

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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

October 27, 2017

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: November 2, 2017 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File		Page
2	17-1038	Emergency Declaration – Repair of the Moccasin Powerhouse Unit 2 Generator Step-up Transformer – Total Estimated Cost Not to Exceed \$400,000.....	1
5	17-1040	Contract Amendment No. 3 – New Flyer of America, Inc. – Purchase of Low Floor Diesel-Hybrid Buses – Not to Exceed \$413,774,673	4
6	17-1077	Real Property Lease Renewal – 1145 Market LP – 1145 Market Street – San Francisco Law Library - \$1,180,000 Initial Annual Base Rent	8
7	17-1078	Airport Professional Services Agreement Modification No. 10 – CAGE Professional Services, Inc. dba CAGE, Inc. – International Terminal Checked Baggage Inspection System Modernization Program and Baggage Handling Improvements Project – Not to Exceed \$10,695,000.....	13
8	17-1079	Lease Agreement – Wells Fargo Bank, N.A. – Automated Teller Machines - \$475,000 Minimum Annual Guarantee	17
9 & 10	17-1080	2011 Airport Lease and Use Agreement – Air Pacific Limited dba Fiji Airways	
	17-1081	2011 Airport Lease and Use Agreement – Air India Limited	20

Item 2 File 17-1038	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution approves an emergency declaration by the San Francisco Public Utilities Commission (SFPUC) to repair the buswork and bushings on the Moccasin Powerhouse Unit 2 generator step-up transformer, with a total estimated cost of \$400,000 pursuant to San Francisco Administrative Code, Section 6.60. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Hetch Hetchy Water and Power system provides both water and electric energy to the City and County of San Francisco and other customers. Water deliveries to SFPUC customers flow through Moccasin Powerhouse generating hydroelectric power. On July 31, 2017, Powerhouse Unit 2 failed at its main transformer, causing Powerhouse Unit 1 to fail as well. The failure of both units resulted in a full power outage at the Moccasin Camp and reduced the total water deliveries from 285 to 140 million gallons per day, to match the flow capacity of the single available MPH generator bypass. • On August 2, 2017, SFPUC installed a rented transformer to restore Powerhouse Unit 1 back to service and water deliveries of 285 million gallons per day. However, Powerhouse Unit 2 is still out of service, and a failure of Powerhouse Unit 1 would risk result in limited water deliveries and pose a risk to water supply for the 2.7 million Regional Water System customers. • On August 28, 2017, the SFPUC General Manager declared an emergency, which was approved by the SFPUC Commission President. SFPUC has selected Big Valley Electric as the general contractor, with Electrical Builders, Inc. and Western Utilities Transformer Service as specialty subcontractors, to repair MPH Unit 2's buswork and bushings on the step-up transformer to restore service. The project is scheduled to be completed by January 15, 2018. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The total cost to repair the buswork and bushings on Powerhouse Unit 2 generator step-up transformer is not to exceed \$400,000. There is sufficient funding available in the Hetch Hetchy Power Enterprise Facilities Maintenance Funds, which originate from power revenue. <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 contracts entered into for emergency work that are more than \$250,000 are 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 and the president of the commission.

If the emergency work must be conducted prior to obtaining Board of Supervisors approval, the department must submit a resolution approving the emergency declaration to the Board of Supervisors within 60 days of the emergency declaration. The San Francisco Public Utilities Commission (SFPUC) General Manager submitted a memorandum declaring an emergency to the president of the SFPUC on August 28, 2017. The SFPUC submitted the resolution to the Board of Supervisors on October 3, 2017, or 36 days after the emergency declaration.

BACKGROUND

The Hetch Hetchy Water and Power System provide both water and electricity to the City and County of San Francisco and other customers. Water deliveries from the Hetch Hetchy System to SFPUC customers flow through Moccasin Powerhouse (Powerhouse), generating hydroelectric power. Moccasin Powerhouse is located near the intersection of Highway 49 and Highway 120 in Tuolumne County. On July 31, 2017, Powerhouse Unit 2 failed at its main transformer and tripped offline. According to Ms. Cheryl Sperry, SFPUC Principal Administrative Analyst, the transformer is used to change the voltage of the energy produced by the generator to a voltage that can be transmitted to the electricity grid. The failure of Powerhouse Unit 2 caused Powerhouse Unit 1 to fail as well, which had been dependent on Powerhouse Unit 2 being in service. This resulted in a full power outage at the Moccasin Camp and stopped all water flow through the Moccasin Powerhouse. The total water flow of the Hetch Hetchy system reduced from 285 to 140 million gallons per day, with water flow only available through one bypass valve. On August 2, 2017, SFPUC crews installed a rented transformer to restore Powerhouse Unit 1 into service and water flows to 285 million gallons per day. However, Unit 2 is still out of service, and SFPUC analysis shows that repair of the buswork and bushings on the step-up transformer are needed to bring Unit 2 back into service. The buswork consists of electrical copper bar conductor that interconnects the generator with the transformer, and the bushings are insulated devices attached to the transformer allowing electrical conductors to pass safely through. With Unit 2 out of service, a failure of Unit 1 would result in limited water deliveries to the Hetch Hetchy system, posing a risk to the 2.7 million customers relying on water deliveries from the Hetch Hetchy System. On August 28, 2017, SFPUC General Manager Harlan Kelly declared an emergency, approved by SFPUC Commission President Anson Moran.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves an emergency declaration of the SFPUC to repair the buswork and bushings on the Powerhouse Unit 2 generator step-up transformer, with a total estimated cost of \$400,000.

SFPUC contacted two vendors with appropriate C10 electrical contractor licenses, but determined that only one, Big Valley Electric, is a certified Local Business Enterprise. Big Valley Electric, which holds Class A general engineering and Class B general building contractor's licenses, will serve as the prime contractor. Electrical Builders, Inc. and Western Utilities Transformer Service will work on the project as specialty subcontractors. The lead time for ordering the bushings had been previously estimated at 24 weeks, but is now estimated at 8-12 weeks. According to Ms. Sperry, SFPUC issued a notice to proceed on September 15, 2017, and the bushings have been ordered. The scheduled completion date of the project is January 15, 2018. The total cost to complete the repair work is not to exceed \$400,000.

Administrative Code Section 6.60 allows department heads to declare an emergency and award public contract work exempt from the competitive bidding process. An "actual emergency" is defined to include "The breakdown or imminent breakdown of any plant, equipment, structure, street or Public Work necessitating immediate emergency repair or reconditioning to safeguard the lives or property of the citizens; or the property of the City; or to maintain the public health or welfare."

FISCAL IMPACT

The total cost to repair the buswork and bushings on Powerhouse Unit 2 is not to exceed \$400,000. The total includes a contingency of \$35,000 for possible oil reconditioning. According to Mr. Curtis McMillan, SFPUC Electrical Engineer, the transformers are filled with oil and will need to be partially drained when the bushings are replaced. During the draining, the oil comes into contact with air, which may contaminate the oil. The oil can be tested for levels of contamination, and if the contamination level is too high, it will need to be reconditioned before returning the transformer to service. According to Ms. Sperry, sufficient funding for the project is available in Hetch Hetchy Power Enterprise Facility Maintenance Funds, originating from power revenue, for this emergency work. The costs are broken down in Table 1 below.

Table 1: Cost Breakdown of Moccasin Powerhouse Repair Project

Contractor	Component	Cost
Big Valley Electric	Project Management	\$45,000
Electric Builders, Inc.	Buswork Repairs	160,000
Western Utilities	Bushings	36,000
To Be Determined	Contingency- Oil Reconditioning	35,000
<i>Contractor Subtotal</i>		<i>\$276,000</i>
SFPUC Labor/Soft Costs		124,000
Total		\$400,000

RECOMMENDATION

Approve the proposed resolution.

Item 5 File 17-1040	Department: Municipal Transportation Agency (MTA)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve Amendment No. 3 to the contract between the SFMTA and New Flyer for SFMTA to (a) revise the list of spare parts and special tools to be purchased under the contract, and (b) add equipment to new vehicles during the production phase of the contract, increasing the contract not-to-exceed contract amount by \$1,504,252, from \$412,270,421 to \$413,774,673. The contract expiration date will remain 2020. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In December 2014, the Board of Supervisors approved the original contract between the San Francisco Municipal Transportation Agency (SFMTA) and New Flyer of America, Inc. (New Flyer) after completing a competitive process. The original contract provided for the purchase of 61 articulated buses (60-Feet) for a total not-to-exceed amount of \$68,257,536. The original contract was for one year with 5 one-year options to extend through December 2020, and included the purchase of 363 additional standard and articulated buses through the five extensions, totaling 424 buses. The Board of Supervisors approved of two subsequent contract amendments to exercise all 5 options. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The SFMTA requested a revised list of spare parts and special tools for a change order amount of \$2,653,392. The SFMTA also purchased spare parts and items, but later did not need, resulting in a total credit of \$1,149,140, or a net change order amount of \$1,504,252. The change order would pay for installation on new buses during production of (a) the GPS traffic signal priority system (which was installed on existing buses to give buses priority at traffic lights), and (b) radios, as part of the SFMTA's Radio Communications System. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • SFMTA plans to pay for the entire contract amount of \$413,774,673 from combination of federal funds, regional funds, and local funds (such as Prop B and Prop K). They were unable to provide a complete breakdown of funding sources. \$264,707,835 of the total \$413,774,673 has been secured. • The additional \$1,504,252 is only for changes to certain models of buses. The SFMTA expect there to be more change orders of vehicles currently in production phase, which may result in further changes to the contract. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • 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 December 2014, the Board of Supervisors approved the original contract between the San Francisco Municipal Transportation Agency (SFMTA) and New Flyer of America, Inc. (New Flyer) after completing a competitive process. The original contract provided for the purchase of 61 articulated buses (60-Feet) for a total not-to-exceed amount of \$68,257,536. The original contract was for one year with 5 one-year options to extend through December 2020, and included the purchase of 363 additional standard and articulated buses through the five extensions, totaling 424 buses (File 14-1224).

Since 2014, the Board of Supervisors has approved two amendments to the contract.

- In June 2015, the Board of Supervisors approved Amendment No. 1 to the contract between New Flyer contract and SFMTA to (i) modify the propulsion system of six of the 61 previously approved articulated buses to series propulsion systems rather than parallel propulsion systems, and (ii) to exercise the first option to extend the contract and purchase an additional 48 standard buses (40-Feet) and 50 articulated buses, totaling 98 buses (File 15-0472). The first amendment increased the contract amount by \$99,382,133, from \$68,257,536 to \$167,639,669.
- In December 2015, The Board of Supervisors approved Amendment No. 2 to the contract between the SFMTA and New Flyer for SFMTA to exercise all four remaining one-year options through December 30, 2020 in order to expedite the purchase of 152 standard buses and 113 articulated buses, totaling 265 additional buses. The second amendment to the contract increased the total not-to-exceed amount by \$244,630,752 from \$167,639,669 to \$412,270,421.

Of the 424 buses previously authorized for purchase by the Board of Supervisors, 269 buses have been delivered and are in service, as shown in Table 1 below. The remaining 155 buses will be delivered by 2019.

Table 1. Number of Buses Ordered and Delivered

	Standard Buses (40-foot)	Articulated Buses (60-foot)	Total Ordered	Total Delivered
Existing Contract Terms				
Base Amount	-	61	61	61
2015 Extension Option	48	50	98	98
2016 Option	152	113	265	110
Total	200	224	424	269

To date, \$253,171,048 of the \$412,270,421 of the contract has been spent, and an additional \$11,536,787 has been encumbered.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 3 to the contract between the SFMTA and New Flyer for SFMTA to (a) revise the list of spare parts and special tools to be purchased under the contract, and (b) add equipment to new vehicles during the production phase of the contract, increasing the contract not-to-exceed contract amount by \$1,504,252, from \$412,270,421 to \$413,774,673. The contract expiration date will remain 2020.

FISCAL IMPACT

The SFMTA requested a revised list of spare parts and special tools for a change order amount of \$2,653,392. According to Mr. Bhavin Khatri, Fleet Engineer at SFMTA, the SFMTA also purchased spare parts and items, but later did not need, resulting in a total credit of \$1,149,140, or a net change order amount of \$1,504,252. The main uses of the funds can be seen in Table 2 below.

Table 2: Uses of Funds for Amendment No. 3

Uses of Funds	Amount
Traffic Signal Priority System	\$795,419
Harris Radio System	422,978
Wheelchair Ramp	355,748
Additional Interior Camera	<u>213,283</u>
Subtotal	1,787,428
Miscellaneous change orders *	<u>865,964</u>
Subtotal	2,653,392
Credit	<u>(1,149,140)</u>
Total Additional Needed	\$1,504,252

* Miscellaneous change orders include mirrors, hand straps, door handles, seat belts, and other bus equipment.

Global Positioning Based Traffic Signal Priority System

Since 2014, new technology has emerged to provide flexible and conditional signal priority to transit vehicles. The global positioning based Traffic Signal Priority (TSP) provides transit vehicles preferential treatment at a traffic signal, allowing SFMTA to ensure buses adhere to their schedule.

According to Mr. Khatri, the TSP was installed on over 700 of SFMTA's existing buses through an independent contractor, and therefore is needed on new buses to enable the TSP system to be effective. The SFMTA considered installing the TSP after the coaches arrived at SFMTA, but found that would delay the introduction of the entire system by a few months. According to Mr. Khatri, the SFMTA believes that the installation of the TSP system during the production

phase would be more economical, but did not ask for a quote from the independent contractor nor calculate the price per installation of the independent contractor for the current buses.

The TSP system was implemented in existing buses in 2016.

Harris Radio System

The SFMTA completed a \$128 million dollar project in 2016 to replace and modernize its Radio Communications System on all existing coaches. The revised list of items includes the new radio system to ensure all buses would have the latest radio system. According to Mr. Khatri, the SFMTA is paying for the new Harris radios through the New Flyer Contract as the SFMTA believes that the installation of the new radios during the production phase would be less expensive and lead to fewer delays than installing the cables, harnesses and equipment after delivery.

POLICY CONSIDERATION

SFMTA plans to pay for the entire contract amount of \$413,774,673 from combination of federal funds, regional funds, and local funds (such as Prop B and Prop K). They were unable to provide a complete breakdown of funding sources. \$264,707,835 of the total \$413,774,673 has been secured.

According to Mr. Khatri, the additional \$1,504,252 is only for changes to certain models of buses. The SFMTA expect there to be more change orders of vehicles currently in production phase, which may result in further changes to the contract. Although the SFMTA does not have estimates of future change orders, they are currently engaging all stakeholders in order to minimize future costs.

RECOMMENDATION

Approve the proposed resolution

<p>Item 6 File 17-1077</p>	<p>Department: Law Library Real Estate Division</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the (i) exercise of the five-year option to extend the 1145 Market Street lease between the Law Library, as tenant, and 1145 Market Street LP, as landlord, from July 1, 2018 through June 30, 2023, and (ii) increase the annual rent from \$912,489.72 to \$1,180,000, an increase of \$267,510.28 or 29 percent, in the initial year of FY 2018-19 with 3 percent annual increases. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • Pursuant to State Law, the 1870 Act, the City and County of San Francisco must provide a Law Library for public use. Charter Section 8.103 is consistent with the 1870 Act and states that the City must provide “suitable” and “sufficient” accommodations for the Law Library. • In June 2013, the Board of Supervisors approved a resolution (File 13-0487) authorizing the Director of Real Estate to execute a five-year lease of up to 20,000 square feet, including the entire 4th floor and a portion of the 2nd floor at 1145 Market Street between the City as tenant, on behalf of the Law Library, and 1145 Market Street LP, as landlord, from July 1, 2013 through June 30, 2018. The lease included one five-year option to extend the term through June 30, 2023. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The Law Library’s existing annual rent for 1145 Market Street in FY 2017-18 is \$912,489.72, equal to approximately \$45.62 per square foot per year for 20,000 square feet. Under the proposed lease extension, the rent would increase to an annual rent rate of \$1,180,000, which is equal to approximately \$59 per square foot per year. • The proposed annual rent rate of approximately \$59 per square foot (effective as of July 1, 2018) represents 90.1 percent of the current fair market rent. The annual rent increase of 3 percent per year, beginning on July 1, 2018, reflects current typical lease agreements in the commercial real estate market. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • On February 5, 2013, the Law Library filed a Writ of Mandate against the City and the County Administrator alleging that “at least 30,000 gross square feet is required for any space to be at least minimally adequate” for the Law Library. According to Deputy City Attorney Andrew Shen, the litigation between the Law Library and the City is currently pending, although there has been no activity in the case since June 2013. As the City is not aware of any concerns regarding the Law Library’s current location and facilities, the City Attorney’s Office anticipates that this matter will be formally dismissed in 2018. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Given the 2013 litigation filed by the Law Library against the City that is currently pending, approval of the proposed resolution is a policy decision for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of \$1 million or more is subject to Board of Supervisors approval.

Administrative Code Section 23.27 requires Board of Supervisors approval of leases that are longer than one year where the City is the tenant.

BACKGROUND

Pursuant to California State Law, specifically the 1870 Act, the City and County of San Francisco must provide a Law Library for public use. The 1870 Act established the Law Library as a legal entity, separate from the City and County of San Francisco, and requires the Board of Supervisors to appropriate General Fund monies for “fuel, lights and stationary and all necessary conveniences and care, rooms convenient and accessible to the Courts, sufficient for the use and accommodation of said law library and those who have occasion for its use.”

San Francisco Charter Section 8.103¹ is consistent with the 1870 Act and states that the City must provide “suitable” and “sufficient” accommodations for the Law Library, as well as free access to the legal community and the general public.

In March 2013, the Board of Supervisors approved a resolution (File 13-0227) (1) approving the finding that no greater than 20,000 net rentable square feet is suitable and sufficient for the Law Library; (2) and authorizing the Director of Property to enter into a lease agreement, which was being negotiated at the time, between the City and Van Ness Post Center, LLC for up to 20,000 net square feet at 1200 Van Ness Avenue. In the event that the lease agreement with Van Ness Post Center, LLC was not executed, the resolution authorized the Director of Property to negotiate a lease for alternative space consisting of similar size, rent, and terms, subject to final approval by the Board of Supervisors.²

In June 2013, the Board of Supervisors approved a resolution (File 13-0487) authorizing the Director of Real Estate to execute a five-year lease of up to 20,000 square feet, including the entire 4th floor and a portion of the 2nd floor at 1145 Market Street between the City as tenant, on behalf of the Law Library, and 1145 Market Street LP, as landlord, from July 1, 2013 through June 30, 2018. The lease included one five-year option to extend the term through June 30, 2023.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the (i) exercise of the five-year option to extend the 1145 Market Street lease between the Law Library, as tenant, and 1145 Market Street LP, as

¹ The Charter also requires the City to pay for the salaries of three positions in the Law Library budget including the: 1) Librarian, 2) Assistant Librarian, and 3) Bookbinder.

² According to John Updike, the Director of Property, the lease at 1200 Van Ness Avenue could not be executed for the Law Library because the landlord was able to negotiate higher rents and fewer tenant improvements with another tenant for the space.

landlord, from July 1, 2018 through June 30, 2023, and (ii) increase the annual rent from \$912,489.72 to \$1,180,000, an increase of \$267,510.28 or 29 percent, in the initial year of FY 2018-19 with 3 percent annual increases. Table 1 below summarizes the terms and conditions of the current and proposed lease extension.

Table 1. Summary of Current and Proposed Lease Details

	Current Lease	Proposed Lease
Premises	20,000 square feet	20,000 square feet
Base Rent (monthly)	\$76,040.81	\$98,333.33
Operating Expenses (monthly)	\$2,021.18 for electricity and ventilation for Saturday hours. Janitorial services, maintenance and all other operating costs to be paid by the landlord.	\$2,021.18 for electricity and ventilation for Saturday hours. Janitorial services, maintenance and all other operating costs to be paid by the landlord.
Early Termination Provision	Permits early termination by City with 180 day written notice and repayment of landlord's unamortized costs.	Permits early termination by City with 180 day written notice and repayment of landlord's unamortized costs.
Base Rent Increase Date	Annually on July 1	Annually on July 1
Base Rent Increase Amount	4% (annually)	3% (annually)
Term of five year extension	July 1, 2013 to June 30, 2018	July 1, 2018 to June 30, 2023

Source: Real Estate Division

FISCAL IMPACT

The Law Library's existing annual rent for 1145 Market Street in FY 2017-18 is \$912,489.72, equal to approximately \$45.62 per square foot per year for 20,000 square feet. Under the proposed lease extension, the rent would increase to an annual rent rate of \$1,180,000, which is equal to approximately \$59 per square foot per year. As noted above, the total rent will increase from \$912,489.72 in FY 2017-18 to \$1,180,000 in FY 2018-19, an increase of \$267,510.28 or 29 percent.

The proposed annual rent rate of approximately \$59 per square foot (effective as of July 1, 2018) represents 90.1 percent of the current fair market rent established by an independent appraisal conducted by MAI appraisers Colliers International Valuation & Advisory Service³. According to Mr. Charles Dunn, Senior Real Property Officer at the Real Estate Division, the annual rent increase of 3 percent per year, beginning on July 1, 2018, reflects current typical lease agreements in the commercial real estate market.

As shown in Table 2 below, over the five-year term of the lease extension from July 1, 2018 through June 30, 2023, total rent to be paid by the Law Library is \$6,264,780 and the total cost for utilities is estimated at \$132,632, resulting in a total cost of \$6,397,412 for the proposed five-year lease extension. This total cost, including utilities, would be paid from the City’s General Fund, subject to Board of Supervisors appropriation approval in the Law Library’s annual budget.

Table 2: Total Costs by Year under Proposed Lease Extension

Lease Year	Annual Rent	Annual Operating Costs	Total Cost
FY 2018-19	\$1,180,000	\$24,982	\$1,204,982
FY 2019-20	1,215,400	25,731	1,241,131
FY 2020-21	1,251,862	26,503	1,278,365
FY 2021-22	1,289,418	27,298	1,316,716
FY 2022-23	1,328,100	28,117	1,356,218
Total	\$6,264,780	\$132,632	\$6,397,412

Source: Real Estate Division

According to Mr. Dunn, the City would have to negotiate a new lease or relocate after the proposed five-year lease extension expires on June 30, 2023.

POLICY CONSIDERATION

Pending Litigation

On February 5, 2013, the Law Library filed a Writ of Mandate against the City and the County Administrator alleging that “at least 30,000 gross square feet is required for any space to be at least minimally adequate” for the Law Library. According to Deputy City Attorney Andrew Shen, the litigation between the Law Library and the City is currently pending, although there has been no activity in the case since June 2013. As the City is not aware of any concerns regarding

³ Per City Charter Section 23.27, if the consideration to be paid by the City for the lease as base rent is more than \$60 per square foot per year, the Director of Property, on behalf of the department concerned shall obtain an Appraisal Review for such appraisal. A Fair Market Rent appraisal by MAI appraisers Colliers International Valuation & Advisory Service established the Fair Market Rent as \$65.50 per square foot (or \$1,310,000 annually). 95% of that Fair Market Rent determination is \$1,244,500 (or approximately \$62.23 per square foot). According to Mr. Dunn, the Real Estate Division negotiated the proposed rent to be \$64,500 per year less than the 95% of that Fair Market Rent. According to Mr. Dunn, pursuant to the terms of the Lease, the City exercised its option to extend the term of the Lease, subject to Board of Supervisor’s approval, prior to the June 30, 2017 option notice deadline as required by the Lease. From July to September 2017, the Landlord and City negotiated the proposed \$59 per square foot renewal rate.

the Law Library's current location and facilities, the City Attorney's Office anticipates that this matter will be formally dismissed in 2018.

RECOMMENDATION

Given the 2013 litigation filed by the Law Library against the City that is currently pending, approval of the proposed resolution is a policy decision for the Board of Supervisors.

Item 7 File 17-1078	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
Legislative Objectives	
<ul style="list-style-type: none"> • The proposed resolution would approve Modification #10 to the contract between the Airport and CAGE, Inc. (CAGE) for construction management services to the International Terminal Checked Baggage Inspection System and Baggage Handling System modernization projects. 	
Key Points	
<ul style="list-style-type: none"> • The Airport entered into a construction management services contract with CAGE in 2011. The Airport has modified the contract nine times, extending the term through September 2017 and increasing the contract amount to \$9,945,000. Modification #10 extends the contract end date by one year from September 30, 2017 to September 30, 2018 and increases the contract amount by \$750,000 from \$9,945,000 to \$10,695,000. • The proposed resolution would also authorize the Airport to enter into future contract modifications with CAGE without Board of Supervisors approval to increase the contract amount from \$10,695,000 to \$14,500,000 and extend the contract term through December 31, 2020. According to the Airport, the current Airport Commission's policy is to renew construction management services agreements on an annual basis; the Airport is requesting to increase the contract amount and extend the contract term in the future without Board of Supervisors approval because the Airport anticipates further annual modifications for CAGE to complete construction management work at the International Terminal. • The Budget and Analyst recommends approval of Modification #10. Because approval of future modifications without further Board of Supervisors approval does not conform to Charter Section 9.118(b), approval of future contract modifications is a policy matter for the Board of Supervisors. 	
Fiscal Impact	
<ul style="list-style-type: none"> • The budget for the Checked Baggage Inspection System and Baggage Handling System modernization projects is \$177,000,000, of which \$100,574,183 is reimbursed by TSA, resulting in net costs to the Airport of \$76,425,817. 	
Recommendations	
<ul style="list-style-type: none"> • Amend the proposed resolution to provide for retroactive approval to September 30, 2017. • Approve the proposed Modification #10. • Approval of future contract modifications without further Board of Supervisors approval is a policy matter for the Board. 	

MANDATE STATEMENT

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

BACKGROUND

The San Francisco International Airport (Airport) five-year Capital Improvement Program includes upgrade and replacement of the International Terminal Checked Baggage Inspection System and Checked Baggage Handling System, and control upgrades and improvements to the Baggage Handling System. The Airport entered into an agreement with the Transportation Security Administration (TSA) to reimburse the Airport for part of the Airport’s costs to modernize the Checked Baggage Inspection System and the Baggage Handling System.

In June 2011, the Airport entered into a construction management services contract with CAGE, Inc. (CAGE), following a competitive Request for Proposals (RFP), for modernization of the Checked Baggage Inspection System and the Baggage Handling System at the International Terminal and Terminal 3 Boarding Area F. The initial contract between the Airport and CAGE was for the not to exceed amount of \$585,805 and an initial term of six months through December 2011 in order for CAGE to provide technical design review for the project. The Airport has modified the contract nine times, extending the term through September 2017 and increasing the contract amount by \$9,359,495, from \$585,505 to \$9,945,000, as shown in Table 1 below.

Table 1: Original Contract and Modifications

Contract and Modification	Begin		Amount	Increase
	Date	End Date		
Original Agreement	June 2011	Dec 2011	\$585,505	
Mod. #1	Dec 2011	Dec 2013	\$5,408,614	\$4,823,109
Mod. #2	July 2012	Dec 2013	\$6,189,414	780,800
Mod. #3	Dec 2013	June 2014	\$7,000,000	810,586
Mod. #4	June 2014	Dec 2014	\$7,800,000	800,000
Mod. #5	Dec 2014	Sep 2015	\$8,595,000	795,000
Mod. #6	Sep 2015	Sep 2016	\$9,945,000	1,350,000
Mod. #7	Sep 2015	Sep 2016	\$9,945,000	0
Mod. #8	Sep 2016	Sep 2017	\$9,945,000	0
Mod. #9	Sep 2016	Sep 2017	\$9,945,000	0
Total				\$9,359,495

According to Ms. Geri Rayca, Airport Contract Management Unit Manager, the Airport has entered into nine contract modifications for a contract total of \$9,945,000, which is \$55,000 less than the threshold amount of \$10,000,000 that requires Board of Supervisors approval under Charter Section 9.118(b), because the Airport typically awards professional service contracts for construction-related services on a one-year term with annual contract renewals.

According to Ms. Rayca, the nine contract modifications were both due to annual contract renewals and due to ongoing issues with the performance of TSA-furnished screening equipment that affected airline operational capacity. The Airport entered into a design-build contract for modernization of the Checked Baggage Inspection System and Baggage Handling System with VanDerLande Industries, Inc. in January 2012, but the Airport and TSA decided to put the project on hold and closed out the contract with VanDerLande in March 2015, after completion of the project at Terminal 3, but prior to completion of the project at the International Terminal. Close out of the VanDerLande contract required additional work for CAGE, including auditing and review of costs.

After agreeing with the TSA to resume the project, the Airport entered into a design-build contract with Skanska USA Building Inc. (Skanska) in May 2017 for the remaining Checked Baggage Inspection System and Baggage Handling System modernization projects at the International Terminal. The original agreement between the Airport and TSA to reimburse the Airport for the Checked Baggage Inspection System, and the Baggage Handling System modernization expired on September 26, 2016, but TSA allowed the Airport to include the International Terminal Checked Baggage Inspection System and Baggage Handling System modernization projects into another agreement, which had been designated for Terminal 1 work.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Modification #10 to the contract between the Airport and CAGE for construction management services to the International Terminal Checked Baggage Inspection System and Baggage Handling System modernization projects. Modification #10 extends the contract end date by one year from September 30, 2017 to September 30, 2018, and increases the contract amount by \$750,000 from \$9,945,000 to \$10,695,000.

The proposed resolution would also authorize the Airport to enter into future contract modifications with CAGE without Board of Supervisors approval to increase the contract amount from \$10,695,000 to \$14,500,000 and extend the contract term through December 31, 2020. According to Ms. Rayca, the Airport is requesting to increase the contract amount and extend the contract term without Board of Supervisors approval because the Airport anticipates further annual modifications for CAGE to complete construction management work at the International Terminal.

The current contract between the Airport and CAGE expired on September 30, 2017. Therefore, the proposed resolution should be amended to provide for retroactive approval.

FISCAL IMPACT

The budget for the Checked Baggage Inspection System and Baggage Handling System modernization projects in the International Terminal and Terminal 3 Boarding Area F¹ is

¹ As noted above, the Terminal 3 project was completed in March 2015.

\$177,000,000, of which \$100,574,183 is reimbursed by TSA, resulting in net costs to the Airport of \$76,425,817, as shown in Table 2 below.

Table 2: Project Budget and Reimbursements

Contractor	Budget
VanDerLande	\$83,000,000
Skanska	77,500,000
CAGE	14,500,000
Internal Costs	2,000,000
<i>Total Costs</i>	<i>\$177,000,000</i>
TSA Reimbursements Received	41,144,777
TSA Reimbursements Expected	59,429,406
<i>Total TSA Reimbursements</i>	<i>\$100,574,183</i>
Net Cost to Airport	\$76,425,817

The total contract not to exceed amount authorized by the proposed resolution is \$14,500,000, of which \$2,308,256 is reimbursed by TSA, for net costs to the Airport of \$12,191,744, as shown in Table 3 below.

Table 3: Summary of Estimated Payments to CAGE

Contract Modification	Authorized Amount	Paid to CAGE	Reimbursed by TSA	Net Cost to Airport
Initial Contract and Modifications 1-9	\$9,945,000	\$8,962,145	\$2,308,256	\$6,653,889
Modification 10 (Expected)	<u>750,000</u>	<u>1,732,855</u>	<u>0</u>	<u>1,732,855</u>
Subtotal	\$10,695,000	\$10,695,000	\$2,308,256	\$8,386,744
Future Modifications (Expected)	<u>3,805,000</u>	<u>3,805,000</u>	<u>0</u>	<u>3,805,000</u>
Total	\$14,500,000	\$14,500,000	\$2,308,256	\$12,191,744

The Budget and Analyst recommends approval of Modification #10 to increase the contract amount by \$750,000, from \$9,945,000 to \$10,695,000 and extend the contract end date by one year from September 30, 2017 to September 30, 2018. Because approval of future modifications without further Board of Supervisors approval does not conform to Charter Section 9.118(b), approval of future contract modifications to increase the contract amount by \$3,805,000, from \$10,695,000 to \$14,500,000, and extend the term to December 31, 2020 is a policy matter for the Board of Supervisors.

RECOMMENDATIONS

1. Amend the proposed resolution to provide for retroactive approval to September 30, 2017.
2. Approve the proposed Modification #10.
3. Approval of future contract modifications without further Board of Supervisors approval is a policy matter for the Board.

Item 8 File 17-1079	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution approves the Domestic Terminals Automated Teller Machines (ATMs) Lease “A” between Wells Fargo Bank and the City, acting through the Airport Commission, for a term of five years, to commence following Board approval, with a two-year option to extend, and a minimum annual guarantee of \$475,000 for the first year of the lease. <p>Key Points</p> <ul style="list-style-type: none"> • On February 21, 2017, the Airport Commission authorized staff to issue a Request for Bids (RFB) to lease 12 ATM locations in Terminals 1, 2, 3, and the Rental Car Center. Wells Fargo Bank, which has been the current tenant, was the lone bidder. • Under the proposed lease, Wells Fargo would pay the Airport the greater of the Minimum Annual Guaranteed (MAG) rent, initially \$475,000 per year, or 70 percent of gross revenues. The Airport expects to continue receiving the MAG amount, which has historically been greater than the ATM revenues. The MAG rent would be adjusted annually based on the Consumer Price Index. The term of the lease is five years, and the Airport has the option to extend for an additional two years. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • Under the five year term of the lease, the Airport will collect at least \$2,375,000 in revenue. If the Airport chooses to extend the lease, it would receive at least \$950,000 over the two year extension. Based on increases to the Consumer Price Index, the Airport would receive annual rents greater than \$475,000 in subsequent years. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of \$1 million or more, or (ii) have anticipated revenues of \$1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

On May 11, 2010, the Board of Supervisors approved San Francisco International Airport's (Airport) most recent Lease "A" with Wells Fargo Bank (File 10-0419) to locate ATMs in the Airport's domestic terminal. The lease, which was for a term of five years and an option to extend for an additional two years, expired on October 11, 2017 and is currently in holdover status. Wells Fargo currently pays the Minimum Annual Guaranteed (MAG) rent of \$599,290 for 11 ATM locations.

On February 21, 2017, the Airport Commission authorized the Airport staff to issue a Request for Bids (RFB) for Lease "A" to lease 12 ATM locations in Terminals 1, 2, 3 and the Rental Car Center. In the RFB, the minimum bid allowed for the first year of the lease was \$150,000. An informational meeting was held on April 6, 2017 and attended by seven companies.

On May 16, 2017, the Airport Commission authorized staff to accept bids. Wells Fargo Bank was the lone bidder, with an initial year MAG bid of \$475,000. The Airport Commission approved the lease on August 15, 2017.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a lease with Wells Fargo Bank for a term of five years from approximately January 1, 2018 through December 31, 2022, with one option to extend the term for an additional two years to December 2024 at the Airport's sole discretion. Under the proposed lease, Wells Fargo would operate ATMs at the following 12 locations in the Airport's domestic terminals, which include the existing 11 locations and one new location:

- Four in Terminal 1, of which two are pre-security and two are post-security;
- Three in Terminal 2, of which two are pre-security and one is post-security;
- Four in Terminal 3, of which two are pre-security and two are post-security; and
- One in the Rental Car Center lobby.

The base rent for the lease is the greater of the MAG amount of \$475,000 or 70 percent of gross revenues. The MAG would be adjusted annually based on the Consumer Price Index and shall never be reduced from the previous year. Gross revenues are transaction fees assessed to customers using cards from other banks. The maximum transaction fee allowed under the proposed lease is \$2.50, which is an increase over the current maximum fee of \$1.50. According to Mr. Trevor Brumm, Airport Principal Property Manager, the Airport expects to continue receiving the MAG amount, which has historically been significantly greater than the gross

revenues generated from transaction fees. The Rent Commencement Date will be once all ATMs are in operation, expected to be in early 2018.

FISCAL IMPACT

The MAG rent in the first year of the proposed lease is \$475,000. Over the five year term, the Airport would collect at least \$2,375,000. If the Airport decides to extend the term, it would receive at least \$950,000 for the additional two years. The MAG would be adjusted annually based on the Consumer Price Index, but would never decrease from the previous year.

The MAG collected by the Airport in the first year of the new lease is \$124,290 less than the current MAG of \$599,290. According to Mr. Brumm, the Airport set the minimum MAG in the RFB at \$150,000 to attract more bidders. However, Wells Fargo was the lone bidder, and according to Mr. Brumm, smaller banks may have not bid with the assumption that they could not outbid the larger banks. Wells Fargo collected \$100,890 in gross revenues from the ATMs in FY 2016-17, which was significantly less than the MAG rent of \$599,290 paid by Wells Fargo to the Airport. According to Mr. Brumm, part of Wells Fargo's interest in the ATM lease is for marketing and visibility to airport travelers, especially since it is headquartered in San Francisco.

RECOMMENDATION

Approve the proposed resolution.

Items 9 and 10 Files 17-1080 and 17-1081	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolutions approve the terms of San Francisco International Airport’s (Airport) 2011 Lease and Use Agreement between the City, acting through the Airport Commission, and (i) Air Pacific Limited (Fiji Airways) (File 17-1080) and (ii) Air India Limited (Air India) (File 17-1081) to conduct flight operations at the Airport for a term of approximately four years and seven months through June 30, 2021. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In 2011, the Airport negotiated a new Lease and Use Agreement (2011 Lease) with its domestic and international airlines. The 2011 Lease allows airlines to provide flight operations and rent terminal space at the Airport with a common set of provisions, including rent and landing fees, permitted uses, and use of common facilities. The 2011 Lease will expire June 30, 2021. • Air India and Fiji Airways began conducting flight operations at the Airport under Operating and Use Permits executed in December 2015 and June 2016, respectively. Both airlines now wish to sign onto to 2011 Lease. • International Terminal Joint Use Space rent is determined annually by formula, with 20 percent of total rent divided equally between all airlines, and 80 percent assessed proportionally based on the number of passengers traveling on each airline each year. • Landing Fees are determined annually as part of the Airport Rates and Charges. The current fees for FY 17-18 are \$5.24 per 1,000 pounds for airlines that have signed the 2011 Lease, and \$6.55 per 1,000 pounds for airlines that have not. Fiji Airways and Air India would receive a 20 percent fee reduction after signing the lease. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • In FY 17-18, the Airport expects to receive approximately \$1,450,513 in Joint Use Space rent and \$234,000 in Landing Fees from Fiji Airways, and approximately \$1,869,766 in Joint Use Space rent and \$470,000 in Landing Fees from Air India. • As there are many variables that affect the Joint Use Space rent and Landing Fees, it is difficult for the Airport to project revenues in future years. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of \$1 million or more, or (ii) have anticipated revenues of \$1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

In 2011, the San Francisco International Airport (Airport) negotiated a new Lease and Use Agreement (2011 Lease) with its domestic and international airlines. The 2011 Lease allows airlines to provide flight operations and rent terminal space at the Airport and provides a common set of lease provisions that are used for these airlines. Such provisions include rent and landing fees paid by the airlines to the Airport, permitted uses of the premises, use of common facilities, and numerous other provisions. The 2011 Lease will expire on June 30, 2021.

Air India Limited (Air India) and Air Pacific Limited (Fiji Airways) commenced flight operations at the Airport under Operating and Space Permits executed in December 2015 and June 2016, respectively. Both airlines now wish to sign onto the 2011 Lease. By signing the 2011 Lease, the airlines will continue paying the same Shared Use Fees, but will receive a 20 percent discount on Landing Fees. The Airport Commission approved the 2011 Lease with Air India and Fiji Airways on July 25, 2017.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve two leases of approximately three years and seven months, from December 1, 2017 through June 30, 2021 between the Airport as landlord and (i) Fiji Airways (File 17-1080) and (ii) Air India (File 17-1081) as tenants to conduct flight operations at the Airport. The key provisions of the 2011 Lease for the two airlines are summarized in Table 1 below.

Table 1: Key Provisions of 2011 Lease for Air India and Fiji Airways**Lease Terms – Air India and Fiji Airways**

Term	Approximately three years and seven months, from the first day of the month following full City approval through June 30, 2021
International Terminal Joint Use Space	627,414 square feet
International Terminal Joint Use Space Rent	Determined annually by formula: 20% divided equally between all airlines, 80% assessed proportionally based on number of airline passengers
Landing Fees	Determined annually by Airport Rates and Charges; currently \$5.24 per 1,000 pounds for FY 17-18
Deposit	Two months of Terminal Area Rentals, Landing Fees, usage fees per rates and charges

FISCAL IMPACT

Under the 2011 Lease, Fiji Airways and Air India will rent Joint Use Space in the International Terminal. Joint Use Space rent is determined annually by a formula, with 20 percent of the total rent assessed equally to all airlines, and 80 percent assessed proportionally based on the number of inbound and outbound passengers traveling on each airline each year. The Joint Use Space Formula is used to determine rent for all airlines in service at the Airport, regardless of whether or not the airline has signed onto the 2011 Lease. According to Mr. Dan Ravina, Airport Senior Property Manager, in FY 2017-18 Fiji Airways is currently expected to pay approximately \$1,450,513 in Joint Use Space rent, and Air India is expected to pay approximately \$1,869,766. However, the charges will be recalculated in November 2017, as two other airlines are terminating their operations at the Airport.

In addition to Joint Use Space rent, airlines also pay Landing Fees to the Airport, which are set annually as part of the Airport Rates and Charges. The current Landing Fee for FY 2017-18 is \$5.24 per 1,000 pounds for airlines that have signed the 2011 Lease, and \$6.55 per 1,000 pounds for airlines that have not signed the 2011 Lease. By signing onto the 2011 Lease, Fiji Airways and Air India would receive an approximate 20 percent cost reduction on Landing Fees. According to Mr. Sean Murphy, Airport Senior Administrative Analyst, Fiji Airways is expected to pay approximately \$234,000 and Air India is expected to pay \$470,000¹ in Landing Fees in FY 17-18.

A summary of projected rent and fees paid by Fiji Airways and Air India is shown in Table 2 below. As there are many variables that affect these rates, it is difficult for the Airport to confidently project revenues in future years.

¹ Air India currently participates in the Air Carrier Incentive Program (ACIP), which waives landing fees for up to two years for carriers that provide service to new international destinations. Air India, which provides service to Delhi, India, is eligible to participate in ACIP through November 30, 2017.

Table 2: Anticipated Rent and Fees Paid by Fiji Airways and Air India in FY 17-18

Airline	Joint Use Space Rent	Landing Fees	Total
Fiji Airways (File 17-1080)	\$1,450,513	\$234,000	\$1,684,513
Air India (File 17-1081)	1,869,766	470,000	2,339,766
Total	\$3,320,279	\$704,000	\$4,024,279

RECOMMENDATION

Approve the proposed resolutions.