

BOARD of SUPERVISORS



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MEMORANDUM

TO: John Rahaim, Director, Planning Department
John Updike, Director, Real Estate
Patrick Mulligan, Director, Office of Labor Standards Enforcement
Olson Lee, Director, Mayor's Office of Housing and Community
Development
Tiffany Bohee, Executive Director, Office of Community Investment and
Infrastructure

FROM: Andrea Ausberry, Assistant Clerk
Land Use and Transportation Committee

DATE: June 1, 2016

SUBJECT: LEGISLATION INTRODUCED

The Board of Supervisors' Land Use and Transportation Committee has received the following proposed legislation, introduced by the Port on May 24, 2016:

File No. 160541

Resolution endorsing the term sheet between TZK Broadway, LLC, whose members include Teatro ZinZanni and its financial and development partner, Kenwood Investments No. 6, LLC, and the Port Commission for the lease and development of a 180-200 room hotel, a dinner-theater featuring Teatro ZinZanni, an approximately 7,500 square-foot public park and open space, and ancillary uses on Seawall Lots 323 and 324 and portions of unimproved Vallejo and Davis Street rights-of-way on the west side of The Embarcadero at Vallejo Street.

If you have comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102 or by email at: andrea.ausberry@sfgov.org.

c: Scott Sanchez, Zoning Administrator
Sarah Jones, Acting Environmental Review Officer,
AnMarie Rodgers, Senior Policy Advisor
Aaron Starr, Acting Manager of Legislative Affairs

Joy Navarrete, Environmental Planning
Jeanie Poling, Environmental Planning
Donna Levitt, Office of Labor Standards Enforcement
Eugene Flannery, Mayor's Office of Housing and Community Development
Sophie Hayward, Mayor's Office of Housing and Community Development
Claudia Guerra, Office of Community Investment and Infrastructure
Natasha Jones, Office of Community Investment and Infrastructure

1 [Term Sheet Endorsement - TZK Broadway, LLC - Teatro ZinZanni Theatre/Hotel
2 Project]

3 **Resolution endorsing the term sheet between TZK Broadway, LLC, whose members**
4 **include Teatro ZinZanni and its financial and development partner, Kenwood**
5 **Investments No. 6, LLC, and the Port Commission for the lease and development of a**
6 **180-200 room hotel, a dinner-theater featuring Teatro ZinZanni, an approximately 7,500**
7 **square-foot public park and open space, and ancillary uses on Seawall Lots 323 and**
8 **324 and portions of unimproved Vallejo and Davis Street rights-of-way on the west side**
9 **of The Embarcadero at Vallejo Street.**

10
11 WHEREAS, Teatro ZinZanni (“Teatro”), a former San Francisco Port Commission
12 (“Port”) tenant at Pier 27, is a unique hybrid of comedy, theater, cabaret, music, performance
13 and dining that is part circus and part cabaret combining improv comedy, vaudeville revue,
14 music, dance, cirque, and sensuality into an evolving form that is never quite the same from
15 evening to evening; and

16 WHEREAS, Teatro, first came to San Francisco in 2000, and for eleven years operated
17 as a successful cultural event combining dinner, theater, performance and entertainment at
18 Pier 27 and was a tenant in good standing as defined by the Port’s current leasing policies
19 throughout its tenure as a Port tenant; and

20 WHEREAS, In 2011, the Port asked Teatro to terminate its lease at Pier 27 and vacate
21 its premises to accommodate the hosting of the 34th America’s Cup and the construction of
22 the new James R. Herman Cruise Terminal; and

23 WHEREAS, The Port and Teatro entered into a Mutual Agreement for Lease
24 Termination and Reservation of Rights Agreement (“Mutual Terminal Agreement”) dated
25 August 12, 2011, which provides that in exchange for terminating its lease at Pier 27, Teatro

1 will be given the exclusive right to negotiate in good faith with the Port for a new lease at
2 Seawall Lot 324, located on The Embarcadero across from Pier 9; and

3 WHEREAS, Teatro, following execution of the Mutual Termination Agreement, spent
4 many months in 2012 and 2013 considering its long-term options to return to San Francisco at
5 Seawall Lot 324, and meeting with and listening to the concerns and suggestions of numerous
6 community groups and stakeholders such as The Barbary Coast Neighborhood Association,
7 Gateway Commons Buildings I, II, and III, Chinese Community Development Center,
8 Telegraph Hill Dwellers, Golden Gateway Tenants Association, the Northeast Waterfront
9 Advisory Group, the Historic Preservation Commission, Architectural Review Subcommittee,
10 and the Port and City staff; and

11 WHEREAS, The results of Teatro's investigations and community meetings resulted in
12 accord among the groups that Teatro's unique and highly successful dinner-theatre
13 performance and entertainment show is an unmatched addition to the neighborhood, City and
14 region and in returning to San Francisco, Teatro should devise a project that includes
15 improved public access as a gateway between the waterfront and North Beach and
16 Chinatown, incorporates Teatro's historic Spiegel-tent in a manner that better suits the
17 location and the neighborhood, is consistent with the character, zoning, and massing of the
18 historic warehouse district and is true to San Francisco's unique cultural history; and

19 WHEREAS, The total cost of the design, permitting, and construction necessary to
20 rebuild Teatro as a stand-alone structure at Seawall Lot 324 would be at least five times the
21 original cost of its premises at Pier 27 so Teatro sought out and retained a partner to help with
22 plans, development, and financing for a new project on approximately 1.4 acres that includes
23 Seawall Lots 324 and 323 and portions of the Vallejo and Davis Street unimproved rights-of-
24 way on the west side of The Embarcadero at Vallejo Street (collectively, the "Site"); and

25 WHEREAS, Teatro, working with TZK Broadway, LLC ("TZK" or the "Developer"), a

1 California limited liability company comprised of Teatro and Kenwood Investments No. 6, LLC,
2 wishes to build a new privately financed, state-of-the-art dinner-theatre-performance and
3 entertainment venue that can serve those purposes as a long-term home for Teatro's
4 internationally acclaimed dinner theatre performance and state-of-the-art 180-200 room
5 boutique hotel which will include up to 10 rooms for visiting Teatro artists, situated within a 40-
6 foot, four-story building, together with related public infrastructure and access improvements
7 and other improvements, including construction of a new public park and open space at the
8 north end of the Site (the "Project"); and

9 WHEREAS, A ground lease or other City contract relating to development of the
10 proposed Project would be subject to the City's ordinances relating to labor representation
11 procedures in hotel developments in which the City has an ongoing proprietary interest
12 (Administrative Code, Sections 23.50 through 23.56) and the City's First Source Hiring
13 Program (Administrative Code, Chapter 83), as they may apply to the proposed Project; and

14 WHEREAS, Teatro and TZK have stated their commitment to enter into an equal
15 opportunity program in connection with the transaction documents for the Project that includes
16 the Local Hiring Policy (Administrative Code, Section 6.22(G)), prevailing wage requirements
17 (Administrative Code, Section 6.22(E)) and opportunities for local business enterprises; and

18 WHEREAS, On October 28, 2014, the Port Commission approved Resolution
19 No. 14-58 directing Port staff to assist Teatro in developing and introducing a resolution to the
20 Board of Supervisors ("Board") to consider exempting the potential lease of the Site for
21 Teatro's proposed Project from the City's competitive bidding policy set forth in Administrative
22 Code, Section 2.6-1; and

23 WHEREAS, On May 5, 2015, the Board adopted Resolution No. 170-15 (the "Board
24 Resolution"), which found that the proposed Project is exempt from competitive bidding
25 requirements of Administrative Code, Section 2.6-1 on a number of basis, including the

1 following: the unique, one-of-a-kind attributes of Teatro; the unique opportunity presented by
2 Developer's proposal to build and finance the Project; Teatro's position as a tenant in good
3 standing under Port policies; the provisions of the Mutual Termination Agreement; and, in
4 keeping with Administrative Code, Chapter 90A to retain an important entertainment icon,
5 provide performer lodging and workforce training, and numerous other public benefits to the
6 City and the region that the proposed Project would produce, as further described in the
7 Board Resolution; and

8 WHEREAS, The Board Resolution also (i) urged Port, Teatro, and Developer to
9 engage in continued outreach to affected and interested neighbors, community members and
10 stakeholders to ensure that the proposed Development is designed with public input; (ii) urged
11 Port to hire a third party real estate economic consultant during negotiations with Developer to
12 ensure Port receive fair market value for the lease of the Site; and (iii) directed Port to submit
13 to the Clerk of the Board a copy of Port's real estate consultant's report confirming TZK's
14 qualifications to undertake the development prior to the Port Commission hearing at which the
15 Port Commission considers awarding an exclusive negotiation agreement ("ENA") to
16 Developer; and

17 WHEREAS, In June 2015, Kenwood Investments provided the Port a description of its
18 qualifications and financial capacity which BAE Urban Economics, Port-hired third-party real
19 estate consultant ("BAE"), and Port staff respectively reviewed, with BAE issuing a report
20 confirming that Kenwood Investments is qualified to develop the Project and which report the
21 Port submitted to the Clerk of the Board on August 18, 2015; and

22 WHEREAS, Representatives of TZK and Teatro have continued outreach to affected
23 and interested neighbors, community members and stakeholders to solicit public input on the
24 design of the proposed Development and have committed to continued outreach during
25

1 Project entitlement, including public notification of planned discretionary actions related to the
2 Project; and

3 WHEREAS, On September 8, 2015, by Resolution No. 15-31, the Port Commission
4 authorized the Executive Director of the Port to enter into an Exclusive Negotiating Agreement
5 (“ENA”) with the Developer for its proposed Project to negotiate, among other things, a non-
6 binding term sheet describing the proposed terms and conditions to include a lease
7 disposition and development agreement (the “LDDA”), a lease (the “Lease”), and other related
8 transaction documents for moving forward with the Project; and

9 WHEREAS, Staff obtained a fair market appraisal of the Site, a hotel market study, a
10 survey of comparable ground leases, and a feasibility study to inform term sheet negotiations
11 for the Development; and

12 WHEREAS, On April 26, 2016, by Resolution No. 16-18, the Port Commission
13 endorsed a term sheet (“Term Sheet”) that sets forth certain basic financial terms and other
14 fundamental terms and conditions to serve as the basis for the Port and the Developer
15 negotiating a LDDA, a Lease, and other related transaction documents for moving forward on
16 the Project, and directed Port staff to present the Term Sheet to the Board of Supervisors for
17 endorsement; and

18 WHEREAS, The Term Sheet is on file with the Clerk of the Board of Supervisors in File
19 No. _____, and is incorporated herein by reference; and

20 WHEREAS, The Port and Developer wish to obtain the endorsement of the Term
21 Sheet by the Board of Supervisors; and

22 WHEREAS, The Board of Supervisors has reviewed and considered the proposed
23 terms for a LDDA and Lease as set forth in the Term Sheet; now, therefore, be it

24 RESOLVED, That the Board endorses the Term Sheet, substantially in the form
25 presented to the Board; and, be it

1 FURTHER RESOLVED, That the Board of Supervisors' endorsement of the Term
2 Sheet does not commit the Board of Supervisors, the Port or any other public agency with
3 jurisdiction over any part of the Project to approve the terms of the final Lease or other
4 transaction documents or grant any entitlements to Developer, nor does either Term Sheet
5 endorsement foreclose the possibility of considering alternatives to the Project or mitigation
6 measures to reduce or avoid significant environmental impacts or preclude the City, after
7 conducting appropriated environmental review under the California Environmental Quality Act
8 ("CEQA"), from deciding not to grant entitlements or approve or implement the Project, and
9 while the Term Sheet identifies certain essential terms of the proposed transaction with the
10 City through the Port Commission, it does not set forth all of the final, material terms and
11 conditions of the transaction documents for the Project; and, be it

12 FURTHER RESOLVED, That the Board of Supervisors will not take any discretionary
13 actions committing City to implement the Project, and the provisions of the Term Sheet are
14 not intended to and will not become contractually binding on the City, unless and until the Port
15 Commission has reviewed and considered environmental documentation prepared in
16 compliance with Administrative Code, Chapter 31 and CEQA for the Project and the Port
17 Commission, and as applicable, the Board of Supervisors and the Mayor, have approved the
18 terms of the final transaction documents for the Project.