

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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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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Item 8 File 21-0526	Department: San Francisco International Airport
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution approves a second modification to the agreement between the Airport and TK Elevator (formerly ThyssenKrupp) for preventive maintenance, repair, and as-needed services for the Airport elevator, extending the agreement term by three years with the new ending date set at June 30, 2024, and increasing the not-to-exceed contract amount by \$12,600,000, from \$9,286,912 to \$22,282,912. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Airport entered into the original contract with ThyssenKrupp (now TK Elevator) in May 2019 for preventive maintenance, repair, and as-needed services for Airport elevators following a Request for Proposals process. In July 2020, the Airport administratively modified the agreement with ThyssenKrupp to reduce unit prices for preventive maintenance by five percent and reduce the work week from seven to five days, reflecting the Airport’s revenue decline following the outbreak of the Covid pandemic. The proposed second modification reduces for the per unit price for preventive maintenance by an additional 12 percent. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Of the \$12.6 million contract increase, the allowance for as-needed services is increased by \$600,000 from \$250,000 to \$850,000. The balance of \$12 million will pay for preventive maintenance over the three-year extended term. • Since the beginning of the original contract in 2019, the Airport has negotiated reductions in the per unit cost of preventive maintenance, totaling 17 percent. As a result, the Airport will realize annual cost savings during the three-year extension of \$773,312. <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

On May 7, 2019 the Airport Commission awarded an agreement to ThyssenKrupp Elevator Corporation (ThyssenKrupp) for preventive maintenance, repair, and as-needed services for Airport elevators, following a competitive Request for Proposals (RFP). The agreement is for a two-year term from July 1, 2019 through June 30, 2021, in an amount not to exceed \$9,682,912. The RFP for the Contract allows for a single three-year option to extend the term.

Modification no. 1

On July 1, 2020, the Airport administratively modified the agreement with ThyssenKrupp to reduce unit prices for preventive maintenance by five percent. ThyssenKrupp and the Airport also agreed to reduce the work week from seven to five days, reflecting the Airport's revenue decline following the outbreak of the Covid pandemic. In addition, certain standard contract provisions were updated to meet current City requirements. There was no change in the total not-to-exceed amount, and no change in the term of the agreement.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a second modification to the agreement between the Airport and TK Elevator (formerly ThyssenKrupp) for preventive maintenance, repair, and as-needed services for the Airport elevator. The proposed second modification extends the agreement term by three years with the new ending date set at June 30, 2024, and increases the not-to-exceed contract amount by \$12,600,000, from \$9,286,912 to \$22,282,912. TK Elevator and the Airport have agreed to a 12 percent reduction in unit prices for preventive maintenance, and an increase in the allowance for as-needed services of \$600,000, for a new total not-to-exceed Allowance of \$850,000.

FISCAL IMPACT

As seen in Exhibit 1, the average annual expenditures over the proposed three-year term extension are \$641,456 less than the average annual expenditures

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

	Preventive Maintenance	As-Needed	Total
Contract Amount			
<i>Initial Two-Year Term</i> ^a			
Original Contract	\$9,432,912	\$250,000	\$9,682,912
<i>Three-Year Extension</i> ^b			
Mod. 2 (proposed)	\$12,000,000	\$600,000	\$12,600,000
Average Annual Expenditures			
Original ^a	\$4,716,456	\$125,000	\$4,841,456
Mod. 2 (proposed) ^b	<u>\$4,000,000</u>	<u>\$200,000</u>	<u>\$4,200,000</u>
Net	(\$716,456)	\$75,000	(\$641,456)

Source: Airport

^a Annualized cost for July 1, 2019 through June 30, 2021^b Annualized cost for July 1, 2021 –through June 30, 2024

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 TK Corporation. This equals when estimated on a per unit basis, average annual expenditures for preventive maintenance of \$3,943,812, an expenditure savings of \$773,312 compared to average annual expenditures under the original agreement.¹

Exhibit 2: Change in Per Unit Maintenance Price

	Price per Elevator per Month Cost per Unit			Units	Average Annual Maintenance Expenditures Cost per Year		
	Initial	Mod 1	Mod 2		Initial	Mod 2	Savings
Hydraulic							
1990 or Earlier (≤ 4000 lbs.)	\$1,685	\$1,601	\$1,409	3	\$60,669	\$50,724	\$9,945
1990 or Earlier (> 4000 lbs.)	\$1,645	\$1,563	\$1,375	5	\$98,716	\$82,500	\$16,216
1991 to 2014 (≤ 4000 lbs.)	\$1,605	\$1,525	\$1,342	49	\$943,895	\$789,096	\$154,799
1991 to 2014 (> 4000 lbs.)	\$1,565	\$1,487	\$1,309	4	\$75,133	\$62,832	\$12,301
2015 or Later (≤ 4000 lbs.)	\$1,557	\$1,479	\$1,302	6	\$112,093	\$93,744	\$18,349
Traction							
1990 or Earlier (≤ 4000 lbs.)	\$1,685	\$1,601	\$1,409	32	\$647,141	\$541,056	\$106,085
1990 or Earlier (> 4000 lbs.)	\$1,645	\$1,563	\$1,375	1	\$19,743	\$16,500	\$3,243
1991 to 2014 (≤ 4000 lbs.)	\$1,605	\$1,525	\$1,342	54	\$1,040,211	\$869,616	\$170,595
1991 to 2014 (> 4000 lbs.)	\$1,565	\$1,487	\$1,309	33	\$619,844	\$518,364	\$101,480
2015 or Later (≤ 4000 lbs.)	\$1,557	\$1,479	\$1,302	30	\$560,463	\$468,720	\$91,743
2015 or Later (> 4000 lbs.)	\$1,549	\$1,472	\$1,295	29	\$539,217	\$450,660	\$88,557
Total Price per Year					\$4,717,124	\$3,943,812	\$773,312

Source: Airport

¹ 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 \$56,188 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.

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