Consulting Group	Cost Estimating and Project Controls	Micro WBE	6
Total			20%

Source: Airport

Note: *MBE refers to "Minority Business Enterprise," and WBE refers to "Women Business Enterprise" As defined by Chapter 14B of the San Francisco Administrative Code. "Micro" designates businesses with gross receipts under \$14,050,000, while "Small" applies to businesses with gross receipts under \$28,100,000.

Performance Monitoring

The Airport uses 31 performance criteria to assess professional service contracts, four of which did not apply to this contract. According to a September 2024 evaluation, of the remaining 27 criteria, the contractor met or exceeded expectations in 25. Two areas—reporting and personnel retention—were rated below expectations. Early in the project, the contractor encountered staff turnover and delayed the required documentation for personnel changes, causing a lapse in timely, accurate reporting. In discussions following the performance review, the contractor was reminded of expectations and committed to improving personnel and reporting processes, which the Airport reports have led to improved performance.

FISCAL IMPACT

The proposed Modification No. 2 raises the contract by \$10.3 million, from \$2.7 million to \$13 million. Exhibit 3 summarizes revised allocations. As of January 2025, the spending to date on the contract was \$911,742.

Exhibit 3: Total Consor Contract Costs for Cargo Building 626.1 (2024–2029)

Task	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Program Level Support	\$34,000	\$473,000	\$533,000	\$551,000	\$174,000	\$1,765,000
Construction/Design Management	584,000	1,879,000	2,246,000	1,668,000	250,000	6,627,000
Project Controls	127,000	1,334,000	833,000	786,000	172,000	3,252,000
Material Testing & Special Inspection	21,000	613,000	551,000	32,000	11,000	1,228,000
Subject Matter Expert Support	21,000	32,000	32,000	32,000	11,000	128,000
	\$787,000	\$4,331,000	\$4,195,000	\$3,069,000	\$618,000	\$13,000,000

Source: Airport

Note: These figures represent estimated forecasts based on 'contract years.' The first column covers May 2024 through April 2025, the second column covers May 2025 through April 2026, and so on. The final column represents the period from May 2028 through the end of the contract.

The increase in the contract is driven by extending the agreement duration from one year to five years and the majority of the funding is for construction oversight and document control through May 2029. Costs for each task are based on the number of contract hours, for which base rates range from \$40 - \$150 per hour, plus overhead rates ranging from 110.06% to 160%. Rates may be adjusted annually by the Consumer Price Index.

The proposed not-to-exceed amount of \$13,000,000 is \$2,300,000 higher than the Airport’s original estimate of the contract value, \$10,700,000. The Project recently completed its programming phase with the design-builder and stakeholders and additional project management work is needed to define the final project design.

Total Project Costs

The total budget for the Cargo Building 626.1 Project is \$244.5 million, as outlined in Exhibit 4. The largest portion—\$215.55 million—is allocated to construction services, accounting for 88.2 percent of the total budget. Internal Airport costs total \$15.75 million (6.4 percent), while project management expenses amount to \$13.19 million (5.4 percent).

Exhibit 3: Total Cargo Building 626.1 Project Costs

Category	Cost
Airport Internal Costs	\$15,753,000
Construction services	215,553,000
Project Management (5.4 percent)	13,194,000
Total Overall Project Budget	\$244,500,000

Source: Airport

The Airport's project budget shows that project management services account for \$13,194,000, or \$194,000 more than the proposed \$13,000,000 contract. Under Charter Section 9.118(b), if the proposed resolution is approved, the Airport may amend the contract value up to an additional \$500,000 without further Board of Supervisors approval.

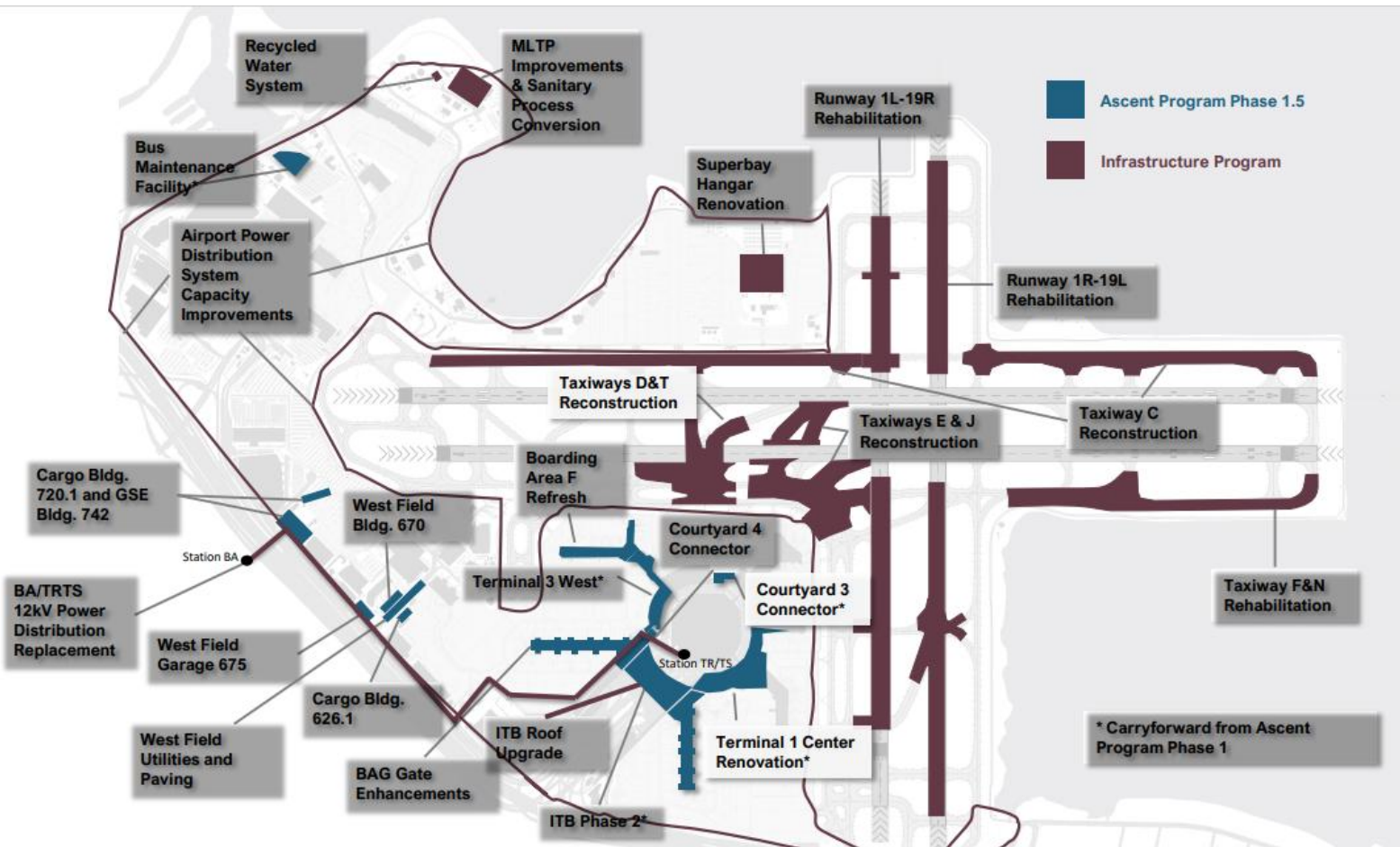
Funding Source

The Cargo Building 626.1 project is funded by the Airport Capital Fund, which primarily consists of Airport Revenue bonds. There is no federal grant funding for this portion of the project.

RECOMMENDATION

Approve the proposed resolution.

Appendix A: Airport Project Locations



Item 5 File 25-0082	Department: Airport
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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves Modification No. 2 to the contract between San Francisco International Airport (Airport) and West Field Consultants, JV for project management support services related to the Cargo Building 720.1 and Ground Service Equipment (GSE) Building 742 Project. This modification increases the contract value by \$10 million (from \$3 million to \$13 million) and extends the contract term from May 2, 2024, through May 1, 2029.

Key Points

- A Request for Proposals issued in August 2023 led to the selection of West Field Consultants, JV, the second-ranked proposer, for a contract to support the Cargo Building 720.1 project at the Airport. The top-ranked firm chose another project under the same RFP. The Cargo Building 720.1 and GSE Building 742 projects are part of the Airport’s broader West Field Cargo Redevelopment plan, designed to modernize facilities, improve operational efficiency, and support future cargo demands.
- Under the modification, West Field Consultants will continue providing project management support services throughout design, construction, and closeout. This includes construction oversight, document control, site inspections, budgeting, scheduling, and coordination with Airport divisions, tenants, and external agencies.
- The Airport's evaluation of West Field Consultants identified improvements in independent action and personnel retention, areas that were initially rated below expectations.

Fiscal Impact

- The modification increases the total contract value from \$3 million to \$13 million, driven by the extension of the agreement duration from one year to five years. The majority of the additional funding is allocated for construction oversight and document control through May 2029. The Airport initially awarded a one-year term to validate the project’s scope and schedule before committing to a long-term agreement.
- The overall budget for the Cargo Building 720.1 and GSE Building 742 Project is \$201.4 million, with project management services comprising approximately 8% of total costs.
- The project is funded by the Airport Capital Fund, primarily supported by Airport Revenue Bonds, with no federal grants allocated.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Charter Section 9.118(b) states that any agreement entered into by a department, board, or commission that (1) exceeds ten years in term, (2) requires expenditures of \$10 million or more, or (3) results in a modification of more than \$500,000 shall be subject to Board of Supervisors approval.

BACKGROUND

San Francisco International Airport West Field Cargo Redevelopment

In 1992, the City certified a Master Plan Environmental Impact Report to address growing passenger and cargo requirements at San Francisco International Airport (Airport). Among the objectives was modernizing cargo facilities in the West Field (an area owned by the Airport) to increase operational efficiency. Five addenda were prepared in 2003, 2015, 2021 (two separate addenda), and 2022, covering the demolition of outdated structures and construction of modern replacements to meet current and future cargo and ground service equipment capacity needs.

Cargo Building 720.1 and Ground Service Equipment Building 742 Project

The Airport’s Cargo Building 720.1 and Ground Service Equipment Building 742 Project is part of the Airport’s broader West Field Redevelopment. The project includes constructing a 122,000-square-foot, single-story facility with 26 loading dock positions (Building 720.1), and a 16,800-square-foot, single-story facility configured for four tenant spaces (Building 742). To accommodate these new facilities, Building 730 (Airport Facilities Storage and an office suite) will be demolished in Fall 2025 and Building 750 (Airport fleet vehicle maintenance) will be relocated to an annex of the new Building 742. No schedule delays have been reported. Tenants are responsible for planning their own moves, with the Airport providing schedule updates to minimize operational disruptions. The total project budget is \$201.4 million, with substantial completion anticipated around the fourth quarter of 2027. A map of the project area is included in Appendix A to this report.

Request For Proposals

In August 2023, the Airport issued a combined Request for Proposals and Request for Qualifications to secure two project management support services contracts to support the Cargo 626.1 project (File 25-0081) and the Cargo Building 720.1 & GSE Building 742 project (this contract).

Seven proposals were received ; however, one proposal was deemed non-responsive for failing to meet LBE requirements. The firms and final scores are detailed below in Exhibit 1¹. Proposals

¹ The panel consisted of two Project Managers from Public Works and two Project Managers from the Airport.

were evaluated based on experience (80 points), personnel (120 points), project approach (100 points), and an oral interview (250 points), for a total maximum score of 550 points.

Exhibit 1: Final Request for Proposal Rankings (Out of 550 Possible Points)

Rank	Proposer	Total Score
1	Conсор PMCM, Inc.	488
2	West Field Consultants, JV	482
3	MCK Americas, Inc.	454
4	InnoActive Group	445
5	Deol Data, Inc.	184
6	Innovative Project Solutions	138

Source: Airport

As the request was issued for two separate projects (Cargo Building 626.1 and Building 720.1 & Ground Service Equipment Building 742), each proposer submitted a “preferred project” in a sealed envelope. The Airport awarded the top-ranked firm, Conсор PMCM, Inc., its chosen project (Cargo Building 626.1). The second-ranked firm, West Field Consultants, a Joint Venture, was then awarded the second project (Building 720.1 & Ground Service Equipment Building 742).

Contract History and Previous Modifications

On February 6, 2024, the Airport Commission awarded a contract to West Field Consultants, a Joint Venture (WSP USA Inc. and AGS Inc.), for project management support services on the Cargo Building 720.1 and Ground Service Equipment Building 742 Project. The contract’s initial term was one year (May 2, 2024 – May 1, 2025), with four optional one-year extensions, at a not-to-exceed amount of \$3 million. The Airport started with a one-year term to validate the project schedule and scope before committing to the full five-year duration.

On October 1, 2024, the Airport Commission approved Modification No. 1, updating overhead rates from an Airport-mandated multiplier to actual overhead costs with no change in cost or term.

On December 17, 2024, the Airport Commission approved Modification No. 2, increasing the contract amount by \$10 million (from \$3 million to \$13 million), updating overhead rates², and exercising all four optional one-year extensions, extending the term through May 1, 2029.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves Modification No. 2 to the Airport’s contract with West Field Consultants for project management support services, increasing the contract amount by \$10

² Chaves & Associates' field office overhead rate was increased from 138.11 percent to 145 percent, while the home office rate (previously 145 percent) was made not applicable. This adjustment was made because the subconsultant provided an annual audited rate.

million (from \$3 million to \$13 million) and exercising the four-year extension, for a total term of May 2, 2024, through May 1, 2029. The extension covers design, construction, and closeout for Cargo Building 720.1 and Ground Service Equipment Building 742 Project. The resolution also confirms the Board adopts findings from the Master Plan Environmental Impact Review and addenda related to the project and updates overhead rates for one sub-consultant.

Scope of Work

Under Modification No. 2, West Field Consultants will continue providing project management services throughout design, construction, and closeout of the Cargo Building 720.1 and Ground Service Equipment Building 742 Project. Their responsibilities include reviewing the project for safety and scheduling compliance, managing budgets and document control, performing regular site inspections, and coordinating with Airport divisions, tenants, and agencies to minimize operational impacts.

Project Status

According to the Airport, design and pre-construction activities are underway, with early construction activities having started in October 2024. Tenant turnover is targeted for January 2027, and Substantial Completion is planned for Q4 2027. No schedule delays have been reported to date.

Environmental Review

The Planning Department reviewed multiple addenda to the Master Plan EIR, most recently in September 2024. According to the Airport, the project is within the scope of the 1992 EIR, with no new significant environmental impacts identified. The proposed resolution would have the Board of Supervisors affirm that determination.

Local Business Enterprise Program Participation

The Request for Proposals requirement for Local Business Enterprise program participation was 20 percent, however, West Field Consultants committed to 28 percent participation. To date, participation is at 17.16 percent of the original contract value. The subconsultant participation plan for the contract is detailed below in Exhibit 2³.

³ The panel consisted of two project managers from Public Works and two project managers from the Airport.

Exhibit 2: Subcontractors Utilization To-Date and Projected Utilization

Firm	Service	Type and Size*	LBE Participation
RES Engineers, Inc.	Materials Testing	Micro WBE	4%
Chavez & Associates	Record Management and Storage	Small WBE	1%
Edgar Lopez and Associates LLS	Value Quality Engineering	Micro MBE	5%
John Imhoff Architects	Interior Design	Micro OBE	9%
LDA Architects, Inc.	Architecture	Micro MBE	3%
M Lee Corporation	Value Quality Engineering	Small MBE	6%
Total			28%

Source: Airport

Note: *MBE refers to "Minority Business Enterprise," and WBE refers to "Women Business Enterprise." OBE refers to "Other Business Enterprise," which is a non-minority and non-woman-owned business. "Micro" designates businesses with gross receipts under \$14,050,000, while "Small" applies to businesses with gross receipts under \$28,100,000 as defined by Chapter 14B of the San Francisco Administrative Code.

Performance

The Airport uses 31 performance criteria to assess professional service contracts, four of which did not apply to this contract. According to a September 2024 evaluation, of the remaining 27, the consultant met or exceeded expectations in 25. However, the consultant was rated below expectations in two areas—Independent Action (encompassing time management and initiative) and Personnel Retention (requiring the retention of key/support staff and timely filling of vacancies). Specifically, the team struggled with taking independent initiative and frequently sought direction on various tasks, particularly regarding how to apply the project's delivery model. Additionally, the PMSS was slow in providing justification for staff substitution requests. As a corrective measure, the Airport clarified expectations and ensured that the consultant committed to improvement. The Airport reports that these steps have led to improved performance in both categories.

FISCAL IMPACT

The proposed Modification No. 2 raises the contract from \$3 million to \$13 million. Exhibit 3 below summarizes the revised allocations. As of January 2025, the spending to date on the contract was \$1,560,230.

Exhibit 3: Total West Field Consultants Contract Costs (2024-29*)

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Program Level Support	\$550,000	\$580,000	\$580,000	\$580,000	\$110,000	\$2,400,000
Construction/Design Management	1,500,000	1,500,000	1,550,000	1,500,000	184,000	6,234,000
Project Controls	550,000	550,000	550,000	550,000	166,000	2,366,000
Material Testing & Special Inspection		500,000	300,000	200,000		1,000,000
Subject Matter Expert Support	400,000	100,000	200,000	300,000		1,000,000
Total**						\$13,000,000

Source: Airport

Notes: *These figures represent estimated forecasts based on 'contract years.' The first column covers May 2024 through April 2025, the second column covers May 2025 through April 2026, and so on. The final column represents the period from May 2028 through the end of the contract.

**There is no contingency in the contract. The Construction Budget includes design development, bid, and escalation contingencies. Outside of the Design-Builder’s Construction Contract, the Airport carries a separate construction contingency in the project budget to address unforeseen conditions.

The increase in the contract is driven by extending the agreement duration from one year to five years and the majority of the funding is for construction oversight and document control through May 2029. Costs for each task are based on the number of contract hours, for which base rates range from \$40 - \$150 per hour, plus overhead rates ranging from 104.23% to 160%. Rates may be adjusted annually by the Consumer Price Index.

The proposed not-to-exceed amount of \$13,000,000 is \$2,000,000 higher than the originally anticipated \$11,000,000. The Project recently completed its programming phase with the design-builder and stakeholders and additional work is needed to support both the project and the overall West Field Development Program.

Total Project Costs

The total budget for the Cargo Building 720.1 and Ground Service Equipment Building 742 Project is \$201.4 million, as outlined in Exhibit 4. The largest portion—\$172.9 million—is allocated to construction services, accounting for 86 percent of the total budget. Internal Airport costs total \$13 million (6 percent), while project management expenses amount to \$15.5 million (8 percent).

Exhibit 4: Total Cargo Building 720.1 and Ground Service Equipment Building 742 Project Costs

Category	Cost
Internal Costs (Airport)	\$12,976,900
Construction services	172,917,300
Project Management (8 percent)	15,505,800
Total Overall Project Budget	\$201,400,000

Source: Airport

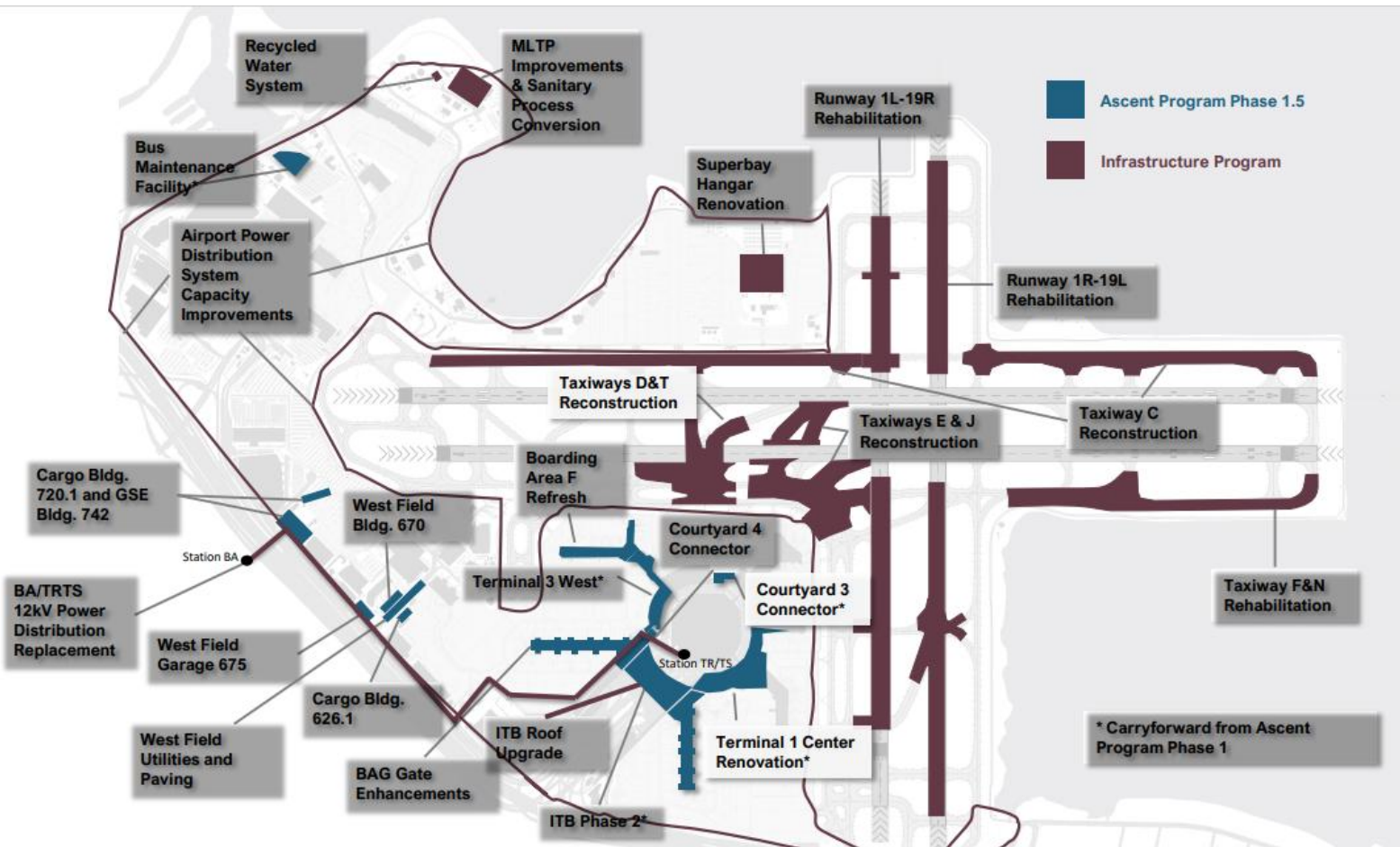
Funding Source

The Cargo Building 626.1 project is funded by the Airport Capital Fund, which primarily consist of Airport Revenue bonds. There is no federal grant funding for this PMSS portion of the project.

RECOMMENDATION

Approve the proposed resolution.

Appendix A: Airport Project Locations



Item 7 File 25-0085	Department: San Francisco Public Utilities Commission (SFPUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve SFPUC’s emergency declaration with an estimated total cost of \$700,000. The emergency contracting authority would be used for a contract with Holt of California to repair the SFPUC Tesla Treatment Facility’s standby power supply system, which failed on December 11, 2024. • Any contracts entered under the emergency authority are exempt from the requirements of Administrative Code Chapters 6 (public works contracting policies and procedures), 12A (human rights commission), and 14B (local business enterprise utilization), as well as Articles 131 and 132 of the Labor and Employment Code (non-discrimination in contracts and property contracts). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In December 2024, the SFPUC’s Tesla Treatment Facility’s standby power control system, which transfers power to the facility’s standby generators when a PG&E power outage occurs, failed during routine maintenance. The failure did not interrupt or otherwise impact water treatment operations. • Holt of California was selected by SFPUC to be the contractor because of their familiarity with the treatment facility’s electrical equipment and previous experience providing facility maintenance services. The components that failed were beyond their useful life and made Caterpillar, Inc. SFPUC did not conduct a competitive solicitation process because Holt of California is the only Caterpillar dealer in central Northern California. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The total estimated cost for repair services is \$700,000. • The total estimated cost will be fully sourced from SFPUC Water Supply and Treatment Division Treatment Repair and Replacement (R&R) capital funds, which include Water customer revenues, Water revenue bonds, and capital grants. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

Administrative Code Section 6.60(d) states that emergency work that costs more than \$250,000 is subject to Board of Supervisors approval. Prior to the commencement of emergency work above the \$250,000 threshold, the Department must also secure approval in writing from the Mayor or the President of the appropriate Board or Commission. If the emergency does not permit approval of the emergency determination by the Board of Supervisors before work begins, the Department must submit a resolution approving the emergency determination to the Board of Supervisors within 60 days of the Department head's declaration of emergency.

BACKGROUND

On December 11, 2024, the San Francisco Public Utilities Commission's (SFPUC) Tesla¹ Treatment Facility's standby power control system, which transfers power to the facility's standby generators when a PG&E power outage occurs, was found to have failed during routine maintenance. The failure did not interrupt or otherwise impact water treatment operations.

According to SFPUC, a faulty ethernet switch disrupted communications between the switchgear and generator controls, which prevents the standby generator from starting during a utility power outage. SFPUC states that the generator switchgear installation occurred in 2011, and many of the power control system components and equipment are obsolete and no longer supported by the original manufacturer (Caterpillar, Inc.).

The Tesla treatment facility provides ultraviolet light and chlorine disinfection² and fluoridation of the San Francisco Public Utilities Commission's (SFPUC) Hetch Hetchy water supply, which provides drinking water to the San Francisco Bay Area. Because of a planned Hetch Hetchy water delivery suspension to support the Mountain Tunnel Improvements Project³, the Tesla treatment facility is currently offline until March 14, 2025 and will need a functioning standby power supply system once the facility returns to service.

On December 23, 2024, the SFPUC General Manager requested, and the SFPUC President approved, a declaration of emergency for contract resources to repair the treatment facility's standby power supply system. The SFPUC considered the declaration necessary because the repair work was beyond the capacity of City staff and needed to be completed as soon as possible to ensure the safety of the City's drinking water and comply with drinking water regulations.

¹ According to SFPUC, the facility's name originated from the previous Tesla Portal facility, which is now the site of the current Tesla Treatment Facility in Tracy, CA. The name has no connection to Tesla, Inc.

² Both are requirements to meet drinking water regulations.

³ According to SFPUC, these outages stop the flow of water through the Tesla Treatment Facility from Hetch Hetchy Reservoir and support the Mountain Tunnel Improvements Project by allowing the contractor to perform repair work inside the Mountain Tunnel. The project includes five winter shutdowns. The fourth tunnel outage is in effect as of this writing (December 16, 2024 to March 14, 2025) and a fifth outage is scheduled for a similar period in Winter 2025-2026.

According to the proposed resolution, the cost of the work is estimated to be \$700,000, and the Controller has certified that funds are available. Per Administrative Code 6.60, if the emergency repair costs exceed \$700,000, the SFPUC must submit a report to the Board of Supervisors detailing the final costs, which will be included in the legislative file for this item.

The proposed resolution was introduced on February 4, 2025, within the sixty-day timeframe required by Administrative Code Section 6.60(d).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve SFPUC's emergency declaration with an estimated total cost of \$700,000. The emergency contracting authority would be used for a contract with Holt of California to repair and restore the SFPUC Tesla Treatment Facility's standby power supply system, which failed on December 11, 2024. Any contracts entered under the emergency authority are exempt from the requirements of Administrative Code Chapters 6 (public works contracting policies and procedures), 12A (human rights commission), and 14B (local business enterprise utilization), as well as Articles 131 and 132 of the Labor and Employment Code (non-discrimination in contracts and property contracts).

Procurement

According to SFPUC staff, Holt of California was selected to be the contractor because of their familiarity with the treatment facility's electrical equipment and previous experience providing facility repair and maintenance services. In addition, Holt of California is a dealer⁴ of Caterpillar, Inc., the original manufacturer of the treatment facility's power supply equipment and components, and provides a range of repair, equipment and maintenance services. Consequently, SFPUC did not conduct a competitive solicitation process because Holt of California is the only Caterpillar dealer in central Northern California. SFPUC states that a draft contract with Holt of California is currently pending review and execution by the City Attorney's Office.

Scope of Work

The contractor will replace the controllers and ethernet switches and upgrade the communications network to ensure the standby generators start in the event of a power outage. Specifically, the scope of work for the repair services includes the following:

⁴ Holt is the exclusive dealer for Caterpillar systems and equipment in San Joaquin County. According to SFPUC, the department has a maintenance contract with Holt to provide routine maintenance on Caterpillar equipment at the facility. Holt engages with Caterpillar directly if the vendor needs Caterpillar employees to work on Caterpillar equipment. The contract for the proposed emergency declaration is between Holt and SFPUC because Caterpillar uses their exclusive dealers to work with customers directly, and it is not a City-compliant vendor.

- Replacing the obsolete controllers with new ethernet Programmable Logic Controller (PLC⁵) processors;
- Replacing existing ethernet switches and transducers;⁶
- Replacing the existing network with a new ethernet network topology;⁷
- Replacing the existing touchscreen processor with new software and touchscreen;
- Replacing the existing remote PC server for monitoring the system; and
- System testing and end-user training.

Project Timeline

According to SFPUC staff, the project team has conducted pre-assessment efforts with Holt of California and Caterpillar, Inc., and the contractor has begun working on programming, production drawings, and hardware design. SFPUC anticipates the completion of repair and restoration services by April 30, 2025.⁸

Mitigation of Future Power Supply System Failure

To mitigate any future failure of the facility's power system components, SFPUC states that a capital improvement project to replace the uninterrupted power supply system⁹ is currently in the planning phase. According to the SFPUC Water Enterprise 10-year Capital Plan, approximately \$11.5 million has been budgeted from 2025 to 2034 for this project.

FISCAL IMPACT

The emergency declaration and resulting proposed resolution states that the total estimated cost to repair the treatment facility is \$700,000.

SFPUC estimates that restoration and repair costs would total approximately \$624,000 with the remaining \$76,000 available as an approximately 12 percent construction contingency, which SFPUC states is consistent with industry standards. According to the SFPUC, the \$624,000 cost estimate is based on a February 2025 proposal from Holt of California, which details the labor,

⁵ PLCs monitor inputs from switches, sensors and other devices and uses logic functions to decide what to do based on the inputs.

⁶ The ethernet transducers are used to monitor circuit breaker status and transformer loads and for synchronizing and automating between the various devices.

⁷ A network topology governs how data flows between devices.

⁸ The SFPUC memo in the legislative file states that the work must be completed before March 14, 2025. According to SFPUC, this has changed to April 30, 2025 because of the additional time necessary for Holt and Caterpillar to replace the components and restore the power system. SFPUC states that a temporary power supply is in place to provide backup power should the facility have a utility power outage between March 14 and April 30, 2025.

⁹ This system provides uninterrupted power to the UV treatment reactors between the loss of utility power and the startup of standby power generators. According to SFPUC, this project will upgrade select components of the uninterrupted power supply units that are known to be obsolete. Regular testing is conducted to ensure the uninterrupted power supply system remains operational. SFPUC states the emergency repairs (which addresses the control system) would not have been addressed by the flywheel project because the systems include different components. The flywheel project will ensure the overall reliability of the entire standby power system.

parts and materials, taxes and equipment rental charge needed to restore and upgrade the end-of-life switchgear components, as determined by the scope of work. There have been no actual expenditures to date.

Exhibit 1 below provides the details of the approximately \$700,000 cost estimate.

Exhibit 1: Estimated Cost of Emergency Work

Cost Items	Estimate
Labor	\$351,600
Additional Labor to Expedite Work ¹⁰	64,074
Parts & Materials	182,011
Taxes for Parts & Materials	14,106
Load Bank Equipment ¹¹ Rental Charge	6,900
Professional Liability Insurance Procurement	5,159
Contingency (approximately 12%)	76,150
Total	\$700,000

Source: SFPUC

The \$700,000 estimated cost will be fully sourced from SFPUC Water Supply and Treatment Division Treatment Repair and Replacement (R&R) funds, which include Water customer revenues, Water revenue bonds, and capital grants. According to SFPUC, the proposed emergency work will not delay any current projects.

RECOMMENDATION

Approve the proposed resolution.

¹⁰ According to SFPUC, this was included to account for additional labor (an engineer and project manager) to expedite the work for completion by the end of April 2025. SFPUC states that Holt’s original proposal had a completion date of September 2025.

¹¹ The Load bank simulates an electrical load and will be used to test the standby generators without the need for a facility power outage. According to SFPUC staff, some facilities have permanent load banks, but the Tesla Treatment Facility does not.

<p>Item 9 File 25-0108</p>	<p>Department: Health Service System (HSS)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> The proposed resolution would approve the tenth contract amendment between the Health Service System (HSS) and P&A Administrative Services, Inc. (P&A), increasing the not-to-exceed amount by \$555,000, for a total not to exceed \$4,667,457, and extending the contract term by six months for a total term of March 1, 2015 through December 31, 2025 with one option to extend for one year to December 31, 2026. The proposed resolution would authorize HSS to make further immaterial amendments to the agreement. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> In March 2014, HSS issued a Request for Proposals (RFP) to select a vendor for administration of health flexible spending accounts (FSA), dependent care spending accounts, COBRA and related programs for City employees and their families. P&A was deemed the highest scoring proposer out of five bids and was awarded a contract. The contract, as well as eight of the nine amendments, did not require Board approval because the total amount was less than \$10 million and the total term was less than 10 years. The ninth amendment, which was executed in December 2024, extended the term beyond 10 years for a total term of 10 years and four months, but was not brought to the Board for approval. Under the contract amendment, P&A will continue to provide administration and support of COBRA, FSA services, and related services. The contract includes performance guarantees and associated discounts that can be applied if services are not fully performed by the contractor. All performance guarantees have been met over the duration of the contract and no discounts have been imposed. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> The proposed tenth amendment would increase the not-to-exceed amount of the P&A contract by \$555,000, for a total not to exceed \$4,667,457. The proposed increase is expected to provide funding through the one-year extension option of December 2026. The contract is funded by the General Fund. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> Because the existing agreement was not approved by the Board even though the term of the agreement exceeded ten years in the ninth amendment, we recommend that HSS reviews its other agreements to determine if any other agreements require Board approval. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> Request the Health System Service review its other agreements to determine if any require Board of Supervisors' approval; Approve the proposed resolution. 	

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

In March 2014, the Health Service System (HSS) issued a Request for Proposals (RFP) to select a vendor for administration of health flexible spending accounts (FSA)¹, dependent care spending accounts², COBRA³ and AB528⁴ programs for City employees and their families. HSS received five proposals and an evaluation panel⁵ scored them, as shown in Exhibit 1 below. According to the RFP, proposals were evaluated on the quality of the proposal (10 points), qualifications (40 points), approach and methodology (35 points), and account management (15 points).

Exhibit 1: Proposals and Scores from RFP

Proposer	Score (100 Possible Points)
P&A	88.75
Conexis	82.75
The Advantage Group	81.25
WageWorks	78.75
EBS	65.25

Source: HSS

P&A Administrative Services, Inc. (P&A) was deemed the highest scoring proposer out of five bids and was awarded a contract. In March 2015, HSS executed a contract with P&A for a term from March 1, 2015 to December 31, 2018 (three years and 10 months) and an amount not to exceed \$889,174. Under the agreement, the term start date was six months later for flexible spending account services (September 1, 2015) compared to COBRA and AB528 administration services which began March 1, 2015. The contract included one option to extend for one or two years but

¹ Health Flexible Spending Accounts (FSA) are an IRS-approved, tax-advantaged account that allows employees to reduce out-of-pocket costs for certain eligible medical and dependent care expenses by allowing the use of pre-tax dollars, while also reducing the taxable payroll to the employer.

² A dependent care FSA is an employer-sponsored plan that allows participants to pay with pre-tax dollars for certified day care, preschool and elder care needed by eligible children under age 13 or aging parents.

³ Under the Federal Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA), employees and their dependents who are enrolled in a health, dental, or vision insurance plans are entitled to an extension of health coverage, called "continuation coverage," in certain circumstances (for example, termination of employment, divorce, etc.)

⁴ Under AB528, a former certificated employee, who retired from the City's Community College District (CCD) and San Francisco Unified School District (SFUSD) under any public retirement system, and his or her spouse, or any surviving spouse of a former certificated employee, may continue his or her health care benefits by paying the full premiums. HSS administers AB528 for medical coverage.

⁵ The evaluation panel consisted of a HSS Deputy Director/COO, HSS Manager, an Employee Relations Representative at the Department of Human Resources, and a non-City benefits subject-matter expert.

specified that the total term of the agreement may not exceed five years. The contract has been amended nine times, as shown in Exhibit 2 below. The contract, as well as eight of the nine amendments, did not require Board of Supervisors' approval because the total amount was less than \$10 million and the total term was less than 10 years. However, the ninth amendment extended the term beyond 10 years for a total term of 10 years and four months but was not brought to the Board of Supervisors for approval. The ninth amendment was executed in December 2024 and extended the agreement from December 2024 through June 2025.

Exhibit 2: Previous Contract Amendments

No.	Date	NTE	Term End	Description
Orig.	Mar 2015	\$889,174	12/31/2018	Original agreement
1	Jul 2015	896,674	12/31/2018	Increased not-to-exceed amount by \$7,500. Added the San Francisco Healthy Workers Health Plan and Department of Human Resources in COBRA services section
2	Jan 2017	896,674	12/31/2018	Updated the COBRA/AB528 Premium Reporting, Remitting, Reconciliation and Invoicing section to include the "Best Doctors" plan/provider
3	Apr 2018	1,247,977	12/31/2018	Increased not-to-exceed amount by \$351,303.
4	Oct 2018	1,998,737	12/31/2020	Exercised the 2-year option to extend the term, allowed for an additional one-year extension option, and increased the not-to-exceed amount by \$750,760. Updated the provisions in the sections on insurance and HIPAA requirements
5	Jul 2020	2,401,679	12/31/2021	Exercised the one-year option to extend the term and increased the not-to-exceed amount by \$402,942. Updated the carryover provisions in the FSA services scope of work, as well as provisions in the FSA claim/payment/reimbursement processing section
6	Jul 2021	2,816,679	12/31/2022	Extended the term by one year and increased the not-to-exceed amount by \$415,000. Updated the COBRA/AB528 Premium Reporting, Remitting, Reconciliation and Invoicing section to include additional commercial health plans
7	Aug 2022	3,231,679	12/31/2023	Extended the term by one year and increased the not-to-exceed amount by \$415,000. Updated the carryover provisions in the FSA services scope of work
8	Aug 2023	3,646,679	12/31/2024	Extended the term by one year and increased the not-to-exceed amount by \$415,000. Updated the carryover provisions in the FSA services scope of work
9	Dec 2024	4,112,457	6/30/2025	Extended the term by 6 months and increased the not-to-exceed amount by \$465,778. Updated the COBRA/AB528 Premium Reporting, Remitting, Reconciliation and Invoicing section to include additional commercial health plans

10	Proposed	4,667,457	12/31/2025	Proposed amendment would extend the term by 6 months and allow for an additional one-year extension option, and increase the not-to-exceed amount by \$555,000.
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Source: Contract Amendments

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the tenth amendment to the contract between HSS and P&A Administrative Services, Inc. (P&A), increasing the not-to-exceed amount by \$555,000, for a total not to exceed \$4,667,457, and extending the contract term by six months for a total term of March 1, 2015 through December 31, 2025 with one option to extend for one year to December 31, 2026 for a total potential term of 11 years and 10 months. The proposed resolution would also authorize HSS to make further immaterial amendments to the agreement.

The proposed amendment in the legislative file extends the contract end date to December 31, 2025 for flexible spending account services but not COBRA/AB528 services; however, this is an error and HSS wishes to extend the contract end date for all services under the agreement. According to HSS, the fully executed amendment will be revised to reflect the correct end date for all services.

According to HSS, the proposed increase of \$555,000 would provide contract funding through December 2026. The proposed 18-month extension (including the option to extend) would provide HSS sufficient time to reprocur for these services and provide an implementation period in advance of 2027 open enrollment, which occurs in October 2026, if a new vendor is selected. HSS is planning to release an RFP in November or December 2025 to award a new contract for these services to commence in January 2027 after P&A's contract expires.

Services

Under the contract amendment, P&A will continue to provide administration and support of COBRA, AB 528 and FSA services, which includes the following:

COBRA and AB 528 Services

- Provision and communication of COBRA and AB528 open enrollment services;

- Provision of COBRA and AB528 initial⁶, qualifying event⁷ and election⁸ notices;
- Account management services and website maintenance for participants to access account information;
- Website maintenance to run operational and ad-hoc reports to view COBRA/AB528 participant information;
- Provision of monthly premium payment reports on various characteristics, such as type of plan; and
- Customer support services.

Flexible Spending Account (FSA) Services (Health and Dependent Care FSA)

- Provision and communication of open enrollment services;
- Processing of ongoing FSA enrollment and eligibility files within two business days of receipt;
- Provision of an FSA electronic payment (debit) card to each health FSA or dependent care FSA participant to pay expenses that are eligible for reimbursement;
- Processing of payments, claims and reimbursements of expenses paid by the FSA debit card and other allowable forms;
- Account management services and website maintenance for participants to access account information;
- Website maintenance to run operational and real-time reports to view FSA participant information; and
- Customer support services, as well as processing of participant appeals.

Number of Participants Served

Exhibit 3 below shows the number of participants who received COBRA qualifying event and initial notices and AB528 notices, as well as enrolled in Health FSA and Dependent Care accounts from 2015 to January 31, 2025. As shown below, from 2016 to 2024, the number of participants increased for those receiving COBRA qualifying event notices (221 percent) and initial notices (14 percent), and for those enrolling in a Health FSA (92 percent) and dependent care FSA (36 percent). From 2018 to 2024, the number of participants receiving AB528 notices increased by 45 percent.

⁶ This is the basic information pamphlet about an employee's rights under COBRA including under what circumstances they would be able to continue health insurance after separation from employment. All employees receive an initial (general) notice when they start a new job.

⁷ This notice tells employees specifically why they are eligible for COBRA (like losing their job) and the details about continuing health coverage. Only individuals who experience a qualifying event will receive a qualifying event notice. Qualifying events are usually a change in employment status or family situation (i.e., being terminated or laid off for any reason except gross misconduct, having hours reduced from full to part-time, or after a death of a covered employee or separation/divorce from a covered employee, or when someone becomes eligible for Medicare).

⁸ This notice provides employees information about their right to elect COBRA coverage and how to do so, including the timeframe and what coverage(s) are available to them.

Exhibit 3: Number of Participants Served Under P&A Contract

Year	Qualifying Event Notices (COBRA)	Initial Notices (COBRA)	AB528 Notices ⁹	Health FSA Enrollment	DCA Enrollment
2015	725	2,321	n/a	n/a	n/a
2016	1,459	4,461	n/a	4,279	1,256
2017	1,242	4,111	n/a	4,918	1,324
2018	1,412	3,947	60	5,796	1,482
2019	1,613	4,197	72	6,257	1,523
2020	3,519	2,627	97	6,356	1,196
2021	4,418	3,395	108	6,084	904
2022	4,889	4,514	96	7,040	1,441
2023	4,124	5,598	108	7,854	1,661
2024	4,680	5,088	87	8,199	1,707
2025 (as of January 31)	336	292	17	8,920	1,651

Source: HSS

Notes: According to HSS, AB528 data from 2015 to 2017 is not available per HSS retention policy, which stipulates that paper invoices be sent to offsite storage after two years and retained for five additional years offsite. In addition,

Performance Monitoring

Under the agreement, the contractor is required to submit financial, operational and reconciliation reporting, as well as monthly invoices. The contractor is also required to maintain a website for HSS employees to run real-time reports to review participant information, as well as develop and run ad-hoc reports as requested by HSS. HSS states that the department reviews the contractor's monthly invoices against the monthly detailed reports before issuing payments every month. The agreement's Appendix D also details performance guarantees for COBRA/AB528 and FSA administration services, in which discounts will be applied if services are not fully performed by the contractor. These performance standards address contract and paperwork processing times, account management response times, customer service call response rates, reporting accuracy, claims accuracy, website accessibility, and client satisfaction. According to data provided by HSS, all performance guarantees have been met over the duration of the contract and no discounts have been imposed.

FISCAL IMPACT

The proposed tenth amendment would increase the not-to-exceed amount of the P&A contract by \$555,000, for a total not to exceed \$4,667,457. Actual and projected contract expenditures are shown in Exhibit 4 below.

⁹ Under AB 528, each surviving spouse of a retired certificated school district employee receives a notice explaining how they may continue their health insurance coverage after the employee's death, even after COBRA benefits expire.

Exhibit 4: Actual and Projected Contract Expenditures

Year/Date Range	FSA Administration	COBRA/AB528 Administration	Ad-Hoc Notices¹⁰	Total Expenditures
3/1/2015-12/31/2016 (Actual)	n/a	n/a	n/a	\$370,098
CY2017 (Actual)	n/a	n/a	n/a	370,098
CY2018 (Actual)	n/a	n/a	n/a	370,098
CY2019 (Actual)	242,020	130,720	0	372,740
CY2020 (Actual)	242,020	130,720	0	372,740
CY2021 (Actual)	269,917	120,520	21,335	411,772
CY2022 (Actual)	276,399	93,740	53,173	423,313
CY2023 (Actual)	284,183	150,570	52,034	486,787
CY2024 (Actual)	312,251	131,340	0	443,591
<i>Subtotal, Actual Expenditures¹¹</i>				<i>\$3,621,235</i>
CY2025 (Projected)	347,612	143,610	0	491,222
CY2026 (Projected)	n/a	n/a	n/a	555,000
<i>Subtotal, Projected Expenditures</i>				<i>\$1,046,222</i>
Total Not-to-Exceed				\$4,667,457

Source: HSS

According to HSS, contract expenditures by specific category for the first three years of the contract are unavailable because invoices were destroyed in accordance with records retention practices of discarding copies of paper invoices after seven years (two years onsite, five additional years offsite for invoices). In addition, HSS has not projected specific expenditures yet for FSA and COBRA/AB528 administrations services under the proposed amendment. As previously mentioned, HSS states that the proposed increase of \$555,000 is expected to provide contract funding through the one-year extension option of December 2026. The contract will be fully funded by the General Fund.

Charges/Rates

Under the agreement, charges and rates for COBRA/AB528 and FSA services are invoiced based on the actual volume of participants. The specific charges/rates for COBRA/AB528 services are as follows: \$6 per AB528 participant per month, \$20 per qualifying event notice, and \$10 per initial (general) notice. The FSA administration charge (which includes the debit card) is \$3.10 per participating employee per month. These charges/rates have not changed since the original agreement was executed in 2015.

¹⁰ According to HSS, these notices addressed COVID-19 related extensions. The American Rescue Plan Act (ARPA) of 2021 provided a temporary 100% subsidy for COBRA premiums from April 1 to September 30, 2021. This subsidy applied to eligible individuals who lost their employer-sponsored health insurance. Notices were required to be sent out to those impacted.

¹¹ Sum does not total due to rounding

POLICY CONSIDERATION

The existing agreement was not approved by the Board of Supervisors even though the term of the agreement exceeded ten years in the ninth amendment (the current version of the contract). As previously stated, City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that has a term of more than ten years is subject to Board of Supervisors approval. According to HSS, the department interpreted the start date of the contract as the start of services, which began on July 1, 2015. However, section two of the original agreement states that the term of the agreement is from March 1, 2015 to December 31, 2018 for COBRA/AB528 services. Consequently, we recommend that HSS reviews its other agreements to determine if any other agreements require Board of Supervisors' approval.

The 2014 RFP anticipated a three-year contract term with two one-year options to renew for a total potential term of five years but stated that actual contract periods may vary. The proposed term of 11 years and 10 months is more than double the term length anticipated in the RFP. According to HSS, the department extended the contract beyond the initial five-year term to (1) avoid disruption to continuing medical, dental and vision coverage during the COVID-19 pandemic under the agreement, (2) account for the negotiation of zero increases in all service charges, and (3) prioritize other benefit plan competitive procurements (such as Medicare). San Francisco Administrative Code Section 21.9(a)(2) states that solicitations shall not provide for contract renewals or extensions for a term longer than ten years. We recommend HSS consider: (a) including a maximum term of ten years in the upcoming solicitation to re-procure this service (in compliance with Administrative Code Section 21.9); and (b) that the contract term and extension options in the awarded contract are consistent with the solicitation.

RECOMMENDATIONS

1. Request the Health Service System department review its other agreements to determine if any require Board of Supervisors' approval;
2. Approve the proposed resolution.