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: September 23, 2020 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution retroactively approves a first amendment to the contract between the Human Services Agency (HSA), and Allied Universal Security for the provision of unarmed security services, to (i) increase the amount by $7,888,248 from $9,333,840 for a total amount not to exceed $17,222,088 to commence July 15, 2020; and (ii) to revise the contract term end date from sixty calendar days after expiration of the Local Emergency as declared by the Mayor to December 31, 2020, for an amended agreement term of April 1, 2020, through December 31, 2020.

Key Points

- In April 2020, the Human Services Agency (HSA) awarded a COVID-19 Emergency contract to Allied University Security for $9,333,840 to provide unarmed security guard services at various COVID-19 temporary quarantine facilities for the contract term of April 1, 2020 through sixty calendar days after expiration of the Local Emergency.
- The purpose of the proposed contract amendment is to provide additional time to transition to four new security service vendors procured through a COVID Emergency Bid for Unarmed Security Services issued in May. HSA intended to procure and transition to lower-cost replacement vendors to all sites before July 15, 2020. However, onboarding new vendors and transferring sites from Allied University Security to the new taken longer than expected.

Fiscal Impact

- HSA expects FEMA funds to pay for 65.3 percent of the costs and approximately 34.7 percent of the remaining costs will be funded by the CARES Act Emergency Support Grant. HSA anticipates needing to staff eight sites with Allied security guards from September through December 2020 during the transition to the new replacement vendors.

Policy Consideration

- When the COVID-19 Emergency contract with Allied Universal Security was executed in April 2020, the vendor’s billing rates were $75/hour for April and part of May, and were later reduced to $65 for part of May and June. The billing rate from July 1 through the proposed contract end date of December 31, 2020 is $50/hour.
- According to an analysis conducted by the BLA Office comparing the $65/hour and $50/hour billing rate, the security officer blended pay rate stayed the same at $29.17. The higher rates charged by Allied Security in May and June were not to increase security officer wages, but instead compensated branch overhead, vehicle costs, corporate services, insurance, and management/supervision.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

On February 25, 2020, the Mayor issued a proclamation declaring a local emergency because of the COVID-19 pandemic health crisis. On March 17, 2020, the County of San Francisco Health Officer ordered San Francisco residents to shelter in place to control the spread of COVID 19. The intent of the order was for individuals to self-isolate as much as possible to prevent infection from the virus. The order specifically exempted homeless individuals but urged the City to take steps to provide shelter for these individuals.

In April 2020, the Board of Supervisors approved an emergency ordinance[1] to require the City to secure 8,250 private rooms by April 26, 2020, through service agreements with hotels and motels for use as temporary quarantine facilities for people currently experiencing homelessness, people released from local hospitals with COVID-19 exposure or infection, and front-line workers in the COVID-19 crisis (File 20-0363).

In April 2020, the Human Services Agency (HSA) awarded a COVID-19 Emergency contract with Allied University Security for $9,333,840 to provide unarmed security guard services at various COVID-19 temporary quarantine facilities for the contract term of April 1, 2020 through sixty calendar days after expiration of the Local Emergency. Because the contract was less than $10 million and less than 10 years, the contract did not require Board of Supervisors' approval. According to Ms. Elizabeth Leone, HSA Senior Contracts Manager, the contract was procured under Administrative Code 21.15 – Emergency Procurement Procedures[2] in response to the need for unarmed security services at quarantine facilities given the COVID-19 health crisis and shelter-in-place order. Consequently, rather than issuing a Request for Proposals (RFP), HSA chose the vendor because of an existing contract with Allied Universal Security for $13,974,576 from July

[1] The emergency ordinance required the City to secure 8,250 private rooms by April 26, 2020, through service agreements with hotels and motels for use as temporary quarantine facilities for people currently experiencing homelessness, people released from local hospitals with COVID-19 exposure or infection, and front-line workers in the COVID-19 crisis; waive the requirement under Charter, Section 9.118, that the Board of Supervisors approve the service agreements for private rooms; require daily reporting to the Board of Supervisors on the City's progress in procuring and providing the needed rooms; require congregate care facilities for the homeless to comply with social distancing practices and implement COVID-19 screening protocols; and direct the City to use best efforts to enable people leaving congregate care facilities for temporary rooms provided by the City to subsequently return to congregate care facilities.

[2] Administrative Code Section 21.15 – Emergency Procurement Procedures allows departments to enter into emergency contracts without a competitive solicitation. Contracts with values greater than $100,000 require Board of Supervisors approval "as soon as possible." As noted above, the Department has not sought Board of Supervisors approval for the existing contract with Allied Security, which was executed in April 2020.

1, 2018 through June 30, 2021 for the provision of security services at HSA facilities, which was approved by the Board of Supervisors in May 2018 (File 18-0418) and selected through a competitive solicitation process.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution retroactively approves a first amendment to the contract between the Human Services Agency (HSA), and Allied Universal Security for the provision of unarmed security services, to (i) increase the amount by $7,888,248 from $9,333,840 for a total amount not to exceed $17,222,088 to commence July 15, 2020; and (ii) to revise the contract term end date from sixty calendar days after expiration of the Local Emergency as declared by the Mayor to December 31, 2020, for an amended agreement term of April 1, 2020, through December 31, 2020. According to Ms. Leone, the proposed resolution was introduced on August 24, 2020, or approximately five weeks after the estimated budgeted expenditure authority of the contract was reached, because, as noted below, HSA had experienced delays in transitioning to new security contracts, and therefore needed to continue services provided by Allied until the new vendors were in place.

Services Provided

The purpose of this contract is to provide unarmed security services for HSA's COVID-19 Alternative Housing Program, which provides hotel rooms to residents to quarantine and isolate. The scope of security services under this contract includes providing assistance and information, maintaining order, deterring intrusion, disputes, violence, theft and vandalism, and responding to emergencies. Each guard shift is 24 hours and coverage is 7 days a week. The City may adjust the hourly and site requirements as needed throughout the term of the contract.

Transition to New Vendors

According to Ms. Leone, the purpose of the contract amendment is to provide additional time to transition to four new security service vendors[3] procured through a COVID Emergency Bid for Unarmed Security Services issued by HSA on May 27, 2020. Ms. Leone states that the Department intended to procure and transition competitively priced, lower-cost replacement vendors to all sites before July 15, 2020. However, onboarding new vendors and transferring sites from Allied University Security to the new vendors has taken longer than expected. According to Mr. Vladimir Rudakov, the Director of Investigations/Program Integrity at HSA, the new vendors have been unable to hire enough employees to staff up sites. Consequently, under the proposed amendment, the department anticipates that Allied Universal Security will provide approximately 22,300 hours of labor per month from September through December 2020, and approximately 44,530 hours of labor in August 2020[4], until HSA is able to gradually transition

[3] The four new vendors are A1 Protective Services, Inc., Patrol Solutions, LLC, VIP Security Specialist, and Comprehensive Security Services, Inc. According to Mr. David Kashani, HSA Contracts Manager, all four contracts have been executed, and each contract is less than $10 million and less than 10 years. Therefore, the contracts did not require Board of Supervisors' approval. The solicitation was generally conducted by HSA as a "low bid", whereby the lowest responsive bidder(s) were awarded the contracts.

[4] Information on actual hours of labor in August are not available yet.

services at sites to the new lower-cost vendors. According to Mr. David Kashani, HSA Contracts Manager, since the proposed resolution has been submitted, HSA's new vendors have made significant progress in taking over sites from Allied. HSA is requesting the full amount to be approved to ensure that there is enough contract authority to cover any unforeseen transition challenges with the new vendors.

Performance Monitoring

According to Ms. Leone, performance monitoring is tracked through time sheets to ensure security guards are present on sites, as well as incident reports from Site Managers. The primary contract objective is to provide 24 hours a day, 7 days a week security services at temporary quarantine facilities. Timesheets are submitted as supporting documentation to the department with the vendor invoices. Incident reports are filed by Site Managers if security guards are not on site or not performing their duties correctly and reported to the vendor to be addressed and/or to dispatch a replacement.

FISCAL IMPACT

Table 1 below summarizes the sources and uses of the proposed contract spending.

Table 1. Sources and Uses of Funds for Proposed Allied Universal Security Contract (April through December 2020)

Sources of Funds	April through July 15, 2020[5] (Actual)	July 16 through December 2020 (Proposed)	Total
FEMA	$5,335,092	$5,148,233	$10,483,325
CARES Act COVID Relief Fund (CRF)	$3,588,848	$0	$3,588,848
CARES Act Emergency Support Grant (ESG)	$409,901	$2,740,015	$3,149,915
Total Sources	**$9,333,840**	**$7,888,248**	**$17,222,088**

Uses of Funds	April through July 15, 2020 (Actual)	July 16 through December 2020 (Proposed)	Total
Allied Security Guard Salaries	$9,333,840	$7,888,248	**$17,222,088**
Total Uses	**$9,333,840**	**$7,888,248**	**$17,222,088**

Source: Revised Appendix B-1 to Proposed First Modification

As shown in Table 1 above, for the proposed contract extension period, approximately 65.3 percent of the funding sources comes from FEMA, and approximately 34.7 percent is provided through the CARES Act Emergency Support Grant.

Table 2 below shows the proposed expenditures from July 16, 2020 through December 31, 2020 by site and proposed number of guards per shift. As shown in the table, HSA anticipates needing to staff eight sites with Allied security guards from September through December 2020 during

[5] According to Ms. Leone, June and July invoices have not been submitted by the vendor and are estimates.

the transition to the new replacement vendors. The billing rate from July 16, 2020 through December 31, 2020 per the proposed amendment is $50/hour.

Table 2. Proposed Expenditures for Allied Universal Security Contract (July 16, 2020 through December 31, 2020)

Site Number	Number of Guards per Shift	July 16-31, 2020	August 2020	September 2020	October 2020	November 2020	December 2020	Total
1	2							
2	4	$72,000	$146,016	$146,016	$146,016	$146,016	$146,016	**$802,080**
4	4	$72,000	$146,016	$146,016	$146,016	$146,016	$146,016	**$802,080**
5	2	$36,000	$73,008					**$109,008**
6	2	$36,000	$73,008					**$109,008**
7	2							
8	4	$72,000	$146,016	$146,016	$146,016	$146,016	$146,016	**$802,080**
10	10	$180,000	$365,040					**$545,040**
11	2							
16	3	$54,000	$109,512					**$163,512**
17	3	$36,000	$109,512					**$145,512**
25	3	$54,000	$109,512					**$163,512**
28	4	$72,000	$146,016	$146,016	$146,016	$146,016	$146,016	**$802,080**
29	2							
30	3							
31	3	$54,000	$109,512	$109,512	$109,512	$109,512	$109,512	**$601,560**
32	3.5	$63,000	$127,764	$127,764	$127,764	$127,764	$127,764	**$701,820**
33	3.5	$63,000	$127,764					**$190,764**
34	2	$0						
35	3	$54,000	$109,512					**$163,512**
38	2	$36,000	$109,512	$109,512	$109,512	$109,512	$109,512	**$583,560**
A	6	$108,000	$219,024	$219,024	$219,024	$219,024	$219,024	**$1,203,120**
F	4							
Total Expenditures		**$1,062,000**	**$2,226,744**	**$1,149,876**	**$1,149,876**	**$1,149,876**	**$1,149,876**	**$7,888,248**

Source: Revised Appendix B-1 to Proposed First Modification

POLICY CONSIDERATION

Billing Rates

As previously mentioned, HSA has an existing contract with Allied Universal Security for $13,974,576 from July 1, 2018 through June 30, 2021 for the provision of unarmed security services at HSA facilities, which was approved by the Board of Supervisors in May 2018 (File 18-

0418). Per the terms of this contract, the straight time billing rate for unarmed security services was $31.84/hour, and the overtime rate was $47.76/hour, with future modifications based on the Prevailing Wage.

When the COVID-19 Emergency contract with Allied Universal Security was executed in April 2020, the vendor's billing rates increased to $75/hour for April and part of May, and was later reduced to $65 for part of May and June. The billing rate from July 1 through the proposed contract end date of December 31, 2020 is $50/hour. According to Ms. Leone, the vendor stated that the $75/hour billing rate was based on a COVID-19 premium to protect assets in a crisis. According to an analysis conducted by the BLA Office comparing the $65/hour and $50/hour billing rate, the security officer blended pay rate stayed the same at $29.17. However, the "other" and "overhead" billing rate categories increased the most at approximately 177 percent and 74 percent. In the "other" billing rate category, the "management and supervision" line item had the highest increase at 310 percent. The vendor did not provide a billing rate breakdown for the $75/hour rate. Table 3 below shows the billing rate comparison.

Table 3. Allied Universal Security COVID-19 Security Services Contract Billing Rate Breakdown Comparison

	$50 Billing Rate	$65 Billing Rate	Percentage Change
Security Officer Blended Pay Rate	$29.17	$29.17	0.00%
Payroll Taxes			
FICA/Medicare	$2.23	$2.23	0.00%
Unemployment - Federal	$0.18	$0.18	0.00%
Unemployment - State	$0.44	$1.20	172.73%
Workers Compensation	$1.46	$2.19	50.00%
SF City Tax	$0.44	$0.44	0.00%
Total	*$4.75*	*$6.24*	*31.37%*
Benefits			
Health Care Insurance	$3.66	$5.00	36.61%
Life Insurance	$0.15	$0.29	93.33%
Vacation	$1.13	$1.46	29.20%
Sick Leave	$1.02	$1.57	53.92%
401k Retirement Plan	$0.24	$0.24	0.00%
Tuition as Assistance	$0.06	$0.06	0.00%
Uniforms	$0.55	$1.46	165.45%
Training	$0.67	$0.88	31.34%
Total	*$7.48*	*$10.96*	*46.52%*
Other			
Selection/Screening	$1.17	$1.25	6.84%
Management and Supervision	$1.6	$6.56	310.00%
General Liability Insurance	$0.73	$1.9	160.27%
Total	*$3.5*	*$9.71*	*177.43%*
Overhead			
Branch Overhead	$1.53	$3.57	133.33%
General and Administrative	$1.02	$1.02	0.00%
Corporate/Regional Services	$0.55	$0.58	5.45%
Nextel Radio/Phones	$0.57	$0.57	0.00%
Vehicle Lease/Maintenance	$0.58	$1.46	151.72%
Profit	$0.88	$1.75	98.86%
Total	*$5.13*	*$8.95*	*74.46%*
Total Bill Rate	**$50**	**$65**	**29.98%**

Source: BLA Analysis of Allied Universal Security Billing Rates

As shown above, the higher rates charged by Allied Security in May and June were not to increase security officer wages, but instead compensated branch overhead, vehicle costs, corporate services, insurance, and management/supervision.

As previously mentioned, the proposed contract amendment is needed for additional time to transition services at sites to the new lower-cost vendors due to the new vendors' challenges with recruitment and staffing. According to Ms. Leone, the new vendors' billing rates range from $35 to $40.30/hour.

Finally, as previously mentioned, the proposed contract with Allied Universal Security could be extended again if the transition to the new replacement vendors does not occur before December 31, 2020, if there are significant challenges in vendor transition.

RECOMMENDATION

Approve the proposed resolution.

Item 2 **File 20-0786** *Continued from 9/16/20*	**Department:** General Services Agency - Department of Public Works (DPW)

EXECUTIVE SUMMARY

Legislative Objectives

- This report is based on the proposed substituted ordinance (File 20-0786) to be submitted to the September 23, 2020 Budget and Finance Committee.
- The proposed ordinance, as substituted, would: (1) codify the City's Shared Spaces Program and extend it to December 31, 2022; and (2) waive for a two-year period retroactive from April 15, 2020 through April 15, 2022 permit renewal fees: (i) in the Public Works Code for café tables and chairs on public sidewalks and roadway areas and for display of fruits and vegetables or nonfood merchandise on public sidewalks, and (ii) imposed under Department of Public Works Order 183392 for use of parklets**.**

Key Points

- The COVID-19 pandemic and Shelter-in-Place Order have reduced restaurant dining and other small business activity. Under San Francisco's current health orders, indoor restaurant dining is not permitted. Other service businesses, such as retail, may not be operating at full capacity indoors due to social distancing requirements. The Public Works Code allows businesses to set up café tables and chairs on sidewalks and other public right-of-way but requires businesses to obtain permits and conform to guidelines issued by the Director of Public Works. According to the proposed ordinance, permit renewal fees are unnecessary burdens to businesses that seek to use public rights-of-way.

Fiscal Impact

- The fiscal impact of the proposed ordinance is difficult to estimate due to uncertainty about the future of the COVID-19 pandemic. In FY 2018-19, the last fiscal year before the COVID-19 pandemic, Public Works received $662,496 in permit and renewal fees. If fee revenues were to continue at the FY 2018-19 level, the estimated fees waived over the two-year period of the proposed ordinance would be approximately $1,324,992. However, this amount includes revenues from new application fees, some of which would not be waived under the proposed ordinance, as amended. Therefore, the actual amount of fees waived by the proposed ordinance would likely be less than this amount.

Recommendation

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

MANDATE STATEMENT

According to City Charter Section 2.105, all legislative acts shall be by ordinance and require the affirmative vote of at least a majority of the members of the Board of Supervisors.

BACKGROUND

The COVID-19 pandemic and Shelter-in-Place Order have reduced restaurant dining and other small business activity. On June 11, 2020, San Francisco Health Officer issued an order allowing outdoor dining to reopen, after nearly three months of closure. On July 13, 2020, Governor Gavin Newsom ordered that indoor dining was prohibited statewide. On August 28, 2020, Governor Newsom unveiled a new tiered system that allowed certain businesses to open based on the case rate in each county and local health orders. As of the writing of this report, San Francisco is in the "red" State tier, which allows indoor dining at 25 percent of a restaurant's capacity. However, City health officials have not permitted indoor dining to resume. Other service businesses, such as retail, may operate indoors but with limited capacity due to social distancing requirements.

The Public Works Code allows businesses to set up café tables and chairs on sidewalks and other public right-of-way but requires businesses to obtain permits and conform to guidelines issued by the Director of Public Works. According to the proposed ordinance, permit renewal fees are unnecessary burdens to businesses that seek to use public rights-of-way.

Public Works Order 203498 allows businesses to apply for permits to temporarily occupy sidewalks and parking spaces as part of the City's "Shared Spaces" program and contains guidelines for use. Under that Order, these temporary permits expire December 31, 2020, unless extended by the City.

Public Works Order 183392 provides guidance for temporary installation of sidewalk extensions (parklets). That Order provides implementation guidance for sidewalk landscaping use permits allowed by Public Works Code Article 16, Section 810B.

DETAILS OF PROPOSED LEGISLATION

This report is based on the proposed substituted ordinance (File 20-0786) to be submitted to the September 23, 2020 Budget and Finance Committee.

The proposed ordinance, as substituted, would:

(1) codify the City's Shared Spaces Program and extending it to December 31, 2022; and

(2) waive for a two-year period retroactive from April 15, 2020 through April 15, 2022 permit renewal fees: (i) in the Public Works Code for café tables and chairs on public sidewalks and roadway areas and for display of fruits and vegetables or nonfood merchandise on public sidewalks, and (ii) imposed under Department of Public Works Order 183392 for use of parklets.

Consideration of the originally proposed ordinance at the September 16, 2020 Budget and Finance Committee meeting, was continued to allow sponsors to draft substituted. As of the writing of this report, the proposed substituted ordinance would:

1. Waive fees to businesses with renewal dates of April 15, 2020 or later. Any fees collected for café tables and chairs or display merchandise after April 15, 2020 would be reimbursed.
2. Waive fees through April 15, 2022.
3. Clarify that the parklet fees refer to those referenced in Public Works Order 183392.[1]
4. Extend the City's Shared Spaces Program through December 31, 2022. As noted above, currently, under Public Order 203498, the temporary permits associated with this program expire December 31, 2020. Businesses with these Shared Spaces permits would not have to obtain table and chair or merchandise display permits from Public Works.

Waiver of Fees

The proposed ordinance would waive the Public Works fees shown in Table 1 below.

Table 1: Public Works Fees Waived by the Proposed Substituted Ordinance

Category	Fee	Fee Amount (FY 2020-21)	Waived in Substituted Ordinance
Café Tables and Chairs (Annual)	New	\$148 + \$8/square foot	With Shared Space permit
	Renewal	\$74 + \$7/square foot	Yes
	With prior departmental enforcement action[2]	\$148 + \$10/square foot	Yes
Merchandise Display	Annual	\$160 + \$11/square foot	Yes
Use of Parklets	New Application	\$306	With Shared Space permit
	Inspection Fee	\$244	With Shared Space permit
	Renewal	\$306	Yes

Source: Public Works

Note: The proposed ordinance only waives fees charged by Public Works for parklets, and does not include fees that may be charged by the San Francisco Municipal Transportation Agency or other City agencies pursuant to Administrative Code Section 94A.11.

FISCAL IMPACT

According to Mr. Devin Macaulay, Public Works Budget Manager, Public Works received \$662,496 in fees for café tables and chairs, sidewalk merchandise display, and use of parklets in FY 2018-19, the last fiscal year before the COVID-19 pandemic. This amount includes both renewal fees, which would be waived by the proposed ordinance, as substituted, and new application fees, some of which would not be waived by the proposed ordinance, as substituted. Fee revenue is shown in Table 2 below.

[1] The draft substituted ordinance refers to Public Works Order 188,392, however the correct reference is Public Works Order 183,392.

[2] According to Public Works Code Section 176, both the Department of Public Works and Department of Public Health may enforce compliance with permit requirements. Public Works Code Section 2.1.1 provides for a higher fee to be charged to businesses that have had a prior departmental enforcement action.

Table 2: Permit Fee Revenues, FY 2018-19

Category	Fees Received
Café Tables and Chairs	$505,145
Sidewalk Display	140,240
Use of Parklets	17,111
Total	**$662,496**

Source: Public Works

The fiscal impact of the proposed ordinance is difficult to estimate due to uncertainty about the future of the COVID-19 pandemic. If fee revenues were to continue at the FY 2018-19 level, the estimated fees waived over the two-year period of the proposed ordinance would be approximately $1,324,992. However, this amount includes revenues from new application fees, some of which would not be waived under the proposed ordinance, as substituted. Therefore, the actual amount of fees waived by the proposed ordinance would likely be less than this amount.

RECOMMENDATION

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

Item 3 File 20-0543	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a ten-year lease between the Airport, as landlord, and Books, Inc., as tenant, at Terminal 2 for a Minimum Annual Guaranteed (MAG) rent of $220,000 for the first year of the lease.

Key Points

- In October 2019, the San Francisco International Airport (Airport) issued a Request for Proposals (RFP) for the lease of a bookstore in Terminal 2.
- In January 2020, the Airport received one proposal from Books, Inc. in response to the RFP. An evaluation panel reviewed and scored the proposal, determining that the proposal met the RFP's minimum qualifications and requirements. In addition, Books, Inc. was determined to be a responsive and responsible proposer. Books, Inc. scored 89.67 out of a total of 100 points. In March 2020, the Airport Commission approved the Terminal 2 bookstore lease with Books, Inc.

Fiscal Impact

- Under the proposed lease terms, Books, Inc. is required to pay the Airport the greater of the Minimum Annual Guaranteed (MAG) rent of $220,000 (adjusted annually according to the CPI) or the following tiered percentage rent: 8 percent of gross revenues achieved up to and including $2,000,000, plus 10 percent of gross revenues achieved over $2,000,000. The Airport would receive at least $2,200,000 in MAG rent over the proposed ten-year lease term, before adjusting for inflation.
- Section 4.16 of the proposed lease provides for the MAG rent to be suspended if Airport enplanements drop below 80 percent of 2019 levels for three consecutive months. The MAG is then reinstated if enplanements increase back to at least 80 percent of 2019 levels for two consecutive months. When the MAG is suspended, Books, Inc. would still pay percentage rent, which may be lower than the MAG. The Airport states that the MAG will likely be suspended at the beginning of the lease due to the impact of COVID-19 on air travel.

Recommendation

- Approve the proposed resolution.

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.

BACKGROUND

In October 2019, the San Francisco International Airport (Airport) issued a Request for Proposals (RFP) for the lease of a bookstore in Terminal 2. The RFP called for a retail bookstore space to sell newspapers, periodicals, paperback and hardback books, book-related items, greeting cards, stationary supplies, and seasonal items. The lease would have a base term of ten years and a period of up to 120 days for construction of tenant improvements.

In January 2020, the Airport received one proposal from Books, Inc. in response to the RFP. According to Ms. Veronica Zamani, Airport Principal Property Manager, the Airport only received one proposal because the lease is for one specialty retail location, which may not be as attractive to retailers seeking leases for several locations that have historically generated more revenue.

An evaluation panel[1] reviewed and scored the proposal, determining that the proposal met the RFP's minimum qualifications and requirements. In addition, Books, Inc. was determined to be a responsive and responsible proposer. Books, Inc. scored 89.67 out of a total of 100 points. In March 2020, the Airport Commission approved the Terminal 2 bookstore lease with Books, Inc.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a ten-year lease between the Airport, as landlord, and Books, Inc., as tenant, at Terminal 2 for a Minimum Annual Guaranteed (MAG) rent of $220,000 for the first year of the lease. Table 1 below summarizes the lease provisions.

[1] The panel consisted of the following: an SFO Airport Duty Manager, a private sector architect, and the Director of Concessions at Los Angeles International Airport.

Table 1: Summary of Lease Provisions

Tenant	Books, Inc.
Operating Term	10 years
Options to Extend	None
Square Footage	2,972
Rent	Greater of MAG or Percentage Rent
Initial MAG Rent	$220,000
MAG Adjustment	Adjustment to occur every January 1st according to Consumer Price Index (CPI)
Percentage Rent of Gross Revenues[2]	8 percent of gross revenues achieved up $2,000,000, plus 10 percent of gross revenues achieved over $2,000,000
Promotional Fee	$1 per square foot per year, which equals $2,972 annually
Interim Rent During Construction	16 percent of Gross Revenues
Deposit Amount	One-half of the initial MAG. The deposit amount can be adjusted and increased during the lease term as the MAG escalates.
Minimum Investment Amount to Improve Premises	$500 per square foot, totaling $1,486,000, and paid by the tenant, and subject to Airport approval.

Source: Proposed Lease with Books, Inc.

According to Ms. Zamani, the proposed lease is anticipated to commence in May 2021.

FISCAL IMPACT

Under the proposed lease terms, Books, Inc. is required to pay the Airport the greater of the Minimum Annual Guaranteed (MAG) rent[3] of $220,000 (adjusted annually according to the CPI) or the following tiered percentage rent: 8 percent of gross revenues achieved up to and including $2,000,000, plus 10 percent of gross revenues achieved over $2,000,000. According to Ms. Zamani, the Airport would receive at least $2,200,000 in MAG rent over the proposed ten-year lease term, before adjusting for inflation.

[2] Percentage rent of 8 percent for gross revenues up to $2 million and 10 percent for gross revenues above $2 million were advertised in the RFP. According to Ms. Zamani, this percentage rent structure is based on the historical performance of bookstore concepts at SFO and their associated rent structures.

[3] The Airport calculates the MAG rent by projecting gross sales based on previous lease performance, applying the percentage rent structure and then reducing the amount by 10 to 15 percent to allow for proposers to have a floor for their Minimum Annual Guarantee Offer, which is part of the evaluation criteria.

MAG Suspension

Section 4.16 of the proposed lease provides for the MAG rent to be suspended if Airport enplanements drop below 80 percent of 2019 levels for three consecutive months. The MAG is then reinstated if enplanements increase back to at least 80 percent of 2019 levels for two consecutive months. When the MAG is suspended, Books, Inc. would still pay percentage rent, which may be lower than the MAG. According to Ms. Zamani, the MAG will likely be suspended at the beginning of the lease due to the impact of COVID-19 on air travel. Percentage rent is based on the vendor’s gross revenues, which is largely dependent on air travel. Ms. Zamani states that the Airport is not able to project gross revenues for the proposed lease term due to the impact of COVID-19 on air travel.

RECOMMENDATION

Approve the proposed resolution.

Item 4 **File 20-1020**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed hearing would release $9,500,000 from Budget and Finance Committee reserve for the San Francisco Public Utilities Commission (SFPUC) Transmission Lines 7/8 upgrades.

Key Points

- When electricity companies propose projects, they submit applications to the California Independent System Operator (CAISO). Projects are managed by CAISO through a cluster process to identify aggregate impacts to the state's electric grid. CAISO then consults with entities that own power facilities to determine if the project clusters impact their assets and require mitigation payments. San Francisco Public Utilities Commission (SFPUC) owns power facilities in the Central Valley and has received impact mitigation payments from energy developers. In January 2013, the Board of Supervisors approved an ordinance that authorized SFPUC to enter into mitigation agreements for projects that impact SFPUC power assets, requiring that any future funds in excess of $100,000 for a given mitigation agreement be placed on Budget and Finance Committee reserve.
- SFPUC has identified three project clusters, totaling 24 active generation projects, that would affect the SFPUC's Transmission Lines 7 and 8. Transmission Lines 7 and 8 extend from the Warnerville Substation near Oakdale to the Standiford Substation in Modesto. SFPUC's plan is to reconductor the lines, which consists of replacing the wire to increase the electric current carrying capacity. SFPUC has completed six mitigation agreements to date for this project and has received $8,614,559 in mitigation payments. The funds have accrued approximately $851,000 in interest, for a total available reserve balance of approximately $9,465,559. SFPUC has 13 additional mitigation agreements that are being negotiated, as well as five others that have not begun discussions.

Fiscal Impact

- SFPUC has completed six mitigation agreements to date for this project and has received $8,614,559 in mitigation payments. The funds have accrued approximately $851,000 in interest, for a total available reserve balance of approximately $9,465,559. SFPUC has 13 additional mitigation agreements that are being negotiated, as well as five others that have not begun discussions
- The total estimated cost of the Transmission Lines 7/8 Upgrades project is approximately $37,970,000. SFPUC anticipates receiving a total of approximately $33,328,000 in mitigation payments for the project, including $9,465,559 in payments already received and the balance in future payments. The remainder of the project budget, approximately $4,642,000 would be funded by the Hetch Hetchy Power Capital Program.

Recommendation

- Approve the release of $9,465,559 from Budget and Finance Committee reserve, consistent with the available reserve balance for the Transmission Lines 7/8 project.

MANDATE STATEMENT

City Administrative Code Section 3.3(j) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval.

BACKGROUND

When electricity companies propose projects, they submit applications to the California Independent System Operator (CAISO). Projects are managed by CAISO through a cluster process to identify aggregate impacts to the state's electric grid. CAISO then consults with entities that own power facilities to determine if the project clusters impact their assets and require mitigation payments. San Francisco Public Utilities Commission (SFPUC) owns power facilities in the Central Valley and has received impact mitigation payments from energy developers.

In January 2013, the Board of Supervisors approved an ordinance that:

(1) authorized SFPUC to enter into a System Impact Mitigation Agreement with North Star Solar, LLC (NSS), providing for NSS to pay SFPUC the costs necessary to mitigate the impacts to the City's electric system caused by the interconnection of NSS's solar power project to the electric grid;

(2) authorized SFPUC to enter into future mitigation agreements for other projects without further Board of Supervisors approval; and

(3) placed $2,900,000 in NSS mitigation payments on Budget and Finance Committee reserve, and required that any future funds in excess of $100,000 for a given mitigation agreement be placed on Budget and Finance Committee reserve (File 12-1007, Ordinance 4-13).

According to Ms. Margaret Hannaford, SFPUC Hetch Hetchy Water and Power Division Manager, SFPUC currently has 13 completed mitigation agreements, and a total of approximately $18.5 million has been received in mitigation payments.

DETAILS OF PROPOSED LEGISLATION

The proposed hearing would release $9,500,000 from Budget and Finance Committee reserve for the SFPUC Transmission Lines 7/8 Upgrades.

According to Ms. Hannaford, SFPUC's Transmission Lines 7 and 8 span approximately 12.6 miles from SFPUC's Warnerville Substation near Oakdale to Modesto Irrigation District's Standiford Substation in Modesto. The lines consist of two separate systems: the structural support system comprised of towers and foundations, and the wire system comprised of conductor, insulators, and hardware.

SFPUC has identified three project clusters that would affect Transmission Lines 7 and 8. SFPUC's recommended project is to reconductor the lines. This consists of replacing the wire to increase the electric current carrying capability. The total project cost is estimated at approximately $38 million, and the completion of the project is anticipated in 2024. The proposed release of reserves would fund the bulk of the project planning, design, and environmental review, which is estimated to cost approximately $10.1 million.

FISCAL IMPACT

According to Ms. Hannaford, SFPUC has completed six mitigation agreements to date and collected $8,614,559 in mitigation payments for the Transmission Lines 7/8 Upgrades project. The funds have accrued approximately $851,000 in interest, bringing the available reserve balance for the project to approximately $9,465,559.[1] SFPUC has 13 additional mitigation agreements being negotiated, as well as five others that have not begun negotiations, and expects to receive a total of about $33,328,000 in mitigation payments. The remainder of the project budget, approximately $4,642,000, would be funded by the SFPUC Hetch Hetchy Power Capital Program. The sources and uses of funds for the project are shown in Table 1 below.

Table 1: Sources and Uses of Funds, Transmission Lines 7/8 Upgrades Project

Sources	Amount
Mitigation Payments	$33,328,000
Hetch Hetchy Power Capital Program	4,642,000
Total Sources	**$37,970,000**

Uses	Amount
Planning	$2,460,000
Design	5,190,000
Environmental Review	2,460,000
Pre-Construction Subtotal	*$10,110,000*
Construction	23,920,000
Construction Management	3,940,000
Construction Subtotal	*$27,860,000*
Total Uses	**$37,970,000**

Source: SFPUC

According to Ms. Hannaford, the Hetch Hetchy Power Capital Program would fund the project until future mitigation agreements are completed. Future mitigation payments would then be used to reimburse the Capital Program. Ms. Hannaford acknowledges that the plan involves risk, as future mitigation agreements are not guaranteed.

RECOMMENDATION

Approve the release of $9,465,559 in reserves, consistent with the available reserve balance for the Transmission Lines 7/8 Upgrades project.

[1] SFPUC's letter to the Board of Supervisors reported that the accrued interest amount was approximately $900,000. According to Ms. Megan Imperial, SFPUC Policy and Government Affairs, the Controller's Office has revised this amount to approximately $851,000. Therefore, the available balance for the project on Budget and Finance Committee reserve is approximately $9,465,559.

Items 6, 7, 8, and 9 Files 20-0936, 20-0938, 20-0939, and 20-0940	Department: Office of Contract Administration (OCA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve amendments to Tier 1 Technology Marketplace contracts with (i) Insight Public Sector, Inc., formerly known as En Pointe Technologies Sales, LLC, increasing the amount by $13,500,000 for a total amount not to exceed $33,500,000 (File 20-0938), (ii) InterVision Systems, LLC, increasing the amount by $15,000,000 for a total amount not to exceed $35,000,000 (File 20-0939), (iii) CCT Technologies, Inc., dba Computerland of Silicon Valley, increasing the amount by $21,500,000 for a total amount not to exceed $44,500,000 (File 20-0936), and (iv) XTech JV, increasing the amount by $38,000,000 for a total amount not to exceed $82,000,000 (File 20-0940).

Key Points

- OCA pre-qualifies information technology firms through a competitive Request for Proposals (RFP) process to provide goods and services through the Technology Marketplace. City departments may purchase technology products and specialized services through the Technology Marketplace on an as-needed basis. In January 2019, the Board of Supervisors approved contracts with terms through December 2021 with 19 vendors, including CCT Technologies, Inc., dba ComputerLand of Silicon Valley, XTech JV, InterVision Systems, LLC, and Insight Public Sector, formerly known as En Pointe Technologies Sales, LLC.

Fiscal Impact

- Based on the monthly spend rates between January 1, 2019 and August 1, 2020, the proposed contracts do not currently have sufficient funds to cover projected expenditures through December 31, 2021. However, spending projections through December 31, 2021 for each of the contracts are less than the requested increased not-to-exceed amounts.

Recommendations

- Amend File 20-0936 to reduce the requested not-to-exceed amount by $500,000 from $44,500,000 to $44,000,000.
- Amend File 20-0938 to reduce the requested not-to-exceed amount by $5,500,000 from $33,500,000 to $28,000,000.
- Amend File 20-0939 to reduce the requested not-to-exceed amount by $4,000,000 from $35,000,000 to $31,000,000.
- Amend File 20-0940 to reduce the requested not-to-exceed amount by $2,000,000 from $82,000,000 to $80,000,000.
- Approve the proposed resolutions, as amended.

MANDATE STATEMENT

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

BACKGROUND

The Office of Contract Administration (OCA) pre-qualifies information technology firms through a competitive Request for Proposals (RFP) process to provide goods and services through the Technology Marketplace. City departments may purchase technology products and specialized services through the Technology Marketplace on an as-needed basis.

In June 2018, OCA implemented "Technology Marketplace 2.0," which allowed a broader pool of vendors to compete for Tier 1 contracts.[1] In addition, Technology Marketplace 2.0 includes a specific procurement process for cloud services, the ability to refresh the Technology Marketplace by adding new vendors, and the implementation of language to allow for flexible insurance requirements.

The RFP for Technology Marketplace 2.0 received 21 Tier 1 proposals, of which 19 met the minimum requirements and the minimum score of at least 60 out of 100 points. In January 2019, the Board of Supervisors approved contracts with the 19 vendors, including CCT Technologies, Inc., dba ComputerLand of Silicon Valley (File 18-1117), XTech JV (File 18-1131), InterVision Systems, LLC (File 18-1123), and Insight Public Sector, formerly known as En Pointe Technologies Sales, LLC (File 18-1122). Each contract has a term of three years, from January 2019 through December 2021, with two one-year options to extend through December 2023. The initial not-to-exceed amount of each Tier 1 contract was $20,000,000.

In September 2019, the Board of Supervisors approved the first amendments of Technology Marketplace 2.0 Tier 1 contracts with (i) CCT Technologies, increasing the not-to-exceed amount to $23,000,000 (File 19-0877), and (ii) XTech JV, increasing the not-to-exceed amount to $44,000,000 (File 19-0878).

[1] The Technology Marketplace consist of three Tiers. Tier 1 is comprised of 19 large companies who offer a wide range of technology offerings including cloud software. Each contract awarded to a Tier 1 supplier has an initial not to exceed amount of $20,000,000. Tier 2 is comprised of 10 mid-size companies, 5 of whom are LBEs. Each contract awarded to a Tier 2 supplier has an initial not to exceed amount of $3,000,0000. Tier 3 is comprised of 14 companies, all of whom are Micro-LBEs, who have been awarded a total of 32 contracts. In August 2020, OCA conducted an RFP refresh for Tier 3 which resulted in 10 new Micro-LBEs being added to the Tier 3 pool. As a result, Tier 3 now consists of 24 Micro-LBEs. In addition, OCA is currently amending the contract value of each Tier 3 contract to $706,000.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve the First Amendments of Tier 1 Technology Marketplace contracts with (i) Insight Public Sector, Inc., formerly known as En Pointe Technologies Sales, LLC, increasing the amount by $13,500,000 for a total amount not to exceed $33,500,000 (File 20-0938), and (ii) InterVision Systems, LLC, increasing the amount by $15,000,000 for a total amount not to exceed $35,000,000 (File 20-0939).

The proposed resolutions would also authorize OCA to enter into the Second Amendments of Technology Marketplace contracts with (i) CCT Technologies, Inc., dba Computerland of Silicon Valley, increasing the amount by $21,500,000 for a total amount not to exceed $44,500,000 (File 20-0936), and (ii) XTech JV, increasing the amount by $38,000,000 for a total amount not to exceed $82,000,000 (File 20-0940).

The current end date for each of the contracts of December 31, 2021 would not change under the proposed amendments. As noted above, the four contracts have two one-year options to extend the contract term through December 31, 2023.

Services and Products Provided

Table 1 identifies the range of as-needed services and products City departments currently procure under each of the contracts that OCA is seeking to amend. The proposed resolutions will not revise the range of goods and services available under each contract.

Table 1: Services and Products for Tier 1 Technology Marketplace Contracts

Contract	Products and/or Technical Services Provided
CCT Technologies, Inc., dba Computerland of Silicon Valley (File 20-0936)	**Products**: Software (Cloud and non-Cloud); Hardware (Cisco, Dell, HP, HPE, IBM, Juniper, Microsoft, VMWare, other); and Manufacturer Software/Hardware Support **Technical Services**: Professional Services, Training
Insight Public Sector, Inc., formerly known as En Pointe Technologies Sales, LLC (File 20-0938)	**Products**: Software (Cloud and non-Cloud); Hardware (Cisco, Dell, HP, HPE, IBM, Juniper, Microsoft, VMWare, other); and Manufacturer Software/Hardware Support **Technical Services**: Professional Services, Training
InterVision Systems, LLC (File 20-0939)	**Products**: Software (Cloud and non-Cloud); Hardware (Cisco, Dell, HP, HPE, IBM, Juniper, Microsoft, VMWare, other); and Manufacturer Software/Hardware Support **Technical Services**: Professional Services, Training
XTech, JV (File 20-0940)	**Products**: Software (Cloud and non-Cloud); Hardware (Cisco, Dell, HP, HPE, IBM, Juniper, Microsoft, VMWare, other); and Manufacturer Software/Hardware Support **Technical Services**: Professional Services, Training

Source: Appendix C of Existing Contracts

Local Business Enterprise Participation

Tier 1 Technology Marketplace contractors must allocate at least 15 percent of total amounts awarded to them for professional and technical consulting services to Local Business Enterprises (LBEs). According to data provided by Ms. Taraneh Moayed, Assistant Director at OCA, between January 1, 2019 and August 2020, Tier 1 Technology Marketplace contractors were awarded $43,578,193 for professional and technical consulting services. Of this amount, $8,412,507 (or approximately 19 percent of the total awarded amounts) was allocated to their LBE subcontractors.

Each of the contracts that OCA is seeking to amend have met or exceeded their LBE participation rate goal of 15 percent, as shown in Table 2 below. InterVision Systems, LLC, which sells primarily hardware and software products, has not been selected to be awarded professional services, and therefore does not yet have an LBE goal to meet.

Table 2: LBE Participation of Proposed Tier 1 Technology Marketplace Contracts

Contract	Amount Awarded for Services and/or Training	Amount Awarded to LBEs	LBE Participation Rate
Computerland of Silicon Valley (File 20-0936)	$7,500,000	$1,738,595	23%
Insight Public Sector, Inc (File 20-0938)	$1,068,175	$621,985	58%
InterVision Systems, LLC (File 20-0939)	$0	$0	0%
XTech, JV (File 20-0940)	$24,342,130	$3,827,912	16%

Source: OCA Data

FISCAL IMPACT

According to Ms. Moayed, based on the monthly spend rates between January 1, 2019 and August 1, 2020, the proposed contracts do not currently have sufficient funds to cover projected expenditures through December 31, 2021. Table 3 below summarizes the spending projections through December 31, 2021 for the proposed contracts.

Table 3. Spending Projections through December 2021 for Proposed Tier 1 Technology Marketplace Contracts

Contract	**Total Purchase Order Amounts Issued as of August 1, 2020**	**Contract Balance as of August 1, 2020**	**Spend Rate per Month** *(1/1/19 to 8/1/20 or 19 Months)*	**Projected Remaining Spend through December 2021** *(8/1/20 to 12/31/21 or 17 Months)*	**Projected Total Spend through December 2021** *(Contract Term)*
Computerland (File 20-0936)	$22,996,464	$3,536	$1,210,340	$20,575,784	$43,572,247
Insight Public Sector, Inc., (File 20-0938)	$14,468,173	$5,531,827	$761,483	$12,945,208	$27,413,381
InterVision Systems, LLC (File 20-0939)	$16,140,266	$3,859,734	$849,488	$14,441,290	$30,581,556
XTech, JV (File 20-0940)	$41,990,835	$2,009,165	$2,210,044	$37,570,747	$79,561,581

Source: OCA Data of August 1, 2020

Actual expenditures and spending projections through December 31, 2021 for each of the contracts are less than the proposed amended amounts, as shown in Table 4 below. Therefore, the proposed resolutions should be amended to reduce the requested not-to-exceed amounts to reflect the following:

1) **CCT Technologies, Inc., dba Computerland of Silicon Valley (File 20-0936):** Reduce the requested not-to-exceed amount by $500,000 from $44,500,000 to $44,000,000
2) **Insight Public Sector, Inc., formerly known as En Pointe Technologies Sales, LLC (File 20-0938)**:Reduce the requested not-to-exceed amount by $5,500,000 from $33,500,000 to $28,000,000.
3) **InterVision Systems, LLC (File 20-0939):** Reduce the requested not-to-exceed amount by $4,000,000 from $35,000,000 to $31,000,000 ; and
4) **XTech, JV (File 20-0940):** Reduce the requested not-to-exceed amount by $2,000,000 from $82,000,000 to $80,000,000.

Table 4. Amended Not-to-Exceed Amounts for Proposed Tier 1 Technology Marketplace Contracts

Contract	Current Not To Exceed Amount (NTE)	Projected Shortfall through December 31, 2021	Proposed Increased Amount	BLA Recommended Increased Amount	BLA Recommended Total NTE Amount
Computerland (File 20-0936)	$23,000,000	($20,572,247)	$21,500,000	$21,000,000	$44,000,000
Insight Public Sector, Inc., (File 20-0938)	$20,000,000	($7,413,381)	$13,500,000	$8,000,000	$28,000,000
InterVision Systems, LLC (File 20-0939)	$20,000,000	($10,581,556)	$15,000,000	$11,000,000	$31,000,000
XTech, JV (File 20-0940)	$44,000,000	($35,561,581)	$38,000,000	$36,000,000	$80,000,000

Source: OCA Data

According to Ms. Moayed, OCA does not plan on extending the Tier 1 Technology Marketplace contracts past the end date of December 31, 2021. Instead, OCA will issue a new Tier 1 Technology Marketplace RFP that will replace the current contracts, with an anticipated start date of January 1, 2022.

Department Purchases of Technology Marketplace Products and Services

The Technology Marketplace consists of a pool of as-needed contracts that allows departments to procure their information technology products and services. While OCA is responsible for issuing each of these purchase orders, the purchase orders are funded by the department for whom the purchase order is being issued. Funding to pay for goods and services under each contract is subject to Board of Supervisors annual appropriation approval in the departments' budgets.

According to Ms. Moayed, if procuring from a Tier 1 or Tier 2 Technology Marketplace contractor, a solicitation is required for any transaction with a value greater than $25,000. If procuring from a Tier 3 Micro LBE contractor, a solicitation is required for any transaction with a value greater than $129,000. If the transaction pertains to commodities such as hardware, software and software/equipment maintenance, the solicitation is generally conducted by OCA as a "low bid", whereby the lowest responsive bidder is awarded the Purchase Order. If the transaction pertains to professional services, the solicitation is conducted as a Request for Proposals (RFP) by the department, who evaluates and rates the proposals in accordance with the evaluation criteria set forth in the RFP and forwards its evaluation to OCA for review and purchase order issuance.

Any single transaction made through a Tier 1 or 2 Technology Marketplace contractor cannot exceed $2,500,000. For Tier 3, a single transaction cannot exceed $129,000 for commodities and $600,000 for services.

RECOMMENDATIONS

1. Amend File 20-0936 to reduce the requested not-to-exceed amount by $500,000 from $44,500,000 to $44,000,000.
2. Amend File 20-0938 to reduce the requested not-to-exceed amount by $5,500,000 from $33,500,000 to $28,000,000.
3. Amend File 20-0939 to reduce the requested not-to-exceed amount by $4,000,000 from $35,000,000 to $31,000,000.
4. Amend File 20-0940 to reduce the requested not-to-exceed amount by $2,000,000 from $82,000,000 to $80,000,000.
5. Approve the proposed resolutions, as amended.

Item 10 **File 20-0965**	**Department:** Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease at 598 Portola Drive between the City as landlord and Twin Peaks Petroleum, Inc. as tenant, for a term of 25 years from November 2020 through October 2045, at initial annual base rent of $200,200 with three percent annual increases thereafter, and a five-year option to extend through October 2050.

Key Points

- The City has leased the property at 598 Portola Drive as a gasoline service station since 1972. In 2015, the Board of Supervisors approved the existing five-year lease with one five-year option to extend. The lease expires October 31, 2020, but may be extended for five years, through October 2025.
- The Real Estate Division (RED) has negotiated a new 25-year lease with Twin Peaks Petroleum, with initial annual base rent of $200,200 and three percent annual increases, with a five-year option to extend. A recent appraisal has affirmed the initial annual base rent of $200,200.

Fiscal Impact

- Under the proposed lease, the City would receive $200,200 in initial annual base rent, with three percent annual increases. The initial annual rent is an increase of $86,614 over the current annual rent of $113,586. Over the 25-year initial term, the City would receive $7,299,145 in total rent. If the five-year option to extend the lease were executed, the rent would be set at market rate based on an appraisal at that time.

Policy Consideration

- As noted in the Budget and Legislative Analyst's 2017 *Performance Audit of the City's Real Estate Division,* the City does not have an explicit policy for the use of public property for private purposes. As noted in the audit report, "The City does have a policy, codified in Administrative Code Section 23.A, to prioritize the use of surplus City property for development of affordable housing. However, the City has missed opportunities to use City property to better serve the City's policy priorities." The audit report noted that "At the time of the lease expiration (for 598 Portola Drive) in June 2014, the City missed the opportunity to reconsider the current property's use as a gas station and pursue a mixed-use development that would better conform to the City's housing goals".
- Because the proposed lease was not award as part of a competitive process and other vendors and uses have not been considered for the property, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

Recommendation

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

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten or more years, including options to renew, or having anticipated revenue to the City of $1,000,000 or more, is subject to Board of Supervisors approval.

Administrative Code Section 23.33 states that it is City policy that all leases of real property that are expected to produce more than $2,500 per month in revenue be awarded in accordance with competitive bidding procedures, unless the Board of Supervisors find such procedures are impractical or impossible.

BACKGROUND

The City originally acquired the property at 598 Portola Drive near Twin Peaks as part of the Laguna Honda site in the late 1800s. An approximately 15-acre portion of the Laguna Honda site was transferred to the Juvenile Probation Department in 1947 for development of the Youth Guidance Center, while the 598 Portola Drive property was retained by the Department of Public Health.

A gasoline service station, with a convenience store and garage, has operated at 598 Portola Drive since 1972, when the Board of Supervisors originally approved a 15-year lease with Mobil Oil (Resolution 466-72). In 1994, The Board of Supervisors approved a new 10-year lease with Twin Peaks Petroleum, Inc., the successor in interest to Mr. Michael Gharib, who had acquired the Mobil Oil franchise in 1985 (File 65-94-11, Ordinance 279-94).[1] The lease included a five-year option to extend, for a total term of 15 years through June 2009. In June 2004, the Board of Supervisors approved an amendment to the 1994 lease, increasing the option term to 10 years, and then exercised the 10-year extension through June 2014, to allow for the amortization of a State-mandated underground fuel tank replacement (File 04-0636, Resolution 364-04). In October 2015, the Board of Supervisors approved a new five-year lease through October 2020, with a five-year option to extend through October 2025 (File 15-0895, Resolution 394-15). Other than before the original 1972 lease, the leases were all awarded on a sole-source basis.

Twin Peaks Petroleum currently pays $9,466 per month in rent, or $113,586 in annual rent. The lease expires October 31, 2020. Rather than exercising the option to extend, the Real Estate Division (RED) has negotiated a new 25-year lease with Twin Peaks Petroleum through October 2045, with a five-year option to extend through October 2050.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease at 598 Portola Drive between the City as landlord and Twin Peaks Petroleum as tenant, for a term of 25 years, from November 2020 through October 2045, with initial annual base rent of $200,200 and three percent annual increases thereafter, and a five-year option to extend the lease through October 2050. The

[1] Records could not be located to account for the seven-year period between expiration of the 1972 lease in 1987 and the authorization of a new lease in 1994.

proposed resolution would also (1) find the competitive bidding procedures required by Chapter 23.33 of the Administrative Code are impractical, and (2) indemnify and hold the City harmless for claims and costs incurred by the tenant's use of the property as a gas station.

According to Ms. Claudia Gorham, Deputy Managing Director of the Real Estate Division, the tenant requested a new long-term lease rather than exercise the five-year option to extend. The base rent is consistent with an independent appraisal that was completed in July 2019.[2] The key provisions of the existing lease and proposed lease are shown in Table 1 below.

Table 1: Key Terms of Existing and Proposed Leases

	Existing Lease	Proposed New Lease
Lease Term	5 years, from November 2015 through October 2020	25 years, from November 2020 through October 2045
Premises	14,499 square feet	14,499 square feet
Options to Extend	One 5-year option	One 5-year option
Initial Annual Base Rent	$100,920 (currently $113,586)	$200,200
Rent Adjustment	3% annually	3% annually
Tenant Improvement Allowance	None	None
Utilities and Services	Paid by tenant	Paid by tenant

Source: Existing and Proposed Leases

Underground Storage Tank Replacement

As noted above, the prior lease was amended in 2004 to provide for the tenant to replace the underground fuel tank as required by the State and to extend the lease term to amortize the costs of the underground fuel storage tank replacement. According to Real Estate's discussions with the Tenant, the underground fuel tank replacement schedule was extended by the State and must be replaced by 2025 in accordance with State requirements. Ms. Gorham states that the tenant has provided documentation evidencing that it is currently in compliance with California and local permitting and inspection requirements for underground fuel storage tanks.

Under Section 6 of the proposed lease, Twin Peaks Petroleum will have to replace the underground storage tanks by 2025, as required by California codes, which require replacement of underground fuel storage tank replacement every 20 years. Rent will be waived for up to three months if the gas station and convenience store must be fully closed for the tank replacement. The City must approve the plans for these tenant improvements.

According to Ms. Gorham, the tenant would be able to repurpose the site for alternative fuel sales if demand for gasoline is reduced over the next 25 years.

FISCAL IMPACT

The proposed lease would increase the annual rent paid by Twin Peaks Petroleum to the City by $86,614 in the initial year, to $200,200. The rent would then increase by three percent annually.

[2] An appraisal was not required by Administrative Code Section 23.30 because the Real Estate Division determined that the market rate of the site was less than $45 per square foot. The base rent in the proposed lease is $13.86 per square foot. The appraised value was based on the site's use as a mixed-use development.

Over the initial 25-year term of the lease, the City would receive approximately $7,299,145 in base rent. Rent paid over the initial term is shown in Table 2 below.

Table 2: Rent Paid to City over Initial Term

Initial Annual Base Rent	$200,200
Annual Rent Escalation	3%
Total Rent Paid over 25 Years	$7,299,145

Source: BLA Analysis

If the option to extend were exercised, the base rent would be set at Fair Market Rate, based on an appraisal conducted at that time.

POLICY CONSIDERATION

Proposed Sole-Source Lease

The 598 Portola Drive parcel contains the only privately-operated gasoline station located on City-owned property. In addition, this lease of City property as a gasoline station, convenience store, and garage has continued for the past 48 years, or since 1972, without any competitive bidding since the original establishment of the station in 1972 under an initial 15-year lease. Furthermore, the proposed new 25-year lease with one five-year extension option would be awarded without undergoing a competitive bidding process.

In accordance with Administrative Code Section 23.33, all leases of City real property resulting in more than $2,500 per month in revenue must be awarded in accordance with competitive bidding procedures, unless such bidding procedures are impractical or impossible. According to Ms. Gorham, a competitive bidding process is impractical because the tenant owns all of the equipment at the site, and a new tenant would have to procure new equipment to continue operating a gas station at the site.

Use of City Property by Private Entities

As noted in the Budget and Legislative Analyst's 2017 *Performance Audit of the City's Real Estate Division,* the City does not have an explicit policy for the use of public property for private purposes. As noted in the audit report, "The City does have a policy, codified in Administrative Code Section 23.A, to prioritize the use of surplus City property for development of affordable housing. However, the City has missed opportunities to use City property to better serve the City's policy priorities." The audit report noted that "At the time of the lease expiration (for 598 Portola Drive) in June 2014, the City missed the opportunity to reconsider the current property's use as a gas station and pursue a mixed-use development that would better conform to the City's housing goals".

Policy Decision

Because the proposed lease was not award as part of a competitive process and other vendors and uses have not been considered for the property, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

RECOMMENDATION

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