

**CITY AND COUNTY OF SAN FRANCISCO**

**BOARD OF SUPERVISORS**

**BUDGET AND LEGISLATIVE ANALYST**

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May 28, 2021

**TO:** Government Audit and Oversight Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** June 3, 2021 Government Audit and Oversight Committee Meeting

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<p><b>Item 7</b> <b>File 21-0525</b></p>	<p><b>Department:</b> San Francisco International Airport</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution approves the Fourth Modification to the contract between the Airport and KONE, Inc. (KONE), extending the term of the contract by three years, with the modified agreement now scheduled to terminate on June 30, 2024, and increasing the contract amount by \$16,200,000 from \$18,265,600 to \$34,465,600.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Airport entered into the original contract with KONE in May 2019 to provide for the specialized preventive maintenance, repair, and on-call services for all escalators and electric walks at the Airport following a Request for Proposals process. The contract scope of services consists of preventive maintenance and as-needed services. There have been three prior modifications to the contract, including increasing the allowance for as-needed services with no change to the total contract amount, reductions in unit prices for preventive maintenance, and increasing the contract amount to facilitate completion of major equipment overhaul and repairs.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Of the \$16.2 million contract increase, the allowance for as-needed services is increased by \$4.2 million from \$9 million to \$13.2 million to pay for ongoing overhauls and repair of older escalator and walkway systems, and the balance of \$12 million will be used to pay for the cost of ongoing preventive maintenance over the three-year term extension.</li> <li>• Since the beginning of the original contract in 2019, the Airport has negotiated reductions in the per unit cost of preventive maintenance, totaling 16.4 percent. As a result, the Airport will realize annual cost savings during the three-year extension of \$776,064.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

City 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 Airport entered into the original contract with KONE, Inc. (KONE) in May 2019 to provide for the specialized preventive maintenance, repair, and on-call services for all escalators and electric walks at the Airport. The contract was for a two-year term from July 1, 2019 through June 30, 2021 in an amount not to exceed \$9,765,600. The Request for Proposals (RFP) for the contract allows for a single three-year option to extend the term.

The contract was awarded following a competitive solicitation in February 2019 for “Escalator and Electric Walk Maintenance, Repair, and On-call services”. Three proposals were submitted that all met the minimum qualifications of the RFP and were reviewed by a selection panel comprised of a Conveyance Specialist from Denver International Airport, a Deputy Director for Facilities Maintenance from San Francisco Recreation and Parks Department, and an Airport Duty Manager from San Francisco International Airport. KONE submitted the lowest cost proposal amount (\$9,765,600) and ultimately received the highest evaluation score. KONE is an international engineering and service company headquartered in Helsinki, Finland with a branch office in San Francisco, providing new elevator and escalator installation, as well as service and repair of existing equipment.

The contract scope of services consists of preventive maintenance and as-needed services. There have been three prior modifications to the contract, and the fourth is now under consideration.

*Modification no. 1*

In October 2019, the Airport administratively modified the contract, increasing the allowance for as-needed services from \$300,000 to \$5,000,000, with no change to the total contract amount.

*Modification no. 2*

In July 2020 the Airport and KONE agreed on Modification No. 2, which was a second administrative amendment that reduced the monthly unit price for preventive maintenance effective on and after August 7, 2020, and regular work hours from seven to five days per week. There was no change to total contract amount or the term of the contract.

*Modification no. 3*

On February 9, 2021 the Board of Supervisor approved Resolution no. 55-21 which increased the total contract amount by \$8,500,000 from \$9,765,600, for a new not-to-exceed total of

\$18,265,600. The contract term was unchanged. The purpose of the proposed contract modification was to facilitate completion of major equipment overhaul and repairs. Airport staff noted that the reduction of passenger traffic due to the COVID-19 pandemic presented opportune conditions for completing major equipment overhaul and repairs. Airport staff anticipates that the entire prior authorization of \$18,265,600 will be fully spent by June 30, 2021.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution approves the Fourth Modification to the contract between the Airport and KONE, extending the term of the contract by three years, with the modified agreement now scheduled to terminate on June 30, 2024, and increasing the contract amount by \$16,200,000 from \$18,265,600 to \$34,465,600. The total contract allowance for as-needed services is increased by \$4,200,000 from \$9,000,000 to \$13,200,000, to pay for ongoing overhauls and repair of older escalator and walkway systems. The balance of \$12,000,000 will be used to pay for the cost of ongoing preventive maintenance over the three-year term extension.

**FISCAL IMPACT**

As seen in Exhibit 1, the average annual expenditures over the proposed three-year term extension are \$3,732,800 less than the average annual expenditures under the 3<sup>rd</sup> Modification approved by the Board.

**Exhibit 1: Change in Total Contract Amount and Average Annual Contract Expenditures**

	Preventive Maintenance	As-Needed	Total
<b>Contract Amount</b>			
<i>Initial Two-Year Term <sup>a</sup></i>			
Original Contract	\$9,465,600	\$300,000	\$9,765,600
Mod. 1	\$4,765,600	\$5,000,000	\$9,765,600
Mod. 3	\$9,265,600	\$9,000,000	\$18,265,600
<i>Three-Year Extension <sup>b</sup></i>			
Mod. 4 (proposed)	\$12,000,000	\$4,200,000	\$16,200,000
<b>Average Annual Expenditures</b>			
Original through Mod 3 <sup>a</sup>	\$4,632,800	\$4,500,000	\$9,132,800
Mod. 4 (proposed) <sup>b</sup>	<u>\$4,000,000</u>	<u>\$1,400,000</u>	<u>\$5,400,000</u>
Net Change	(\$632,800)	(\$3,100,000)	(\$3,732,800)

Source: Airport

<sup>a</sup> Annualized cost for July 1, 2019 through June 30,2021

<sup>b</sup> Annualized cost for July 1, 2021 –through June 30,2024

This reduction in the average annual expenditures reflects that a significant share of the required overhaul has been completed, and the net 16.4 percent reduction in per unit price of preventive maintenance shown in Exhibit 2, through which the Airport will realize an average annual net saving of \$776,064. As of May 20, 2021, KONE has completed overhauls for 76

escalators and electric walks. The Airport anticipates that approximately 45 additional units can be overhauled should the request for an additional authorization of \$4,200,000 for as-needed services in Modification 4 be approved.

**Exhibit 2: Change in Per Unit Maintenance Price**

	Escalator		Electric Walk		Total
	2000 or Earlier	2001 or Later	2000 or Earlier	2001 or Later	
Units	116	22	36	7	
<b>Price per Unit</b>					
Original Contract	\$1,750	\$2,100	\$3,275	\$3,900	
Mod. 2	\$1,663	\$1,995	\$3,111	\$3,705	
Mod. 4	\$1,463	\$1,756	\$2,738	\$3,260	
<b>Average Annual Expenditure</b>					
Original Contract	\$2,436,000	\$554,400	\$1,414,800	\$327,600	\$4,732,800
Mod. 4	<u>\$2,036,496</u>	<u>\$463,584</u>	<u>\$1,182,816</u>	<u>\$273,840</u>	<u>\$3,956,736</u>
Savings	\$399,504	\$90,816	\$231,984	\$53,760	\$776,064

Source: Airport

Exhibit 2 shows the effect of the five percent and the proposed twelve percent reductions in per unit service prices that have been negotiated between the Airport and KONE Corporation. The cumulative net reduction is 16.4 percent. This equal, when estimated on a per unit basis, into average annual expenditures for preventive maintenance of \$3,956,736.<sup>1</sup>

Preventive maintenance is funded out of the Airport's operating budget; unspent funds are returned to the Airport's fund balance and are available for re-appropriation in the subsequent fiscal year. The Airport issues a new purchase order to encumber funds appropriated for preventive maintenance in the subsequent fiscal year. Major overhaul and system repair is primarily funded through the Airport capital budget, so that once authorized, any unspent funds automatically carryover into the next fiscal year.

## RECOMMENDATION

Approve the proposed resolution.

<sup>1</sup> Average annual preventive maintenance expenditures of \$4,000,000, shown in Exhibit 1, are based on the contract budget for preventive maintenance; and average annual preventive maintenance expenditures of \$3,956,636, shown in Exhibit 2, are based on per unit price. The difference of \$43,264 represents a cushion built into the maintenance agreement that will allow the Airport to bring new elevator units into service and absorb the additional ongoing maintenance expense.