CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST
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March 10, 2017

TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: March 16, 2017 Budget and Finance Sub-Committee Meeting

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Item 1 **File 17-0150**	**Department:** Port

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Lease No. L-16141 between the Port and SP Plus-Hyde Parking Joint Venture for surface parking lots in the northern waterfront, including (a) a five-year term for Seawall Lot 321; (b) a three-year term with two one-year options for Seawall Lots 323-324; and (c) interim month-to-month terms at Seawall Lot 322-1, Pier 19½ and Pier 29½, with such terms to commence after Board of Supervisors approval, with estimated total rent generated of $2,955,607 in the first year of the Lease.

Key Points

- In November 2009, the Board of Supervisors approved a lease between the Port and Priority Parking-CA for public surface parking on Seawall Lots 321, 322-1, 323 and 324 for three years from January 1, 2010 through December 31, 2012. The lease expired on January 1, 2013 and has continued on a month-to-month holdover basis since then. This lease allowed for expansion, such that parking lots at Piers 19½, 29½, and 33 were added.
- In October 2015, Priority Parking-CA terminated their lease with the Port and the Port amended another lease with Central Parking Systems Inc. to add the Priority Parking lots to Central Parking Systems Inc. lease, on the same terms.
- On May 21, 2015, the Port Commission authorized Port staff to issue a Request for Proposal (RFP) for lease of three surface parking lots at Seawall Lot 321, Seawall Lot 322-1, Seawall Lots 323-324 and two sheds in Pier 19½ and 29½. The Port received four responses and found the most qualified respondent was SP+ and Hyde Park Joint Venture.

Fiscal Impact

- For Seawall Lot 321 and Seawall Lot 323-324 the Port will receive rent of the greater of (a) minimum monthly base rent, increased by 3.5% annually or (b) 66% of the monthly gross receipts, net of parking taxes. For the other parking lots, the Port will receive 66% of monthly gross revenue, net of parking taxes. Based on 66% of gross revenues net of parking taxes, the Port will receive $2,955,607 from these five parking lots in the first year, with slight revenue increases each subsequent year.
- The City will receive between $1.1 million and $1.2 million of parking taxes each year from this lease.
- As compared to 2016, the proposed lease is projected to generate approximately $748,037 of additional annual rental revenues for the Port and approximately $280,277 of additional annual parking taxes for the City.
- The Port revenues realized from this parking lease are used to support the Port's annual operating budget. Parking taxes are used to support the City's General Fund.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118 requires the Board of Supervisors' approval by resolution of contracts with anticipated revenue to the City of $1,000,000 or more.

BACKGROUND

Existing Port Parking Leases

On November 10, 2009, based on a competitive bid process, the Board of Supervisors approved a lease between the Port and Priority Parking-CA for public surface parking on Seawall Lots 321, 322-1, and 323-324 for three years from January 1, 2010 through December 31, 2012 (Resolution No. 446-09). Under the lease, Priority Parking-CA paid the Port the greater of minimum monthly amounts or 66% of gross revenues net of City parking taxes. The lease expired on January 1, 2013 and has continued on a month-to-month holdover basis since then, with annual 3% increases to the minimum monthly rents[1]. The Port lease with Priority Parking-CA allowed for expansion to other Port parking sites, such that the Port added parking sheds at Piers 19½, 29½, and 33 with rental payment of 66% of gross revenue net of City parking taxes.

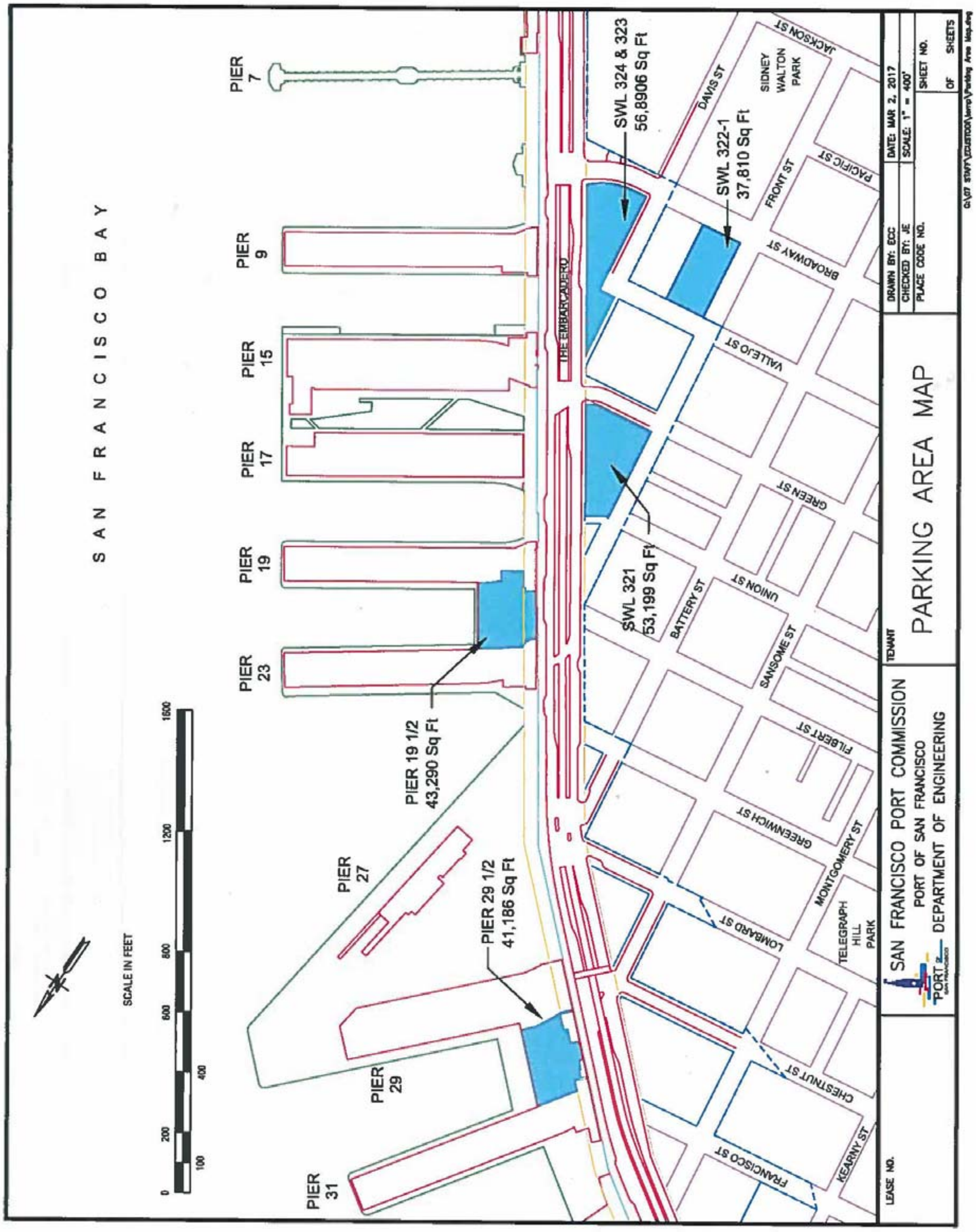
In October 2015, Priority Parking-CA issued a 30-day notice of termination of the lease to the Port, indicating that Priority Parking-CA would no longer operate any of these Port parking lots due to Priority Parking-CA's financial and personnel issues. In order to keep these parking lots operating, Port staff amended the existing lease with Central Parking Systems Inc. (now owned by SP+), on the same terms as Priority Parking-CA had operated these Port lots. The Port lease with Central Parking Systems Inc. continues on a month-to-month basis.

Request for Proposal Process

On May 21, 2015, the Port Commission authorized Port staff to issue a Request for Proposal (RFP) for lease of the Port's northern waterfront parking lots (Port Resolution No. 15-20). This included the three surface parking lots at Seawall Lot 321, Seawall Lot 322-1 and Seawall Lots 323-324 and two sheds in Pier 19½ and 29½[2]. The map on the following page identifies the northern waterfront and highlights the location of the parking lots.

[1] The Port advises that this lease has continued on a month-to-month basis for over four years because (1) when the prior lease expired at the end of 2012, the America's Cup event was being planned for these adjacent Port properties and it was deemed prudent to keep the existing parking operator in place until the America's Cup agreement expired in 2014; (2) in October 2013 Port staff prepared a Request for Bid (RFB), for parking operators, however, the Port Commission wanted to issue a new Request for Proposal (RFP) and to include a major local business enterprise (LBE) joint venture component; (3) after extensive outreach to qualify more LBE parking operators, in May 2015, the Port Commission approved a new RFP with a major LBE component; (4) in November 2015, the RFP was issued with responses received in March 2016; (5) In June 2016, the Port Commission approved SP+/Hyde Park to negotiate lease; and (6) the Port negotiated and executed lease terms in December 2016.

[2] The parking shed at Pier 33 was removed from the northern waterfront parking lot RFP because this lot only contains 25 spaces that are currently leased to Port tenants and not available for public parking, and corrective work was required due to Fire Code violations.


SAN FRANCISCO BAY
PIER 7
PIER 9
PIER 15
PIER 17
PIER 19
PIER 23
PIER 27
PIER 29
PIER 31
SWL 324 & 323
56,8906 Sq Ft
SWL 322-1
37,810 Sq Ft
SWL 321
53,199 Sq Ft
PIER 19 1/2
43,290 Sq Ft
PIER 29 1/2
41,186 Sq Ft
THE EMBARCADERO
SIDNEY WALTON PARK
TELEGRAPH HILL PARK
SCALE IN FEET
PARKING AREA MAP
SAN FRANCISCO PORT COMMISSION
PORT OF SAN FRANCISCO
DEPARTMENT OF ENGINEERING
DATE: MAR 2, 2017
SCALE: 1" = 400'

The Port issued the RFP on November 5, 2015, which requested that established prime parking operators submit proposals that share operations, management and profits with certified local business enterprise (LBE) parking operators in order to expand business parking opportunities in San Francisco. The Port received four responses by the due date on December 22, 2015 from: (1) SP+ and Hyde Park Management Joint Venture, (2) LAZ/ABC, (3) Impark/Convenient, and (4) SF Waterfront Parking. Based on the results of the selection panel[3], the most qualified respondent was SP+ and Hyde Park Joint Venture. SP+ Corporation is a national parking operator and Hyde Park Management LLC is a certified local business enterprise in San Francisco.

On March 22, 2016, the Port Commission authorized Port staff to negotiate a lease for review and approval by the Port Commission and Board of Supervisors. On June 14, 2016, the Port Commission approved the subject lease (Port Resolution No. 16-26). Mr. Jay Edwards, Senior Property Manager for the Port advises that, due to various issues regarding the joint venture partnership and extensive legal review, this lease was not executed until December 2016.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease (No. L-16141) between the Port of San Francisco and SP Plus Corporation and Hyde Parking Management LLC, Joint Venture (SP+ and Hyde Park) to operate the following five northern waterfront surface parking lots:

- A five-year lease term at Seawall Lot 321, bounded by the Embarcadero, Front Street and Green Street;
- A three-year lease term with two one-year options to renew at sole discretion of the Port at Seawall Lot 323-324, bounded by the Embarcadero, Broadway and Davis Streets;
- Interim month-to-month terms at (a) Seawall Lot 322-1 bounded by Broadway, Front and Vallejo Streets, (b) Pier 19½ on the Embarcadero at Greenwich Street, and (c) Pier 29½ on the Embarcadero at Chestnut Street.

As noted above, each of these surface parking lots are currently operated by Central Parking Systems Inc. (now owned by SP+) on month-to-month holdover terms. Mr. Edwards advises that the different length of the terms for each lot is related to existing obligations and the future development status on each lot:

- Seawall Lot 321 is subject to the 15-year Exploratorium lease, which requires the Port to provide parking for visitors on this site, and this lease includes capital improvements such that a fixed five-year term will allow the operator to amortize these improvements.
- Seawall Lot 323-324 was considered a development site when the RFP was issued, and although no development deal has been finalized, the three-year and two one-year options lease term will allow flexibility for development on this site in the future.

[3] The three-member selection panel included a Property Manager from the Port, the Port's Assistant Deputy Director of Real Estate and a Municipal Transportation Agency contract manager. The evaluation included both the written proposals and an oral interview.

- Seawall Lot 322-1 is a month-to-month lease term because a Memorandum of Understanding (MOU) exists between the Port and the Mayor's Office of Housing and Community Development (MOHCD) for an affordable housing development on this site, which will require the Port to reduce, phase out or terminate the lease for this site.
- Pier 19½ and Pier 29½ are month-to-month leases because all Port shed parking is considered an interim use, to allow the Port maximum flexibility to provide future higher and better use of these facilities.

Table 1 below shows the size in terms of square feet and number of parking spaces at each site.

Table 1: Square Feet and Parking Spaces per Site

Site	Square Feet	Parking Spaces
SWL 321	53,199	300 valet spaces[4]
SWL 322-1	37,810	151 self-park +200 valet spaces
SWL 323-324	56,906	227 self-park spaces[5]
Pier 19½ shed	37,500	100 self-park spaces
Pier 29½ shed	42,500	75 self-park spaces

For Seawall Lot 321 and Seawall Lot 323-324 the Port will receive rent of the greater of (a) minimum monthly base rent, increased by 3.5% annually, as shown in Table 2 below or (b) 66% of the monthly gross receipts, net of parking taxes. Minimum monthly base rents were set for these two parking lots because they are not on month-to-month terms and to provide the Port minimum revenue in the non-peak months primarily during the winter when demand is lower.

Table 2: Monthly Base Rent

Site	Year 1	Year 2	Year 3	Year 4	Year 5
SWL 321	$73,000	$75,555	$78,200	$80,937	$83,770
SWL 323-324[6]	$78,000	$80,730	$83,555	$86,480	$89,507

For Seawall Lot 322-1 and Pier 19½ and Pier 29½, the Port will receive 66% of gross receipts, net of parking taxes. Under the proposed lease, the Port can add additional Port public parking lots as-needed, for which the parking operator would pay 66% of gross receipts, after parking taxes, to the Port[7]. Table 3 below identifies the main provisions of the proposed lease.

[4] Primarily serves the Exploratorium, which must provide 200 public parking spaces at market rates.
[5] Port has right to up to 64 self-park spaces for Port employees, whose fees are excluded from gross revenues.
[6] The proposed lease is for three years, with options to extend for two additional one year terms at the Port's sole discretion. Therefore, Year 4 and Year 5 in Table 2 reflect the optional periods.
[7] Mr. Edwards advises that this provision allows the Port the flexibility to activate a vacant shed or seawall lot periodically for interim parking, or in the event of default by an existing parking operator to provide interim operations until the Port can issue a new RFP.

Table 3: Summary of Other Lease Provisions Between Port and SP+ and Hyde Park

Effective Date	Upon approval by Board of Supervisors and execution by Port.
Rent	For Seawall Lots 321 and 323-324, greater of minimum monthly base (see Table 2 above) or 66% of monthly gross receipts net of City parking taxes. All other sites 66% of gross monthly receipts net of City parking taxes.
Rent Credits	Up to $200,000 for installing permanent energy efficient lighting as specified on SWL 321. Up to $100,000 in 24-month period to provide additional improvements as requested by the Port.
Maintenance	SP+ and Hyde Park to maintain parking surfaces, utilities, lighting, revenue equipment, attendant booths, signage and striping.
Additional Requirements	Port may require additional parking spaces for Car Share Program, Zip Car Share and electric vehicle charging stations and equipment

According to the subject joint venture lease agreement, SP+ and Hyde Park will both participate in day-to-day parking operations and share proportionally in all revenue, expenses, profits, risks and capital requirements.

FISCAL IMPACT

As shown in Table 4 below, based on 66% of gross revenues less parking taxes, the Port is projected to receive $2,955,607 of rental revenue from these five parking lots in the first year, with slight revenue increases each subsequent year. If the lease is extended for five years for all five parking lots, based on 66% of gross revenues less parking taxes, the Port is projected to receive $15,691,723 in rental revenues.

Table 4: Projected Parking Revenue and Port's Lease Revenue

Site	Year 1	Year 2	Year 3	Year 4	Year 5	Total
SWL 321	$1,768,536	$1,821,593	$1,876,242	$1,932,528	$1,990,502	$9,389,401
SWL 322-1	1,129,323	1,163,202	1,198,098	1,234,044	1,272,064	5,995,731
SWL 323-324	1,544,709	1,591,048	1,638,780	1,687,941	1,738,576	8,201,054
Pier 19½ shed	441,706	454,957	468,609	482,671	497,151	2,345,095
Pier 29½ shed	706,750	727,952	749,790	772,283	795,453	3,752,228
Gross Revenue	$5,591,023	$5,758,752	$5,931,520	$6,109,747	$6,292,747	$29,683,510
City Parking Tax	$1,112,831	$1,146,215	$1,180,603	$1,216,021	$1,252,501	$5,908,172
Revenue Less Tax	$4,478,192	$4,612,537	$4,750,917	$4,893,446	$5,040,246	$23,775,338
Port 66% Rent	$2,955,607	$3,044,274	$3,135,605	$3,229,674	$3,326,562	$15,691,723

As also shown in Table 4 above, the City is projected to receive between approximately $1.1 million to $1.2 million of parking taxes each year from this lease and a total of approximately $5.9 million of parking tax revenues over five years from all these parking lots.

In 2016 total gross revenues of $4,177,357 were generated from these northern waterfront Port parking lots[8]. Included in this amount was $832,554 of parking taxes which were paid by the parking operator directly to the City. Based on $3,344,803 of net gross revenues from these parking lots in 2016, the Port received $2,207,570 of revenues in 2016. Therefore, the proposed lease is projected to generate approximately $748,037 ($2,955,607 projected first year revenues under this lease agreement less $2,207,570 received in 2016 under the current lease) of additional rental revenues in the first year for the Port and approximately $280,277 ($1,112,831 less $832,554) of additional parking taxes in the first year for the City.

The Port revenues realized from this parking lease are used to support the Port's annual operating budget. Parking taxes are used to support the City's General Fund.

RECOMMENDATION

Approve the proposed resolution.

[8] The 2016 revenues include additional revenues from Pier 33 parking lot and reduced revenues from Pier 29½ for six months due to renovations to this facility.

Items 2, 3 and 4 Files 17-0174, 17-0173 and 17-0172	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve three leases of approximately four years and four months from March 2017 through June 2021 between the Airport as landlord and (i) Aer Lingus Limited (Aer Lingus) (File 17-0172) (ii) Turk Hava Yollari Anonim Ortakligi (Turkish Airlines) (File 17-0173), and (iii) Redding Aero Enterprises, Inc. (Redding Aero) (File 17-0174) as tenants to conduct flight operations at the Airport.

Key Points

- In 2011, Airport negotiated a new Lease and Use Agreement with its domestic and international airlines that operate at the Airport. This Agreement 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 fees paid by the airlines to the Airport, permitted uses of the premises, use of common facilities, and numerous other provisions.
- On November 22, 2016, the San Francisco Airport Commission approved leases with (i) Aer Lingus Limited (Aer Lingus) (ii) Turk Hava Yollari Anonim Ortakligi (Turkish Airlines), and (iii) Redding Aero Enterprises, Inc. (Redding Aero) to continue to conduct flight operations at the Airport under provisions of the 2011 Lease and Use Agreement in order to provide for long-term leases to replace their existing permits.

Fiscal Impact

- The Airport estimates total revenues from Joint Use Space rent to be $2,962,513 for the three airlines for FY 2016 – 17. Total landing fee revenues paid to the Airport from July 2016 through January 2017 are $514,316 for the three airlines.

Recommendation

- Approve the proposed resolutions.

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 2011, the San Francisco International Airport (Airport) negotiated a new Lease and Use Agreement (Agreement) with its domestic and international airlines that operate at the Airport. This Agreement 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 and Use Agreement will expire on June 30, 2021.

On November 22, 2016, the San Francisco Airport Commission approved leases with (i) Aer Lingus Limited (Aer Lingus) (ii) Turk Hava Yollari Anonim Ortakligi (Turkish Airlines), and (iii) Redding Aero Enterprises, Inc. (Redding Aero) to continue to conduct flight operations at the Airport under provisions of the 2011 Lease and Use Agreement in order to provide for long-term leases to replace their existing permits[1].

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve three leases of approximately four years and four months from March 2017 through June 2021 between the Airport as landlord and (i) Aer Lingus Limited (Aer Lingus) (File 17-0172) (ii) Turk Hava Yollari Anonim Ortakligi (Turkish Airlines) (File 17-0173), and (iii) Redding Aero Enterprises, Inc. (Redding Aero) (File 17-0174) as tenants to conduct flight operations at the Airport. Table 1 below summarizes the key provisions for each of the three proposed leases.

[1] Aer Lingus began flight operations on April 2, 2014 under Airline Operating and Space Permit No. 4324. Under the permit, the area of the premises was approximately 426,276 square feet of Joint Use Space in the International Terminal. Turkish Airlines began flight operations on July 1, 2015 under Airline Operating and Space Permit No. 4441. Under the permit, the area of the premises was approximately 631,987 square feet of Joint Use Space in the International Terminal. Redding Aero began flight operations on June 20, 2016 under Airline Operating and Space Permit No. 4531. Redding Aero is a cargo only air carrier and does not rent any Joint Use Space.

Table 1: Key Provisions of Proposed Leases between Airport and Tenants

Tenant	Term	International Terminal Joint Use Space	International Terminal Joint Use Space Rent	Landing Fees	Deposit
Aer Lingus (File 17-0172)	Lease commences upon approval by the Board of Supervisors and expires on June 30, 2021, approximately 4 years and 4 months	426,276 square feet	Joint Use Space rent is determined annually by formula.	Landing Fees are determined by Airport Rates and Charges.	Two months of terminal area rentals, landing fees, and usage fees per rates and charges.
Turkish Airlines (File 17-0173)	Lease commences upon approval by the Board of Supervisors and expires on June 30, 2021, approximately 4 years and 4 months	631,987 square feet	Joint Use Space rent is determined annually by formula.	Landing Fees are determined by Airport Rates and Charges.	Two months of terminal area rentals, landing fees, and usage fees per rates and charges.
Redding Aero (File 17-0174)	Lease commences upon approval by the Board of Supervisors and expires on June 30, 2021, approximately 4 years and 4 months	None. Redding Aero is a cargo only air carrier	N/A	Landing Fees are determined by Airport Rates and Charges.	Two months of terminal area rentals, landing fees, and usage fees per rates and charges.

Joint Use Space rent is determined through a formula based on multiple variables that change each year. This includes the number of airlines in the joint use formula used to calculate the appropriate charges, as well as the number of boarding and disembarking passengers. The Airport determines the rent amounts annually based on data collected from the previous period[2].

Landing Fees are determined by the Airport's Rates and Charges and are to be paid by airlines based on its fleet mix, flight schedules, number of flights, aircraft type and maximum landing weights[3] which may change over time. Ms. Diane Artz, Senior Property Manager at the Airport, states that because of the many variables related to Joint Use Space rent and Landing Fee calculations, the Airport cannot project Joint Use Space rent and Landing Fees for the fiscal years following FY 2016-17.

[2] In the event there are several airlines that either commence or terminate flight operations in any given year, the Airport reserves the right to make mid-year adjustments.

[3] Landing Fees are calculated based on the maximum landing weight of a particular aircraft type, which is determined by the aircraft manufacturer (e.g., Boeing). Each airline has a fleet mix that can range from regional jets to 747 airliners, all of which have different maximum landing weights (i.e., some are heavier than others). As an airline's flight schedule shifts due to market demand, weather, and/or mechanical problems, their fleet mix changes and, therefore, their maximum landing weights also change.

FISCAL IMPACT

Table 2 below shows the estimated Joint Use Space rent to be paid by the three airlines to the Airport in 2016-17, totaling $2,962,513.

Table 2. Estimated Joint Use Space Rent in FY 2016 – 17

Tenant	Joint Use Space Rent (FY 2016-17)
Aer Lingus (File 17-0172)	$875,932
Turkish Airlines (File 17-0173)	$2,086,581
Redding Aero (File 17-0174)	N/A
Total	**$2,962,513**

Table 3 below shows the actual landing fee revenues paid by Aer Lingus and Redding Aero to the Airport from July 2016 through January 2017.

Table 3. Landing Fees Paid from July 2016 through January 2017

Tenant	Landing Fees (July 2016 through January 2017)
Aer Lingus (File 17-0172)	$463,764
Turkish Airlines (File 17-0173)	Waived Under the Air Carrier Incentive Program (ACIP)
Redding Aero (File 17-0174)	$50,552
Total	**$514,316**

According to Ms. Artz, Turkish Airlines is eligible to participate in the Airport's Air Carrier Incentive Program (ACIP) because of its service to Istanbul, Turkey. ACIP provides for a 100 percent waiver of Landing Fees and Landing Fee premiums for a minimum of 12 consecutive months and up to 24 consecutive months for new international services. Turkish Airlines opted for the 24-month period beginning April 2015 through March 2017. According to Ms. Artz, the Landing Fees and Landing Fee premiums waived for Turkish Airlines are $2,167,486 for the period of April 2015 through January 2017

As stated previously, the Airport does not currently have an estimate for Joint Use Space rent and Landing Fees for the fiscal years following FY 2016-17. Consequently, the Airport is also not able to provide an estimate for total annual increases to the Joint Use Space rent and Landing Fees for the fiscal years following FY 2016-17.

RECOMMENDATION

Approve the proposed resolutions.

Item 6 Files 17-0193	Departments: San Francisco Public Utilities Commission (SFPUC) General Services Agency (GSA) Office of Contract Administration (OCA), Real Estate Division (RED) Public Works

EXECUTIVE SUMMARY

Legislative Objectives

- Resolution authorizing the (a) jurisdictional transfer, subject to Amendment No. 1 to the Memorandum of Understanding (MOU) between the Real Estate Division, the General Services Agency's Office of Contract Administration (OCA) and the San Francisco Public Utilities Commission (SFPUC), to increase the total Transfer Price by $8,578,429 to a not-to-exceed $82,278,429 for 1800 Jerrold Street from OCA to SFPUC; (b) jurisdictional transfer of 555 Selby Street and 1975 Galvez Avenue and the leasehold of 450 Toland Street (collectively the Project Site) from the SFPUC to OCA to create functionally-equivalent facilities for the relocation of the City's Central Fleet Maintenance Shop (Central Shops) from 1800 Jerrold Street; (c) issuance of a Notice to Proceed for the construction phase under a Board of Supervisors' authorized design-build Project Delivery Agreement with Oryx Development I, LLC for the construction of facilities to relocate Central Shops to the Project Site; and (d) finding the proposed transactions in conformity with the General Plan and the eight priority policies of Planning Code, Section 101.1.

Key Points

- GSA plans to relocate Central Shops from 1800 Jerrold Avenue to (1) 1975 Galvez Avenue, (2) 555 Selby Street and (3) 450 Toland Street. Relocation of Central Shops will be funded by the SFPUC, which wants to secure the 1800 Jerrold Avenue site for improvements.
- Phase 1, the design phase is near completion. Phase 2, the construction phase is anticipated to begin in April 2017 and be completed by June 2018, on schedule.

Fiscal Impact

- Acquisition, lease, design and construction costs to replace the existing Central Shops facilities were previously estimated to total $73,700,000. Now the estimated total project cost is $82,278,429, an increase of $8,578,429 or 11.6%, primarily due to increased tenant relocation expenses, unforeseen construction issues and additional contingencies.
- The project will be funded with Wastewater Enterprise Funds from sewer customers. SFPUC has appropriated $90 million, to include an additional $7.7 million for City-related costs.

Policy Consideration

- The Board of Supervisors previously waived the competitive bidding requirements and approved the selection of the developer, architect and general contractor on a sole source basis to complete the project within the City's schedule and budget.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Administrative Code Chapter 23, Article II establishes the policies and procedures for the jurisdictional transfers of City property from one department to another. These procedures include that the Director of Property shall prepare a report regarding the estimated fair market value of the property to be transferred and that the Board of Supervisors approve such jurisdictional transfers of City properties.

BACKGROUND

Central Shops Relocation

The City's Central Fleet Maintenance Shop (Central Shops) is located on a City-owned 5.3-acre site at 1800 Jerrold Avenue under the jurisdiction of the City's General Services Agency (GSA). Central Shops provides repair services for City vehicles. Located immediately adjacent to 1800 Jerrold Avenue is the San Francisco Public Utilities Commission (SFPUC) Southeast Water Pollution Control Plant (Plant). The SFPUC seeks to secure this large site at 1800 Jerrold Avenue adjacent to the Plant for capital improvements necessary to maintain essential utility services.

GSA plans to relocate Central Shops from 1800 Jerrold Avenue to (1) 1975 Galvez Avenue, (2) 555 Selby Street and (3) 450 Toland Street. On December 15, 2015, the Board of Supervisors approved a resolution (File 15-1215; Resolution No. 525-15) authorizing

(a) purchase of the 1975 Galvez Avenue property for $5 million, and the 555 Selby Street property for $6,300,000 to be merged into one site for Central Shops heavy duty fleet repair operations such as fire trucks, dump trucks and street sweepers, and include administrative offices and support functions; and

(b) lease at 450 Toland Street for ten years with two five-year options, for $735,600 annually with 3% annual increases for the Central Shops light duty fleet repair operations such as light duty trucks, body and paint shop and related employee support functions.

Project Delivery Agreement with Oryx Development, LLC

On February 9, 2016, the Board of Supervisors approved an ordinance (File 15-1226; Ordinance No. 8-16) to

(a) execute a Project Delivery Agreement with Oryx Development LLC (Oryx) to design and construct the Central Shops facilities at 1975 Galvez Avenue, 555 Selby Street and 450 Toland Street at a total project cost of $55,000,000 from SFPUC Wastewater Enterprise funds, without competitive bidding[1]; and

[1] The ordinance waived the City's competitive bidding requirements to approve Oryx as Developer, FM&E Architecture & Design as Project Architect and Charles Pankow Builders, Ltd, as General Contractor due to time constraints coupled with the extraordinarily competitive real estate market for industrial land. The "Director of Property informally approached entities capable of executing the Proposed Project and identified one team reasonably available and deemed capable of carrying the Proposed Project within the time frame required and within the budget developed".

(b) authorize the jurisdictional transfer of 1800 Jerrold Avenue from GSA to SFPUC and the jurisdictional transfer of 555 Selby Street, 1975 Galvez Avenue and 450 Toland Street from the SFPUC to OCA, subject to the terms and conditions of a Memorandum of Understanding (MOU) between Real Estate, OCA and SFPUC.

In accordance with Ordinance No. 8-16, the Board of Supervisors authorized Oryx to commence Phase 1, the design phase, and OCA was required to obtain the Board of Supervisors approval to proceed with Phase 2, the construction phase, if the negotiated guaranteed maximum price exceeded $55,000,000.

On February 9, 2016, the Board of Supervisors also approved an ordinance to appropriate $62,300,000 from SFPUC Wastewater Enterprise Funds to the City Administrator for the Central Shops Relocation project and placed $45,000,000 on Budget and Finance Committee Reserve (File 16-0021; Ordinance No. 21-16).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the

(a) jurisdictional transfer, subject to Amendment No. 1 to the Memorandum of Understanding (MOU) between the Real Estate Division (RED), the General Services Agency's Office of Contract Administration (OCA) and the San Francisco Public Utilities Commission (SFPUC), to increase the total Transfer Price by $8,578,429 from $73,700,000 to a not-to-exceed $82,278,429 for 1800 Jerrold Avenue from OCA to SFPUC;

(b) jurisdictional transfer of 555 Selby Street and 1975 Galvez Avenue and the leasehold of 450 Toland Street (collectively the Project Site) from the SFPUC to OCA to create functionally-equivalent facilities for the relocation of the City's Central Fleet Maintenance Shop (Central Shops) from 1800 Jerrold Street;

(c) issuance of a Notice to Proceed for the construction phase under a Board of Supervisors' authorized design-build Project Delivery Agreement with Oryx Development I, LLC for the construction of facilities to relocate Central Shops to the Project Site; and

(d) finding that the proposed transactions are in conformity with the General Plan and the eight priority policies of Planning Code, Section 101.1.

Memorandum of Understanding (MOU)

On November 10, 2015 and December 8, 2015, the SFPUC approved initial and revised MOUs respectively with OCA and the Real Estate Division (RED) agreeing that SFPUC would pay OCA a total of $73,700,000 from SFPUC Wastewater Enterprise funds for the relocation of functionally equivalent Central Shops by July 31, 2017. The projected total Transfer Price of $73,700,000 to be paid by SFPUC to OCA included the purchase and lease of the sites, the design and construction of the facilities, the jurisdictional transfer of 1800 Jerrold Avenue to the SFPUC, and the jurisdictional transfer of the Project Site to OCA. The MOU itself was not subject to Board of Supervisors approval.

On February 16, 2017, the SFPUC, OCA and RED approved a first amendment to the MOU to increase the Transfer Price from $73,700,000 to $82,278,429, an increase of $8,578,429 or

11.6%. The Fiscal Impact Section below summarizes the earlier 2015 MOU agreed Transfer Price of $73,700,000 and the recent 2017 amended Transfer Price of $82,278,429 that the SFPUC agreed to pay OCA for the purchase, lease, design and construction of Central Shops and the jurisdictional transfer of the properties. The proposed resolution would approve both the jurisdictional transfers of 1800 Jerrold Avenue from the OCA to SFPUC and the jurisdictional transfer of the Project Site from the SFPUC to OCA, subject to the increased price to be paid by the SFPUC of $82,278,429, as specified in Amendment No 1 to the MOU.

As noted above, the earlier Ordinance No. 8-16 approved by the Board of Supervisors in February 2016 already authorized these jurisdictional transfers of properties subject to the terms of the previous MOU. However, one of the key terms of the previous MOU was the amount the SFPUC would pay for the relocation of Central Shops. The SFPUC, OCA and RED have now executed Amendment No. 1 to the MOU, which authorizes the SFPUC to pay a higher Transfer Price of $82,278,429, an increase of $8,578,429 or 11.6%, a material amendment. Ms. Noreen Ambrose, City Attorney for the SFPUC, advises that the previous Board of Supervisors approval did not authorize material amendments to the MOU, the terms of which were conditions of the Board's approval of the jurisdictional transfers, such that the Board of Supervisors is now being requested to confirm approval of the jurisdictional transfer of properties subject to the new Transfer Price.

Notice to Proceed

The proposed resolution would also authorize Public Works, acting on behalf of OCA, to issue a Notice to Proceed for the construction phase under a Board of Supervisors' authorized design-build Project Delivery Agreement with Oryx Development I, LLC for the construction of facilities to relocate Central Shops to the Project Site. As noted above, this project included Phase 1, design phase and Phase 2, construction phase. Table 1 below summarizes the design phase.

Table 1: Summary of Phase I, Design Phase

- Complete project design, including demolition, permitting, site grading and piles;
- Select and retain licensed architect to design the project;
- Select and retain licensed general contractor to construct the project;
- Provide City with all analyses, surveys, designs, engineering, permits, warranties, etc.;
- Comply with Local Hire, First Source and Local Business Enterprise Program Requirements;
- Design and construct project within budget of $55 million to be completed by June 29, 2017;
- Procure trade subcontractors on competitive basis, with award to lowest responsive bid;
- Developer may procure design, preconstruction or design-assist subcontractor services based on qualifications only; Subject to City representative sole discretion, developer may negotiate with subcontractors outside Core Lower-Tier list, up to 7.5% of subcontract costs;
- Developer through its General Contractor may self-perform specific trade work;
- Provide Guaranteed Maximum Price and Schedule for completion;
- Conditioned on agreement to proceed with Phase II (construction), developer will provide the City with a completed project.

According to Mr. Samuel Chui, Project Manager at Public Works, Phase 1, the design phase is almost complete, noting that permit review and plan checks are now proceeding and site grading and piles will be completed by the summer 2017. As shown in Table 1 above, in Phase 1, the design and construction budget was anticipated to be $55 million to be completed by June 29, 2017[2]. However, the total project costs have now increased to $82,278,429, including a design and construction budget of $60,200,000, which is $5,200,000 more than the $55 million previously estimated budget.

It should be noted that when the Board of Supervisors approved Ordinance No. 8-16 in February 2016, the Board of Supervisors were informed that when the architect completed the construction drawings, the developer would provide a guaranteed maximum price and schedule for completion. If the guaranteed maximum price exceeded the $55 million, the City would work with the developer to reduce the scope of the project, or seek Mayor and Board of Supervisors approval to proceed with construction for a guaranteed maximum price that exceeded $55 million. Mr. Chui advises that City staff worked with the developer to reduce the increased costs through value engineering by $1.9 million from $62,100,000 to $60,200,000. Therefore, the Board of Supervisors is now being requested to approve the proposed resolution, which authorizes increases in the total cost, dates and requirements for completion.

According to Mr. Chui, Phase 2, the construction phase is anticipated to begin in April 2017 and be completed by June 2018, on schedule. Ms. Shelby Campbell, Project Manager at the SFPUC advises that the Central Shops project is on an expedited schedule to be completed on time.

Conformity with General Plan and Planning Code

On November 5, 2015, the Planning Department found that the proposed transactions are in conformity with the General Plan and the eight priority policies of Planning Code, Section 101.1.

FISCAL IMPACT

Design Phase

When the Phase I, design phase was approved by the Board of Supervisors, the Board amended Ordinance 8-16 to increase the estimated cost of Phase I from $8,430,000 to a not-to-exceed $10,300,000, an increase of $1,870,000 or 22.2% due to extensions in the schedule and scope of services. Table 2 below shows the total design and site preparation projected cost of $10,300,000, including development management fees of up to $1,380,000 ($987,000 + $393,000) and general contingency of $941,340.

[2] Mr. Chui advises that the June 2017 completion date included in the previous documents was a typographical error and should have been June 2018. Ms. Shelby Campbell, Project Manager at the SFPUC confirms this error.

Table 2: Projected Costs for Phase I, Design

Acquisition due diligence	$25,000
Architect and sub-consultants	2,419,488
Design- build sub-consultants	479,737
Pre-construction services (Pankow)	627,000
Permits and fees	925,475
Legal, insurance, accounting and administration	215,000
Development Management Base Fee	987,000
Development Management Bonus Fee	393,000
Demolition/Site-grading/Piles	3,286,960
General Contingency (10%)	941,340
Total	$10,300,000

Total Project Costs

Table 3 below compares the total estimated cost for the Central Shops relocation project of $73,700,000 in the 2015 MOU to the $82,278,429 in the recent 2017 Amendment No. 1 to the MOU and that is included in the proposed resolution. As shown in Table 3, this results in an increase cost of $8,578,429 or 11.6% to be paid by the SFPUC to OCA. The proposed resolution would approve the jurisdictional transfers of properties, subject to the increase in the total Transfer Price to a not-to-exceed $82,278,429.

Table 3: Total SFPUC Costs

	2015 MOU Total Transfer Price	2017 Total MOU Transfer Price	Increased Transfer Price (11.6%)
Acquisition of 555 Selby Street	$6,300,000		
Acquisition of 1975 Galvez Avenue	5,000,000		
Subtotal Acquisitions	$11,300,000	$11,303,429	$3,429
Tenant Relocation Costs	200,000	2,200,000	2,000,000
10-Year Lease of 450 Toland Street	6,900,000	6,000,000	(900,000)
Construction of new Central Shops	55,000,000	60,200,000	5,200,000
Contingency for Oryx Contract		2,025,000	2,025,000
Relocation of existing PG&E service		250,000	250,000
Moving Expenses	300,000	300,000	0
Total	**$73,700,000**	**$82,278,429**	**$8,578,429**

Mr. John Updike, Director of Real Estate and Mr. Chui provided the following explanations for the changes in costs shown in Table 3 above:

- Property Acquisitions – Increase of $3,429 due to final closing and escrow costs.
- Tenant Relocation Costs – Increase of $2,000,000 due to the cost to acquire the remaining term of the leasehold interest held by Blue Line Rentals at 1975 Galvez ($1.65 million) with the balance budgeted for the estimated cost of relocation expenses that will be incurred by DeSoto (dba Flywheel) at 555 Selby Street to vacate these two recently acquired properties, under the California Relocation Assistance Act requirements.

- 10-Year Lease at 450 Toland Street – Reduction of $900,000 due to unanticipated leaseback revenues generated from HULU for filming at 450 Toland as well as lease revenues from Blue Line Rentals at 1975 Galvez and DeSoto (dba Flywheel) at 555 Selby Street.
- Construction of new Central Shops – Net increase of $5,200,000 due to approximately (a) $1.7 million increased foundation support costs from poor soil conditions on the 555 Shelby site based on updated structural engineer's report, (b) $1.2 million increased pre-cast walls cost due to poor soil condition of site and market escalation, (c) $900,000 increased costs for industrial equipment, (d) $1.0 million increased electrical costs based on completed design to install additional intervening facilities required for SFPUC electric customers and (e) $400,000 miscellaneous hard cost increases.
- City contingency for Oryx Contract – new cost of $2,025,000 to fund additional unforeseen City-caused schedule delays, differing site conditions, future changes requested by the City to the scope of work or criteria package including potential option to expedite the project schedule.
- Relocation of existing PG&E service – new cost of $250,000 to relocate previously unidentified PG&E poles, transmission and distribution service lines at 1975 Galvez to another easement area within the project site.

Previous Appropriation of Funds

Ms. Campbell advises that to date $90 million of Wastewater Enterprise Sewer System Improvement Program funds have been appropriated by the Board of Supervisors for this project. Ms. Campbell explains that the difference between the $90 million already appropriated by the SFPUC and the total $82,278,429 Transfer Price included in the proposed resolution or $7,721,571 of additional costs are due to:

- Additional assessment studies, design studies completed by DPW for other options, environmental consultants, site investigation consultants and peer review consultants;
- City project management costs for SFPUC, DPW and OCA;
- Civic Design Review and Public Arts Fees;
- Contingency for additional unknown costs, such as City legal expenses for tenant settlements, etc.

To fully fund this project, SFPUC will need to sell additional Wastewater revenue bonds, subject to Board of Supervisors approval. Wastewater bonds are financed with sewer revenues paid by SFPUC customers.

POLICY CONSIDERATION

Ordinance No. 8-16 authorized the existing agreement with Oryx LLC as Developer, FM&E Architecture & Design as Project Architect and Charles Pankow Builders, Ltd, as General Contractor to design and construct the new Central Shops facilities without competitive bidding because this was determined to be the one team available and capable of completing the project within the City's schedule and budget. At that time, the design and construction agreement was for $55,000,000 and the total project budget was for a not-to-exceed

$73,700,000. While approving a sole source selection of the developer, architect and general contractor likely expedited the selection process and design phase, the City's requirements for competitive bidding promote larger public policy objectives of providing an open process to obtain the most competitive price for the City.

As noted above, the project is on schedule, at an expedited pace. However, the previous not-to-exceed $73,700,000 total project budget is now anticipated to be $82,278,429, an increase of $8,578,429 or 11.6%. To date, the SFPUC has appropriated approximately $90 million or $7.7 million more, to pay for additional City-related expenses for this project.

However, when the previous Ordinance No. 8-16 was approved by the Board of Supervisors in February 2016, the Board of Supervisors were informed that when the design phase was completed, if the price was determined to exceed the original budget, the City would seek Board of Supervisors approval for such increased costs, which is the subject of the proposed resolution. In addition, City staff report that because this is a design-build contract, and the contractor has now supplied a guaranteed maximum price following the near completion of design, this provides greater protection against any further cost increases for the Central Shops relocation project.

RECOMMENDATION

Approve the proposed resolution.

Item 7 **File 17-0302**	**Department:** Administrative Services, Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the purchase and sale agreement between the City and SF Prosperity 2, LLC for the sale of City-owned properties located at 1660 Mission Street and 1680 Mission Street for $52,000,000, including a City leaseback for a period of three years in the initial term, with two, one-year options to extend, for a total leaseback of not more than five years.

Key Points

- The Real Estate Division is recommending the sale of two City-owned buildings – 1660 Mission Street and 1680 Mission Street – as a source of funds to pay for development of a new City-owned office building at 1500 Mission Street, if the City elects to proceed with the project following the environmental review process. 1660 Mission Street is a six-story 75,321-square-foot building that is mostly occupied by employees of DBI. 1680 Mission Street is a 36,753-square-foot four-story building that is mostly occupied by employees of Public Works.
- Leasebacks will allow City departments to continue to occupy 1660 and 1680 Mission Street for three years, with two additional one-year options, or through April 30, 2022. The City will pay SF Prosperity 2, LLC $3,362,220 in rent the first year, plus operating expenses, or $41.13 per square foot annually.

Fiscal Impact

- SF Prosperity 2, LLC will pay (1) the sale price of $52,000,000, (2) the City's transfer tax at a cost of approximately $1,560,000, which is typically paid by the seller, and (3) annual property taxes of about $613,184 in the first year. Transfer and property taxes are deposited into the City's General Fund.
- The total value of the property purchase of approximately $53,560,000 (the purchase price plus the transfer tax) exceeds the appraised value of $53,480,000.
- Following CEQA approval and assuming the Board elects to proceed with the project, proceeds of $52 million from the sale of 1660 and 1680 Mission Street will be allocated to the potential development of the new City-owned office building at 1500 Mission Street, which is estimated to cost $326,690,953, with a total estimated project cost net of prior appropriations of $439,265,000.

Policy Consideration

- Administrative Code Chapter 23A defines surplus property as any property that is not required to fulfill the mission of the City department with jurisdiction over the property. Chapter 23A also provides for the transfer of surplus properties to the Mayor's Office of Housing and prioritizes the use of surplus property for affordable housing. Because the funds from the sale of 1660 and 1680 Mission Street are being used for a City development that does not involve affordable housing, approval of the proposed resolution is a policy matter.

Recommendations

- Amend the proposed resolution to add a finding that the public interest or necessity will not be inconvenienced by the conveyance of 1660 Mission Street and 1680 Mission Street from the City to SF Prosperity 2, LLC.
- Approval the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Administrative Code Section 23.3 provides that the Director of Property may sell real property owned by the City, after the Board of Supervisors (a) determines that the public interest or necessity will not be inconvenienced by the conveyance, (b) authorizes the means of disposition, and (c) approves the conveyance.

BACKGROUND

The Real Estate Division is recommending the sale of two City-owned buildings – 1660 Mission Street and 1680 Mission Street located near the southern intersection of Mission Street and Otis Street – as a source of funds to pay for relocation opportunities, such as the potential development of a new City-owned office building at 1500 Mission Street, if the City elects to proceed with the project following the environmental review process. 1660 Mission Street is a six-story 75,321-square-foot building with a basement parking garage that is predominantly occupied by employees of the Department of Building Inspection (DBI). 1680 Mission Street is a 36,753-square-foot four-story building that is mostly occupied by employees of the Department of Public Works (Public Works).

The City acquired the 1660 Mission Street property in March 1993 for $5,425,000. The City acquired the 1680 Mission Street property in July 1965. It was under the jurisdiction of what is now known as the Human Services Agency until April 1988, when it was transferred to Public Works at a cost to Public Works of $105,000. There is no outstanding debt on either property.

DBI currently pays the Real Estate Division rent of $24.12 per square foot for 1660 Mission Street, based on the Real Estate Division's FY 2016-17 aggregate rent model that covers the costs of utilities and Real Estate Division staffing to service the building. According to Mr. John Updike, Director of Real Estate, Public Works opted out of the aggregate rent model at the 1680 Mission Street property, and services the building using its own in-house staff or contractors engaged directly by Public Works. At the 1680 Mission Street property, Mr. Updike estimates that Public Works incurs operating expenses of approximately $11.13 per square foot per year in FY 2016-17.

Decision to Sell 1660 and 1680 Mission Street

The City is pursuing potential development of a new City-owned office building at 1500 Mission Street at the intersection of Mission Street and 11th Street, currently awaiting certification of the environmental review, to: (1) create a One-Stop Permitting Center that would improve service to planning, building, and street permit applicants by co-locating DBI, City Planning, and Public Works; (2) consolidate human resources-related functions to improve staff service; (3) improve the building quality and resiliency of the Civic Center portfolio; and (4) migrate from leasing to ownership. The project will increase City office space to accommodate growth and relocate these departments' offices.

On December 9, 2014, the Board of Supervisors approved an ordinance for a Conditional Land Disposition and Acquisition Agreement with Related California Urban Housing, LLC (Related) to potentially develop the new City office building at 1500 Mission Street (Ordinance 254-14). Related plans to develop this site to include (a) an approximately 463,300 gross square foot 18-story City-owned office building along 11th Street and (b) an approximately 38-story, multifamily residential development with 550 residential units and ground level retail along Van Ness Avenue.

Pending certification of the environmental review, construction of the proposed project at 1500 Mission Street is expected to begin in 2017 and be completed in 2020, a construction period of approximately three years. The Real Estate Division planned for the sale of three City-owned buildings - 30 Van Ness Avenue[1], 1660 Mission Street, and 1680 Mission Street - as a source of funds to pay for the potential development of 1500 Mission Street, following certification of the environmental review and subsequent approval to proceed with the project by the Board of Supervisors.

Selection of Listing Broker

In May 2016, the Real Estate Division issued a Request for Proposals (RFP) to real estate brokers to sell 1660 and 1680 Mission Street via one brokerage agreement. Four prequalified firms responded in the first round with offers to charge the City ranging from 0.39 to 0.75 percent of the sale price, or a fixed fee of 0.5 percent of the sale price increasing for any amount over the appraised value yielded. Since the offers included different conditions, the Real Estate Division issued a second round RFP seeking a simple all-inclusive fixed fee offer. Colliers International submitted the most responsive proposal at a fixed fee of $240,000, inclusive of all costs (which comes out to approximately 0.46 percent of the sale price of $52,000,000), with a waiver of claims to payment if either property does not sell.

Offering of 1660 and 1680 Mission Street

On December 1, 2016, the Real Estate Division, working with Colliers International, offered the 1660 and 1680 Market Street properties for sale. Eighty-eight interested parties signed the confidentiality agreement from the offering, and over 22 interested parties toured the properties. Round one generated seven offers by January 12, 2017, ranging from $37 million to $49 million. In round two, four offers were received by January 19, 2017, ranging from $41 million to $52 million. The offer at $52 million, the highest bid, was tentatively advanced to the final stages of due diligence and Purchase and Sale Agreement negotiation, following staff team review and recommendation.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the purchase and sale agreement by and between the City and County of San Francisco (City) and SF Prosperity 2, LLC[2], the highest bidder, for the sale of City-owned properties located at 1660 Mission Street and 1680 Mission Street for $52,000,000, including a City leaseback for a period of three years in the initial term, with two, one-year options to extend, for a total leaseback of not more than five years. The proposed

[1] The sale and leaseback of 30 Van Ness Avenue is considered in separate legislation (File No. 17-0214).
[2] SF Prosperity 2, LLC is an entity of Michael Wang.

resolution would also affirm the Planning Department's determination under California Environmental Quality Act (CEQA) and adopt findings that the sale is consistent with the General Plan and Planning Code Section 101.1.

Leasebacks for City Office Use

The proposed resolution specifies that the purchase and sale agreement includes leasebacks to allow City departments to continue to occupy the buildings at 1660 and 1680 Mission Street for an initial term extending from the close of escrow, estimated to occur in early May 2017, through April 30, 2020, or not more than three years, with two additional one-year options to extend, through approximately April 30, 2022. DBI, which currently predominantly occupies 1660 Mission Street, and Public Works, which currently predominately occupies 1680 Mission Street, will relocate to 1500 Mission Street when construction is completed, anticipated for early 2020 pending completion of the environmental review process and a subsequent project approval by the Board of Supervisors, as noted above.

SF Prosperity 2, LLC intends to continue use of 1660 Mission Street and 1680 Mission Street as office space when the leasebacks end and the respective City departments relocate to the proposed new City-owned office building at 1500 Mission Street, if the City elects to proceed with the project following the environmental review process.

FISCAL IMPACT

Sale of 1660 Mission Street and 1680 Mission Street

Value of Proposed Sale

SF Prosperity 2, LLC, as the highest bidder, has agreed to pay the City $52,000,000 to purchase 1660 and 1680 Mission Street. SF Prosperity 2, LLC will also pay the City's one-time transfer tax estimated to be $1,560,000.[3] In addition, SF Prosperity 2, LLC will pay annual property taxes[4] of an estimated $613,184 in the first year.[5] Transfer taxes and property taxes are deposited into the City's General Fund. Therefore, the City will receive the sales price and transfer taxes of $53,560,000 upon closing the proposed sale of 1660 and 1680 Mission Street, and will receive annual property taxes in the first year of an estimated $613,184.

Appraised Value

The Real Estate Division obtained appraisal reports, prepared by Carneghi + Partners, and appraisal reviews, conducted by Clifford Advisory LLC, for 1660 and 1680 Mission Street, in compliance with Administrative Code Section 23.3.

[3] Equal to the transfer tax rate of 3 percent times the sales price of $52,000,000.
[4] The City does not assess property tax on its own properties, so property taxes are not currently paid on 1660 and 1680 Mission Street.
[5] Equal to the property tax rate of 1.1792 percent (the FY 2016-17 City property tax rate) times the sales price of $52,000,000. The property tax amount is subject to (1) the Assessor's assessed value, which may be above the purchase price; and (2) the annual increase in the assessed value, which is capped at 2 percent and can be lower, as determined by the State.

The April 2016 appraisals of 1660 Mission Street and 1680 Mission Street by Carneghi + Partners concluded that the properties had respective as-is market values of $42,500,000 and $19,350,000, totaling $61,850,000 as shown in Table 1 below. In March 2017, Clifford Advisory LLC, the review appraiser, prepared supplemental valuations for both properties, which consider the impact on the valuations of the 3-year leaseback agreements. Clifford Advisory LLC concluded that the properties have respective as-is values of $37,250,000 and $16,230,000 due to the 3-year rent loss under the leasebacks, totaling $53,480,000, which is $8,370,000 less than the original appraisal of $61,850,000 without the 3-year leaseback. A summary of the appraisal and appraisal review values is shown in Table 1 below.

Table 1: Appraisal Report and Appraisal Review Values for 1660 and 1680 Mission Street

Carneghi + Partners Appraisal Reports – April 2016	**Amount**
1660 Mission Street	$42,500,000
1680 Mission Street	19,350,000
As-Is Market Value	**$61,850,000**
Clifford Advisory Appraisal Reviews – March 2017	
1660 Mission Street	$37,250,000
1680 Mission Street	16,230,000
As-Is Market Value, with 3-Year Leasebacks	**$53,480,000**
Difference in Value due to Leasebacks	**($8,370,000)**

While the appraised value of $53,480,000 exceeds the $52,000,000 purchase price, Ms. Sandi Levine, Project Manager at the Real Estate Division, states that the estimated transfer tax of $1,560,000 should be added to the purchase price of $52,000,000 for a total value of the property purchase of approximately $53,560,000. Ms. Levine states that adding the transfer tax to the purchase price to calculate the total value of the purchase is reasonable because the transfer tax is customarily paid by the seller (the City) but will be paid by the buyer (SF Prosperity 2, LLC) for this transaction.

Listing Broker Commission

As mentioned above, the City will pay Colliers International a fixed fee of $240,000, inclusive of all costs, upon closing the sale of the 1660 and 1680 Mission Street properties. The City will not owe Colliers International a commission if either property does not sell.

Use of Net Proceeds for New City Office Space

Proceeds of $52 million from the sale of 1660 Mission Street and 1680 Mission Street will be allocated to the potential development of the new City-owned office building at 1500 Mission Street, which is estimated to cost $326,690,953, with a total estimated project cost net of appropriations of $439,265,000, if the City elects to proceed with the project following the environmental review process. The sources and used of funds of the $439,265,000 estimated project cost for the proposed 1500 Mission Street project are shown in Table 2 below.

Table 2: Sources and Uses of Funds for 1500 Mission Street

Sources	**Amount**
Certificates of Participation (COPs) Par Amount	$317,265,000
Sale Proceeds – 30 Van Ness Avenue	70,000,000
Sale Proceeds – 1660 and 1680 Mission Street [a]	52,000,000
Total Sources	**$439,265,000**
Uses	
Development Costs	$326,690,953
Less Prior Appropriation	(1,250,000)
FF&E, DT, and Moving Costs	29,397,433
City Services Auditor Fee (0.2% of Development Costs)	653,382
Certificates of Participation Delivery Expenses	
Reserve Fund	21,832,100
Interest & Fees/Capitalized Interest	31,051,471
Cost of Issuance	603,807
Underwriter's Discount	2,220,855
Closing Costs (including broker commission) [a]	1,000,000
Defease Outstanding COPs on 30 Van Ness Avenue	27,065,000
Total Uses	**$439,265,000**

[a] The City will pay a commission to the broker of $240,000 from the sale proceeds of $52 million for 1660 and 1680 Mission Street.

Funding for the 1500 Mission Street project, which is estimated to cost $326,690,953 for development with an estimated project cost of $439,265,000 is subject to future Board of Supervisors approval, including (a) certification of the environmental review; (b) appropriation of sale proceeds of $70,000,000 for 30 Van Ness Avenue and $52,000,000 for 1660 and 1680 Mission Street, totaling $122,000,000; and (c) issuance and appropriation of $317,265,000 in COPS.

Leaseback Costs

The base rent for 1660 Mission Street and 1680 Mission Street would be $30.00 per square foot per year, escalating 3 percent per year during the initial three-year term. Rent for the fourth or fifth year options would be set at 100 percent fair market rent at that time, but not less than the previous year's rent.

Under the leasebacks, the City would be responsible for continuing to pay for all operating costs, consisting of utilities custodial, engineering, maintenance, property management, and security service costs, which are estimated to cost $11.13 per square foot per year, escalating at 3 percent per year. The landlord will pay property taxes and insurance. The two properties have a combined total of 112,074 rentable square feet.

Table 3 below shows the total annual rent and operating costs to be paid by the City over the first three years of the leaseback to be $14,247,934.

Table 3: Estimated Cost of Leasebacks

Lease Year	1660 Mission Annual Rent	1680 Mission Annual Rent	Total Rent	Estimated Annual Operating Costs	Total Rent and Operating Costs	Rent and Operating Costs/SF /Year
Year 1: 2017	$2,259,630	$1,102,590	$3,362,220	$1,247,384	$4,609,604	$41.13
Year 2: 2018	2,327,419	1,135,668	3,463,087	1,284,805	4,747,892	42.36
Year 3: 2019	2,397,241	1,169,848	3,567,089	1,323,349	4,890,438	43.64
Total	**$6,984,290**	**$3,408,106**	**$10,392,396**	**$3,855,538**	**$14,247,934**	

According to Ms. Sandi Levine, Project Manager at the Real Estate Division, the fully serviced lease rate of $41.13 in the first year of the leaseback is lower than other recent leases in the Civic Center area. According to Ms. Levine, the current fair market value for leases for comparable space in the Civic Center area is approximately $53.47 per square foot per year, which is $12.34 per square foot per year, or approximately 30 percent higher than the first year rent and operating costs of $41.13.

Under the proposed leaseback, DBI's rent and operating costs for 1660 Mission Street will increase by $1,281,210 in the first year and Public Work's cost for 1680 Mission Street will increase by $1,102,590 in the first year, for total additional rent and operating cost to the City in the first year of $2,383,800, an increase of 107 percent, as shown in Table 4 below.

Table 4: Increase in Costs Under Proposed 3-Year Leaseback Agreement

		Current Costs [a]		Proposed New Costs [b]			
	Square Feet	Per SF [a]	Total	Per SF [b]	Total	Increase	Percent
1660 Mission	75,321	$24.12	$1,816,743	$41.13	$3,097,953	$1,281,210	71%
1680 Mission	36,753	$11.13	409,061	$41.13	1,511,651	1,102,590	270%
Total	**112,074**		**$2,225,803**		**$4,609,604**	**$2,383,800**	**107%**

[a] As noted above, (1) DBI currently pays aggregate rent to the Real Estate Division of $24.12 per square foot to cover the costs of utilities and Real Estate Division custodial, maintenance and other operating services; and (2) Public Works pays their own costs of an estimated $11.13 per square foot for utilities, custodial, maintenance and other operating services.

[b] In the first year of the leaseback, DBI and Public Works would pay rent of $30 per square foot to SF Prosperity2 and would incur operating costs of an estimated $11.13 per square foot, totaling $41.13 per square foot.

According to Ms. Melissa Whitehouse, Mayor's Budget Director, the Real Estate Division has sufficient funds in its budget previously appropriated by the Board of Supervisors to cover rent and operating expenses for the remainder of FY 2016-17. According to Ms. Whitehouse, the Mayor's Budget Office is currently evaluating different strategies for paying the incremental rent and operating expenses, but the rent model has not yet been finalized. Any future budget increases to City departments would be subject to future Board of Supervisors appropriation approval.

POLICY CONSIDERATIONS

Finding about No Inconvenience to Public Interest

As noted above, Administrative Code Section 23.3 requires the Board of Supervisors to make a finding that the public interest or necessity will not be inconvenienced prior to the conveyance of real property. The proposed resolution lacks this finding and should be amended to add it.

Surplus Property Ordinance

Chapter 23A of the Administrative Code defines surplus property as any property that is not required to fulfill the mission of the City department with jurisdiction over the property and shall not include any land to be exchanged for other land to be used by a City department. Chapter 23A also provides for the transfer of surplus properties to the Mayor's Office of Housing and prioritizes the use of surplus property for affordable housing. Because the funds from the sale of 1660 and 1680 Mission Street are being used for a City development that does not involve affordable housing, approval of the proposed resolution is a policy matter.

RECOMMENDATIONS

1. Amend the proposed resolution to add a finding that the public interest or necessity will not be inconvenienced by the conveyance of 1660 Mission Street and 1680 Mission Street from the City to SF Prosperity 2, LLC.
2. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

Item 8
File 17-0214

Departments:
Administrative Services, Real Estate Division

EXECUTIVE SUMMARY

Legislative Objectives

- Resolution (a) approving a purchase and sale agreement between the City and County of San Francisco (City) and Lendlease Development, Inc. for City-owned property at 30 Van Ness Avenue for $70,000,000, including a City lease-back at an annual rent expense of $4,500,000 increasing by 3% per year for three years, with two one-year options to extend; (b) affirming the Planning Department's determination under the California Environmental Quality Act (CEQA); (c) adopting findings that the sale is consistent with the General Plan and Planning Code; and (d) urging the Mayor's Office of Housing and Community Development and the Planning Department to explore certain development strategies relating to affordable housing at the site in connection with any future development.

Key Points

- 30 Van Ness Avenue, located on the northeast corner of Van Ness Avenue and Market Street, is a five-floor 180,363 square foot City-owned office building, housing five City departments. The City has a total capital investment of approximately $44,139,800 in the 30 Van Ness Avenue building, including an outstanding principal balance of $27,065,000.
- On July 28, 2015, the Board of Supervisors authorized the sale of 30 Van Ness Avenue for not less than $87,000,000 and imposed minimum affordable housing obligations of 12% affordability, prior to buyers due diligence on the property. On December 8, 2015, the Board of Supervisors did not approve a sale of 30 Van Ness for $80,000,000 at 15% affordability. The proposed sale at $70,000,000 includes a minimum of 25% affordability, in accordance with Proposition C.

Fiscal Impact

- An appraisal of the 30 Van Ness Avenue property ranged from $69,900,000 to $74,000,000.
- Lendlease Development Inc. will pay the City's $2,100,000 transfer tax, typically paid by the seller. At the $70,000,000 offer plus $2,100,000, results in a total of $72,100,000 from this offer. Lendlease will pay an estimated $825,440 of property taxes annually.
- If the City sells 30 Van Ness at the $70,000,000 sales price, the City would receive $42,545,000 in net sale proceeds, after broker commissions, fees and defeasance of current debt on 30 Van Ness.
- A holdover office lease will allow City departments to occupy 30 Van Ness Avenue for three more years with two one-year options. The City will pay $13,909,050 of rent to Lendlease and incur total costs of $19,551,308 to remain in 30 Van Ness for three years.

Recommendation

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

MANDATE STATEMENT

City Administrative Code Section 23.3 provides that the Director of Property may sell real property owned by the City, after the Board of Supervisors (a) determines that the public interest or necessity will not be inconvenienced by the conveyance, (b) authorizes the means of disposition and (c) approves the conveyance. City Administrative Code Chapter 23A provides that it is City policy that proceeds from the sale of City surplus property be used to finance affordable housing in San Francisco.

BACKGROUND

Purchase of 30 Van Ness City Office Building

In May 2001, the Board of Supervisors authorized the issuance of $35,950,000 of Certificates of Participation (COPs) to partially finance the City's purchase and renovation of the 30 Van Ness Avenue office building (Resolution 344-01). In October 2001, the City purchased 30 Van Ness from the Herbst Foundation for $32,000,000 and expended an additional $5,830,000, for tenant improvements, for a total initial cost of $37,830,000. 30 Van Ness Avenue, located on the northeast corner of Van Ness Avenue and Market Street, is a five-floor 180,363 square foot City-owned office building.

In November 2006, the Board of Supervisors authorized the issuance of $162,000,000 of COPs to finance the acquisition and renovation of additional City properties[1], which included $6,309,800 to renovate the 30 Van Ness City office building (Resolution 680-06). Therefore, the City has a total capital investment of approximately $44,139,800 ($37,830,000 + $6,309,800) in the 30 Van Ness Avenue building. The City's total current outstanding principal balance on the COPs for 30 Van Ness is $27,065,000, with debt service payments of $2,500,000 annually.

City employees from the Department of Public Works, Recreation and Park, Department of Public Health, Department of Emergency Management, Office of Civic Engagement and Immigrant Affairs, and Administrative Services' Contract Monitoring Division are currently located in the 30 Van Ness City office building, comprising 164,011 square feet. The building also includes privately leased spaces comprising approximately 16,352 square feet, including Walgreens on the ground floor. The private leases expire by August 31, 2018, although Walgreens has an option to extend.

Decision to Sell 30 Van Ness Avenue

Mr. John Updike, Director of Real Estate, advises that the existing offices at 30 Van Ness are dysfunctional because (a) the interior layout is inefficient, given current fire code requirements, (b) the building systems are not effective, and (c) this modest 5-story office building, including Walgreens on the ground floor, does not take full advantage of the transit-rich location at Van Ness and Market which could support a larger, residential mixed use development.

[1] Major acquisitions of City properties with the $162,000,000 of COPs in 2006 included the purchase of 1 South Van Ness Avenue and 1650 Mission Street.

At the same time, the City is pursuing a potential development of a new City-owned office building at 1500 Mission Street, near South Van Ness for relocation of City staff, which is still subject to environmental review and Board of Supervisors approval. The City anticipates consolidating office space in this new City-owned office building for the (a) Department of Public Works, (b) Department of Building Inspection and (c) City Planning. These City departments are currently in 30 Van Ness, 1660 and 1680 Mission Street City-owned buildings and in other leased office space in the Civic Center.

1500 Mission Street – City Office Building

On December 9, 2014, the Board of Supervisors approved a Conditional Land Disposition and Acquisition Agreement with Related California Urban Housing, LLC (Related)[2] to develop a new City office building at 1500 Mission Street, subject to environmental review and approval. Related plans to develop this site to include (a) an approximately 463,300 gross square foot 16-story City-owned office building along 11th street and (b) an approximately 39-story, 550 multifamily residential unit development, with ground level retail, along South Van Ness Avenue (Ordinance 254-14).

The new potential City office building at 1500 Mission Street is estimated to cost $326,690,953. The total estimated project cost net of prior appropriations is $439,265,000. A major source of funding for this new City office building is from the sale of three City office buildings: (1) 30 Van Ness (subject of the proposed resolution), and (2) 1660 Mission Street, and (3) 1680 Mission Street (see the Budget and Legislative Analyst's March 16, 2017 report to the Budget and Finance Committee, File 17-0213).

Mr. Joshua Keene of the Real Estate Division advises regarding the status of the potential 1500 Mission Street development:

- 100% design development and 50% of construction drawings for the core and shell are complete;
- Certification of the Environmental Impact Report (EIR) for the project is scheduled to be heard by the Planning Commission on March 23, 2017, with subsequent final approval by the Board of Supervisors;
- Board of Supervisors potential approval of a conditional Purchase and Sale Agreement with Related for the entitled land by June of 2017, such that the City would acquire the property in July 2017;
- If the project is approved, construction is anticipated to begin in October 2017 and extend for two years, such that the project will be substantially complete by November 2019; and
- City employees would then move in through the spring of 2020.

If the 1500 Mission Street project is not approved, the City would continue to explore other relocation opportunities during the initial term, and possibly extended terms, of the leaseback.

[2] Related California Urban Housing LLC created a subsidiary, Goodwill SF Urban Development, to acquire and develop this site.

Selection of Real Estate Brokers for 30 Van Ness

In early 2015, based on a competitive process with four prequalified firms, the Real Estate Division selected the lowest bidder, Newmark, Knight, Frank, Cornish & Carey (Newmark, Cornish & Carey) to provide brokerage services for the sale of 30 Van Ness. Newmark, Cornish & Carey bid the lowest commission of 0.5% of the sale price.

Initial Offering of 30 Van Ness Avenue

On April 13, 2015, the City's Real Estate Division, working with Newmark, Cornish & Carey, issued a preliminary offer to sell 30 Van Ness Avenue. The City's review committee[3] ultimately selected the top four responses. All four of these respondents committed to residential redevelopment and initially offered a purchase price equal to or greater than $87,000,000 for 30 Van Ness Avenue. Mr. Updike notes that these initial offers were made prior to commencement of any due diligence regarding the condition of the building.

Board of Supervisors Initial Ordinance to Sell 30 Van Ness Avenue

On July 28, 2015, the Board of Supervisors authorized the (a) sale, by public competitive bid, of 30 Van Ness Avenue for not less than $87,000,000, imposing redevelopment requirements that met or exceeded the minimum affordable housing obligations in the Market Octavia Area Plan and included a holdover lease for the City, subject to ratification by the Board of Supervisors; (b) appropriation of a portion of the sale proceeds to defease up to $31,770,000[4] of the outstanding COPs; (c) exclusion of the sale from the requirements of the City's Surplus Property Ordinance under Administrative Code Chapter 23A; (d) affirming CEQA findings; (e) adopting findings consistent with the General Plan and Planning Code; and (f) finding that the public interest or necessity would not be inconvenienced by the sale, as required under City Administrative Code Section 23.3 (File 15-0728; Ordinance 153-15).

Board of Supervisors Rejected Resolution to Sell 30 Van Ness Avenue

On December 8, 2015, the Board of Supervisors did not approve a resolution to ratify the purchase and sale agreement between the City and 30 Van Ness Holdings, LLC for the sale of 30 Van Ness Avenue for $80,000,000 (File 15-1182). Some of the reasons this resolution was not approved was because the Board of Supervisors wanted the City:

- To receive not less than the $87,000,000 previously authorized by the Board of Supervisors in Ordinance 153-15 from the sale of 30 Van Ness.
- To maximize future potential housing affordability on this City-owned property while producing maximum sales proceeds for the City to relocate its employees;
- To obtain guaranteed minimum affordability from the buyer for this site and such affordability commitment be recorded against the property, not just in the purchase and sale agreement; and

[3] The City's review committee consisted of representatives from the Real Estate Division, Economic and Workforce Development, Controller's Office, Office of Public Finance, Planning Department, Mayor's Office of Housing, and Mayor's Budget Office, with advisory services provided by Newmark, Cornish & Carey.
[4] As noted above, the City's total current outstanding principal balance on the COPs is $27,065,000.

- To re-offer the property for sale and to more closely resemble an auction, which required setting fixed offer terms, such as required affordability, leaseback provisions, transfer tax requirements, etc. such that the most important variables to award the transaction would simply be based on price and use of property as residential and/or office development.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would

(a) approve a purchase and sale agreement between the City and County of San Francisco (City) and Lendlease Development, Inc. (Lendlease) for the sale to Lendlease of the City-owned property at 30 Van Ness Avenue for $70,000,000, including a City lease-back at an annual rent expense of $4,500,000 increasing by 3% per year after each year of the initial three years, and at the beginning of each extension option exercised with two one-year options to extend;

(b) affirm the Planning Department's determination under the California Environmental Quality Act (CEQA);

(c) adopt findings that the sale is consistent with the General Plan and the eight priority policies of Planning Code Section 101.1; and

(d) urge the Mayor's Office of Housing and Community Development and the Planning Department to explore certain development strategies relating to affordable housing at the site in connection with any future development.

Purchase and Sale Agreement

In September 2016, Newmark, Cornish & Carey, the City's broker, issued a public offering to sell 30 Van Ness, and received 11 offers by late October 2016. These initial offers ranged from $45 million to $80 million. Based on clarifying questions and confirmation of contingencies, the City received three revised offers ranging from $65 million to $70 million. Final negotiations with these three bidders resulted in the final highest viable residential redevelopment offer of $70 million from Lendlease.

The Director of Property executed a purchase and sale agreement on February 21, 2017 to sell the City-owned 30 Van Ness property to Lendlease for $70,000,000.

Holdover Lease for City

The proposed purchase and sale agreement includes a holdover office lease, to allow City departments to continue to occupy the 30 Van Ness Avenue office building, comprising approximately 164,011 square feet. This holdover lease would extend from the close of escrow, estimated to occur on May 1, 2017 through April 30, 2020, or three years, with two additional one-year options for renewal, or potentially through April 30, 2022. The extended term will terminate if the City approves proceeding with the 1500 Mission Street development, after environmental approval and receiving the certificate of occupancy for 1500 Mission Street.

Housing Affordability Obligations

Currently, the zoning on the 30 Van Ness property is C-3-G, with 400' height restrictions for residential development, including ground floor retail and office uses permitted up to the fourth floor. The proposed purchase and sale agreement includes special restrictions on any future residential redevelopment on the property to meet or exceed affordable housing requirements. These restrictions are in accordance with Proposition C approved by San Francisco voters on June 7, 2016 amending the City's Charter to increase the City's Affordable Housing Requirements as set forth in Planning Code Sections 401 and 415. Proposition C provides for either rental units, condominium units or any combination for either:

- 25% affordable units of residential units on-site, with 15% affordable to low-income residents[5] and 10% affordable to middle-income residents, or
- 33% affordable units of residential units off-site, with 20% affordable to low-income residents and 13% affordable to middle-income residents.

The purchase and sale agreement provisions described above will also be recorded as a Notice of Special Restrictions, such that any future residential redevelopment on this site will be required to include these minimum levels of housing affordability requirements. These affordability requirements would transfer to any future owner of the property. According to Mr. Keene, this means that if the Board of Supervisors lowers these affordability levels, which the Board of Supervisors has the authority to do under Proposition C, the minimum levels stated in this agreement and recorded with the property would remain in effect. However, if the Board of Supervisors increases these affordability levels, the increased levels would then apply.

While not required, the proposed resolution also specifically urges the Mayor's Office of Housing and Community Development (MOHCD) and the Planning Department through the Hub project rezoning[6] to explore certain development strategies with the developer of 30 Van Ness that will

- Provide 25% inclusionary on-site units as defined in the purchase and sale agreement, and
- Enable the developer to pay an additional $10.48 per gross square foot of residential which is more than the current requirements of the Market and Octavia Affordable Inclusionary Housing Fee, thereby increasing the total amount of affordable housing attributed to this property, by directing all affordable housing fees generated off-site so the total number of affordable housing units equal an estimated 33% of all housing units

[5] Low-income residents are defined as households whose median income does not exceed 55% of average median income (AMI as defined by the Mayor's Office of Housing and Community Development) for rental units and 80% of AMI for condominium units. Middle-income residents are defined as households whose median income does not exceed 100% AMI for rental units and 120% AMI for condominium units.

[6] The Hub project rezoning is a Planning Department initiative that seeks to evaluate opportunities to enhance implementation of the policy goals of the *Market &Octavia Area Plan*, including affordable housing and coordinated transportation planning. This could include increasing the existing height and bulk limits for the 30 Van Ness Avenue site to further these goals.

created within the development, if all the following occur: (a) site obtains a height increase to approximately 520' in height and modest bulk increases as part of the site's final entitlements[7]; (b) the site obtains entitlements for the development of a mixed-use project with an office component equal to at least the amount of office space that currently exists; and (c) the Board of Supervisors authorizes and directs MOHCD to use all of the affordable housing fees generated from the development for the production of affordable off-site units within a one mile radius of the site.

While not required, these provisions could allow the developer to increase the level of affordability above the 25% required on-site to up to 33% affordability off-site, based on a future residential development at 30 Van Ness, by using additional affordable housing fees and urging the Planning Department to consider increasing the height, bulk and mixed-uses on the 30 Van Ness site.

California Environmental Quality Act (CEQA), General Plan and Planning Code Findings

On July 9, 2015, the Planning Department found that the sale of 30 Van Ness is categorically exempt from environmental review under the California Environmental Quality Act (CEQA), and is consistent with the City's General Plan and the eight priority policies of Planning Code, Section 101.1. The Board of Supervisors would affirm these findings in the proposed resolution.

FISCAL IMPACT

Transfer Taxes and Property Taxes

In addition to the $70 million purchase price to be received by the City, Mr. Keene notes that the City negotiated for Lendlease to pay the City's one-time transfer tax, which is typically paid by the seller in San Francisco, at a cost of $2,100,000. Transfer taxes are deposited into the City's General Fund. Therefore, as shown in Table 1 below, the City will actually receive $72,100,000 from the proposed sale of 30 Van Ness.

Table 1: Value of Proposed Sale of 30 Van Ness

Sale Price	$70,000,000
Transfer Tax (3% of Purchase Price)	2,100,000
Total Estimated Value	**$72,100,000**

If the purchase and sale agreement is approved, Lendlease will also pay an estimated $825,440 of property taxes[8] in the first year. Property taxes are deposited into the City's General Fund.

[7] The 30 Van Ness property is currently zoned to allow development of a residential or mixed use tower of up to 400 feet in height.

[8] This amount is based on the current FY 2016-17 property tax rate of 1.1792 times the sales price of $70,000,000. Future annual property taxes are subject to (1) assessed value which may be above the purchase price and (2) the annual increase in the assessed value which is capped at 2% per year and can be lower, as determined by the State.

Appraisal of 30 Van Ness

The Real Estate Division obtained an appraisal of the 30 Van Ness Avenue property, which ranged from $69,900,000 to $74,000,000 from R. Blum & Associates in February 2017. This appraisal found the current as-is market values as follows:

- Value at Highest and Best Use as Office Building $74,000,000
- Value as a Residential Development Site (assumes Prop C requirements) $72,000,000
- Value as Residential Development Site with Buyer Paying Transfer Tax $69,900,000

Lendlease's $70,000,000 offer for 30 Van Ness assumed residential rental and condominium units with affordability restrictions as well as office and ground floor retail uses, including paying the City's transfer tax. While Lendlease has indicated that they intend to pursue primarily residential redevelopment on this site, Mr. Keene advises that because this is a proposed purchase and sale agreement and not a development agreement, the actual future specific use of the property is not known and cannot be guaranteed. In addition, because the sale is subject to a leaseback by the City for three years with options up to a total of five years, no residential development will occur on this site during this leaseback period.

Commission and Fees

Based on the agreement between Real Estate and the brokerage firm, Newmark, Cornish & Carey, the City will pay Newmark, Cornish & Carey (a) up to $40,000 for marketing materials based on actual costs, and (b) 0.5% commission based on the sale price of the 30 Van Ness building. If the 30 Van Ness building is sold for $70,000,000, the commission to Newmark, Cornish & Carey would be $350,000.

Net Revenues to the City

As shown in Table 2 below, if the City sells 30 Van Ness at the proposed $70,000,000, it will result in $42,545,000 in available net sale proceeds for the City.

Table 2: Sale Proceeds and Expenses for 30 Van Ness

Sale Price	$70,000,000
Less Broker Commission	(350,000)
Less Broker Marketing Fee (not to exceed)	(40,000)
Net Sale Proceeds	$69,610,000
Repayment of COPs (2001 and 2007)	(27,065,000)
Total Net Proceeds to City	**$42,545,000**

Use of Net Proceeds for New City Office Space

Proceeds of $70 million from the sale of 30 Van Ness, less broker commissions, fees and defeasance of the existing debt on 30 Van Ness, will be allocated to the potential development of a new City-owned office building at 1500 Mission Street, which has an estimated total project cost of $439,265,000, as summarized in Table 3 below.

Table 3: Sources and Uses of Funds for 1500 Mission Street

Sources	**Amount**
Certificates of Participation (COPs) Par Amount	$317,265,000
Sale Proceeds – 30 Van Ness Avenue [a]	70,000,000
Sale Proceeds – 1660 and 1680 Mission Street	52,000,000
Total Sources	**$439,265,000**
Uses	
Development Costs	$326,690,953
Less Prior Appropriation	(1,250,000)
FF&E, DT, and Moving Costs	29,397,433
City Services Auditor Fee (0.2% of Development Costs)	653,382
Certificates of Participation Delivery Expenses	
Reserve Fund	21,832,100
Interest & Fees/Capitalized Interest	31,051,471
Cost of Issuance	603,807
Underwriter's Discount	2,220,855
Closing Costs (including broker commission) [a]	1,000,000
Defease Outstanding COPs on 30 Van Ness Avenue [a]	27,065,000
Total Uses	**$439,265,000**

[a] Regarding 30 Van Ness Avenue, the City will receive $70 million from the sale of the property and pay commission and fees to the broker of up to $390,000 and pay $27,065,000 to defease the outstanding COPs at 30 Van Ness.

Funding for the 1500 Mission Street project estimated to cost $439,265,000 is subject to future Board of Supervisors approval, including (1) appropriation of sale proceeds of $70,000,000 from 30 Van Ness Avenue and $52,000,000 from 1660 and 1680 Mission Street, totaling $122,000,000; and (b) issuance and appropriation of $317,265,000 in COPS.

Leaseback of 30 Van Ness

Under the holdover lease, the City would continue to pay for all utilities, custodial, engineering, maintenance, property management and security services. Table 1 below shows the total annual rent and rate per square foot payable by the City to Lendlease for each of the first three years plus two option years of the holdover lease. In addition, Table 4 below shows the annual operating costs the City will incur with the total rent and operating costs and total rate per square foot per year. As shown in Table 4 below, over the three-year term, the City will pay $13,909,050 of rent to Lendlease and incur total costs of $19,551,308 to remain in 30 Van Ness. If the City exercises the two one-year options to extend, rent and operating expenses would increase 3% each year.

Table 4: Estimated Cost of 164,011 Square Foot Holdover Lease

Lease Year	Annual Rent	Rate/Square Foot/Year	Annual Operating Costs	Total Costs	Rate/Square Foot/Year
Year 1: 2017-18	$4,500,000	$27.44	$1,825,442	$6,325,442	$38.57
Year 2: 2018-19	4,635,000	28.26	1,880,205	6,515,205	39.72
Year 3: 2019-20	4,774,050	29.11	1,936,611	6,710,661	40.92
Three Year Total	**$13,909,050**		**$5,642,250**	**$19,551,308**	
2 Option Years	3% increase per year		3% increase per year		

Mr. Keene advises that the total rent and operating cost of $38.57 in the first year of the holdover lease is very favorable for the City. In comparison, Mr. Keene advises that the current fair market value for comparable fully serviced office leases in the Civic Center/Market Street area is $53.47 per square foot per year. This comparable Civic Center/Market Street lease rate is $14.90 or 39% higher than the first year of the proposed holdover lease rate.

The City intends to defease the existing debt on 30 Van Ness, such that the amount currently paid by City departments in 30 Van Ness to pay debt service will be available to pay increased rent to the new landlord, Lendlease. City departments currently pay Real Estate $24.12 annually (escalating 3% per year) including operating costs, to occupy 30 Van Ness. However, as shown in Table 4 above, in the first year of the new lease, Real Estate will incur rent and operating costs of $6,325,442 or $38.57 per square foot per year. This $38.57 initial rate is $14.45 more per square foot than the $24.12 rate that Real Estate collects from City departments. This first year additional cost to the City is estimated to be $2,369,959 ($14.45 x 164,011 sf).

Mr. Keene advises that Real Estate has sufficient budgeted funds previously appropriated by the Board of Supervisors to cover all rent and operating expenses for FY 2016-17. According to Ms. Melissa Whitehouse, Mayor's Budget Director, the Mayor's Budget Office is currently evaluating different strategies for paying the incremental rent and operating expenses, but the rent model has not yet been finalized. Any future budget increases to City departments would be subject to future Board of Supervisors appropriation approval.

POLICY CONSIDERATION

$70,000,000 Sales Price

As noted above, on July 28, 2015, the Board of Supervisors authorized the sale of the City-owned property at 30 Van Ness Avenue for not less than $87,000,000 and imposed redevelopment requirements that met or exceeded the minimum affordable housing obligations in the Market Octavia Area Plan, which required at least 12% affordability. The previous offer to sell 30 Van Ness was for $80,000,000, which was not approved by the Board of Supervisors, included 15% affordability. The proposed resolution would approve the sale of 30 Van Ness for $70,000,000 with at least 25% affordability, which is $17,000,000 or 19.5% less than the originally authorized amount[9]. However, Mr. Updike notes that the $80,000,000 and $70,000,000 sales offers were negotiated after each of the prospective buyers performed its due diligence, which was not the case with the initial $87,000,000 offers.

Value of the Proposed Increased Affordability

Under the proposed agreement, Lendlease at a sales price of $70,000,000 is committing to provide at least 25% affordable units of residential units on-site, with 15% affordable to low-income residents and 10% affordable to middle-income residents. As noted above, these are the City's current requirements in accordance with Proposition C.

In comparison, the previous agreement which was not approved by the Board of Supervisors at a purchase price of $80,000,000 only included affordability of 15% for low-income residents. Therefore, the current proposal provides 10% more affordable units for middle-income residents.

Based on cost per unit estimates confirmed by MOHCD, if the City was to quantify the value of the additional 10% affordable units for middle-income residents, assuming a 400-unit residential development at 30 Van Ness, at $300,000 per unit, the value to the City is shown below, or an estimated $12,000,000:

400 total residential units x 10% affordability or 40 units x $300,000=$12,000,000.

Adding $12,000,000 of value due to the additional affordable units to the sale price of $70,000,000 equals a value of $82,000,000.

However, it should be noted that any residential project currently constructed in the City must meet these increased affordability requirements, in compliance with Proposition C. And finally, while Lendlease indicated that they intend to pursue primarily residential redevelopment on this site, the Board of Supervisors is being requested to approve a proposed purchase and sale agreement and not a development agreement. Therefore, the actual future specific use of the 30 Van Ness property is not known and cannot be guaranteed. Therefore, approval of the proposed resolution is a policy decision for the Board of Supervisors.

[9] Mr. Jon Givner, Deputy City Attorney advises that although the prior ordinance authorized the sale of 30 Van Ness for not less than $87,000,000, a condition which is not being met by the proposed resolution, the previous ordinance does not need to be amended. Mr. Givner advises that because the Real Estate Division has not met the condition that the property sell for $87,000,000 or more, the conditional approval in that ordinance is not operative and the Board of Supervisors need not amend it. However, the section of the prior ordinance waiving the application of the City's Surplus Property Ordinance under Administrative Code Chapter 23A was not conditioned on a particular sales price, so that waiver remains intact, as specified in the prior ordinance.

RECOMMENDATION

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