


**CITY AND COUNTY OF SAN FRANCISCO**  
**BOARD OF SUPERVISORS**  
**BUDGET AND LEGISLATIVE ANALYST**

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October 24, 2013

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** October 30, 2013 Budget and Finance Committee Meeting

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**Item 1**  
**Files 13-0937**

**Department:**  
San Francisco Film Commission

## **EXECUTIVE SUMMARY**

### **Legislative Objective**

- The proposed ordinance would amend Administrative Code Sections 57.5 and 57.8 to (a) reduce daily use fees from \$100 to \$50 charged to film production companies with budgets less than \$100,000; (b) expand the definition of film productions and low-budget film productions to include web series, and productions created by a *production* (italics added) company as well as a film company; (c) extend the Film Rebate Program expiration date from June 30, 2014 to June 30, 2015; (d) increase the Film Rebate Program's current funding cap from \$2,000,000 to \$3,000,000 subject to annual appropriation; and (e) make environmental findings.

### **Key Points**

- The Film Commission is proposing a reduction in daily use fees in order to collect revenue from film production companies that are currently filming in San Francisco but have not obtained a permit from the Film Commission and are not paying daily use fees to the City. In addition, eligibility for the Film Rebate Program would be extended to film and production companies producing web series, increased by \$1,000,000 and extended by one year.

### **Fiscal Impact**

- The Film Commission currently receives approximately \$170,000 in annual permit fee revenues. The Film Office cannot estimate the amount of increased revenues to the City as a result of the proposed fee reduction or the costs as a result of extending the Film Rebate Program to web series and production companies.
- Administrative Code Section 57.8(c)(2) currently specifies that total rebates paid to film production companies shall not exceed \$2,000,000 from July 1, 2012 through the expiration of the Film Rebate Program on June 30, 2014, subject to Board of Supervisors appropriation approval. Thus far, the Board of Supervisors has appropriated a total of \$1,400,000 in FY 2012-13 and FY 2013-14, with rebates totaling \$248,100 for six productions.
- As of October 21, 2013, the available balance in the Film Rebate Fund is \$1,412,080. However, the Film Office anticipates rebating an additional \$772,743 to three productions by February of 2014. Therefore, the projected Fund balance of \$639,337 as of February 2014 plus the increased authorization of \$1,000,000 would make available up to \$1,639,337 to the Film Rebate Program for the remaining 16-month period from March 1, 2014 through June 30, 2015.

### **Policy Consideration**

- By December 31, 2013, the Film Commission working with the Controller's Office shall submit a report to the Board of Supervisors on the current results of the Film Rebate Program.

### **Recommendation**

- Because the proposed ordinance would (a) expand the definition of the existing Film Rebate Program, (b) extend the Program by one year and (c) increase the Program's funding cap authorization by \$1,000,000, subject to Board of Supervisors appropriation approval, prior to the December 31, 2013 issuance of the upcoming Film Commission and Controller's report on the results of the Film Rebate Program, approval of the proposed ordinance is a policy decision.

## MANDATE STATEMENT/BACKGROUND

### Mandate Statement

Charter Section 2.109 provides that within 30 days of submission by the Mayor, the Board of Supervisors shall approve or reject any rate, fee, or similar charge to be imposed by any department, official, board or commission, by ordinance.

Administrative Code Section 10.100-297 established the San Francisco Film Production Fund as a category six fund<sup>1</sup> for collection of daily use fees and to reimburse City departments for film production expenditures not otherwise reimbursed by film companies. By March 1<sup>st</sup> of each year, the Film Commission shall prepare and file an annual report with the Board of Supervisors detailing all prior fiscal year Fund revenues and expenditures.

### Background

#### Daily Use Film Fees

In accordance with City Administrative Code Section 57.5(a), the Executive Director of the Film Commission may enter into agreements with film production companies to, at a minimum, provide for reimbursement for City employees, equipment, rental facilities and rental properties. In addition to reimbursing City departments for costs incurred, Administrative Code Section 57.5(c) provides that the Film Commission may charge the following daily use permit fees to film production companies, with the revenue from such fees accruing to the San Francisco Film Production Fund<sup>2</sup>:

- \$100 per day for still photography;
- \$200 per day for commercials, corporate media, industrial media, videos, short subjects or web videos;
- \$100 per day for television series, movies, pilots, or documentaries with budgets of less than \$500,000; and
- \$300 per day for television series, movies, pilots, or documentaries with budgets of \$500,000 or more.

Public service announcements, qualifying student productions and non-profit organizations productions are currently exempt from the above-listed daily use fees.

Table 1 below shows the number of permits issued, the actual number of shooting days in San Francisco and the total fee revenues collected by the Film Commission over the past five years.

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<sup>1</sup> Category six funds are automatically appropriated and the fund balance carries forward to the following fiscal year, but does not accrue interest.

<sup>2</sup> Such provisions exclude the San Francisco War Memorial Performing Arts Center, Fine Arts Museums, Asian Art Museum, San Francisco Convention Facilities, the Port, and the Recreation and Park Department, which issue their own permits and/or charge their own fees for filming on the respective departments' properties.

**Table 1: SF Film Commission Permits, Shooting Days and Revenues from FY 2008-09 through FY 2012-13**

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Number of Permits Issued	372	251	477	443	530
Number of Shooting Days	744	753	942	1,080	1,001
Fee Revenue Collected	\$122,447	\$133,000	\$170,500	\$165,000	\$171,542

Source: SF Film Commission.

### Film Rebate Program

In April of 2006, the Board of Supervisors approved the Film Rebate Program (File 06-0065; Ordinance 70-06), which allows film production companies, who produce qualified film productions or qualified low-budget film productions, to receive a rebate of up to 100 percent of qualifying costs previously paid to the City. Qualifying costs include:

- Taxes paid to the City, not including hotel or sales tax;
- City departments' costs for the use of the departments' equipment, property or employees' time;
- Film Commission's daily use permit fees;
- Police officers' time, up to four police officers per day for a maximum of 12 hours per day per police officer; and
- Property lease costs, when alternative City property is not available.

Administrative Code Section 57.8 states that the purpose of the Film Rebate Program is to increase the (a) number of film productions in San Francisco, (b) number of City residents employed in the filmmaking industry, and (c) resulting economic benefits to San Francisco. The Film Rebate Program currently expires on June 30, 2014. Administrative Code Section 57.8(c)(2) specifies that the total amount of rebates paid by the City to the film production companies shall not exceed \$2,000,000 from July 1, 2012 through the expiration of the Film Rebate Program on June 30, 2014, with no individual rebate exceeding \$600,000. In addition, the Administrative Code provides that film production companies must demonstrate good faith efforts to hire San Francisco residents through the City's First Source hiring program.

Qualified film productions include any feature length film, documentary, docudrama, television film, television pilot, reality program or each episode of a television series where 65 percent of

the days are filmed in the City. Qualified low-budget film productions include any feature length film, documentary, docudrama, television film, television pilot, reality program or each episode of a television series where at least 55 percent of the days are filmed in the City and the total budget is \$3,000,000 or less.

In accordance with Administrative Code Section 57.8(e)(1), the Executive Director of the Film Commission is required to report annually to the Board of Supervisors on the implementation of the Film Rebate Program, including a list of qualified film productions, the number of San Francisco residents employed by film production companies, and the total qualified production costs submitted and paid in rebates to each film production company. Section 57.8(e)(1) also specifies that the Controller is responsible for performing an annual assessment and review of the effects of the Film Rebate Program to be submitted to the Board of Supervisors, based on criteria deemed relevant by the Controller. On March 13, 2013, Ms. Susannah Greason Robbins, Film Commission Executive Director, submitted the Film Commission's CY 2012 annual report to the Board of Supervisors.

## DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the City's Administrative Code Sections 57.5 and 57.8 to (a) reduce the daily use permit fees from \$100 to \$50 that are charged by the City's Film Commission to film production companies with budgets of less than \$100,000; (b) expand the definition of film productions and low-budget film productions eligible for the Film Rebate Program to include episodes of a web series, and productions created by a *production* (italics added) company as well as a film company; (c) extend the Film Rebate Program expiration date from June 30, 2014 to June 30, 2015; (d) increase the Film Rebate Program's current funding cap from \$2,000,000 to \$3,000,000 subject to annual appropriation; and (e) make environmental findings.

### Proposed Amendments to Daily Use Fees

The proposed ordinance would amend Administrative Code Section 57.5 to specify the following three categories of daily use fees for television or web series, movies, pilots or documentaries:

- \$50 per day for productions with a budget of less than \$100,000;
- \$100 per day for productions with a budget of \$100,000 to \$500,000; and
- \$300 per day for productions with budgets of \$500,000 or more.

Currently, the Film Commission has only two categories of daily use fees for production of television series, movies, pilots, or documentaries:

- \$100 per day for productions with a budget of less than \$500,000; and
- \$300 per day for productions with budgets of \$500,000 or more.

Therefore, if the proposed ordinance is approved, the daily use permit fee charged by the City to film productions with a budget of less than \$100,000 would be reduced from \$100 per day to \$50 per day. All other daily use fees would remain the same.

### **Proposed Amendments to Film Rebate Program**

Currently, in order to be eligible for the Film Rebate Program, qualified film productions or qualified low-budget film productions must be feature length films, documentaries, docudramas, television films, television pilots, reality programs or each episode of a television series that is created by a film company. Under the proposed ordinance, qualified film productions and qualified low-budget film productions eligible for the Film Rebate Program, would also include web series, and could also be created by a production company. Ms. Greason Robbins advises that web series are the new wave of productions, such that companies like Amazon and Netflix, are now producing web series. Web series employ as many people as regular television series and thus have comparable economic impacts on the local economy. In addition, Ms. Greason Robbins advises that the addition of the term “production company” clarifies the definition of companies eligible to receive rebates.

Currently, the Film Commission, through the Film Rebate Program, rebates one dollar for each dollar the qualified film production or qualified low-budget film production paid to the City for qualified production costs not-to-exceed \$2 million from July 1, 2012 through June 30, 2014, subject to annual appropriation by the Board of Supervisors. The Film Rebate Program is currently scheduled to expire on June 30, 2014. The proposed ordinance would amend the existing ordinance to increase the not-to-exceed \$2 million to \$3 million authorization, an increase of \$1 million and extend the expiration of the Film Rebate Program from June 30, 2014 to June 30, 2015, or one year. Ms. Greason Robbins advises that the proposed extension and expansion of the Program is intended to coincide with the City’s current two-year budget cycle and the projected increase in rebates to be requested over the next year.

### **Environmental Findings**

On October 16, 2013, the Planning Department determined that the actions in the subject legislation are statutorily exempt from the California Environmental Quality Act (CEQA).

## **FISCAL ANALYSIS**

### **Proposed Amendment to Daily Use Fees**

According to Ms. Greason Robbins, the Film Commission is requesting the proposed reduction in daily use permit fees from \$100 per day to \$50 per day, a reduction of \$50 per day charged to film production companies with budgets less than \$100,000 in order to collect revenue from smaller film production companies which do not currently obtain permits from the Film Commission, and thereby have avoided any payments of fees to the City. As shown in Table 1 above, over the past three fiscal years, the Film Commission collected approximately \$170,000 of permit fee revenue annually. Ms. Greason Robbins believes that many of these film productions with budgets of less than \$100,000 would apply for City permits if the fees were reduced to \$50 per day, resulting in increased oversight and revenues for the City. However, Ms. Greason Robbins was not able to estimate the amount of the potential increased revenues to the City as a result of the proposed fee reduction.

### Proposed Amendments to Film Rebate Program

Under the proposed ordinance, the Film Rebate Program, which currently is scheduled to expire on June 30, 2014 would be extended by one year to June 30, 2015 and increased by \$1 million from \$2 million authorization to \$3 million authorization, subject to appropriation approval by the Board of Supervisors. In addition, eligibility for the rebates would be extended to web series productions and production companies. Ms. Greason Robbins cannot specifically estimate the fiscal impact to the City of rebating costs as a result of extending the Film Rebate Program to web series and production companies.

The original ordinance authorized up to \$1,800,000 in film rebates for the six-year period from FY 2006-07 through FY 2011-12, subject to Board of Supervisors' appropriation approval. As shown in Table 2 below, during the initial six-year period, the City rebated \$1,539,820 for eight productions. Ms. Greason Robbins advises that the primary City cost that is rebated to film production companies are costs for stage and production office space and for the use of City Police Officers, at a rate of approximately \$100 per hour with a 4-hour minimum requirement.

**Table 2: Productions that Received Rebates from FY 2006-07 through FY 2013-14**

Fiscal Year	Name of Production	Amount of Rebates	Cumulative Total Annual Rebates	Amounts Appropriated	Balance
FY 2006-07	Harrison Montgomery	\$42,151	\$42,151	\$600,000	
FY 2007-08				600,000	
FY 2008-09	Mission Street Rhapsody Milk Trauma Pilot	10,364 99,215 61,470	213,200	200,000 (1,051,588)*	
FY 2009-10	Trauma	535,212	748,412	400,000	
FY 2010-11	Trauma	164,277	912,689	400,000	
FY 2011-12	Hemingway & Gelhorn Knife Fight Cherry	571,563 45,523 10,045	<b>1,539,820</b>	<b>651,588</b>	
<b>Subtotal</b>			<b>\$1,539,820</b>	<b>\$1,800,000</b>	<b>\$260,180</b>
FY 2012-13	Blue Jasmine Mission Street Productions (HBO Pilot "Looking") Test	164,136 65,271 1,618	231,025	700,000	
FY 2013-14	The Other Barrio Saltwater The Great Food Truck Race	2,572 8,860 5,643	248,100	700,000	
<b>Subtotal</b>			<b>\$248,100</b>	<b>\$1,400,000</b>	<b>\$1,151,900</b>
<b>Total</b>			<b>\$1,787,920</b>	<b>\$3,200,000</b>	<b>\$1,412,080</b>

\* Decreased appropriation transferred back to the City's General Fund.

The Board of Supervisors previously approved a two-year extension of the Film Rebate Program from July 1, 2012 through June 30, 2014 (FY 2012-13 and FY 2013-14) and authorized up to \$2,000,000 in film rebates over the two-year period, subject to Board of Supervisors appropriation approval (File 12-0406). Thus far, the Board of Supervisors has appropriated a total of \$1,400,000 in FY 2012-13 and FY 2013-14. Rebates totaling \$248,100 for six productions have thus far been approved, as shown in Table 2 above.

As of October 21, 2013, the available balance in the Film Rebate Fund is \$1,412,080, as shown in Table 2 above. However, Ms. Greason Robbins advises that she anticipates rebating an additional \$772,743 to three productions by February of 2014, as summarized in Table 3 below.

**Table 3: Productions Anticipated to Receive Rebates by February, 2014**

<b>Fiscal Year</b>	<b>Name of Productions</b>	<b>Estimated Amount of Rebates</b>
<b>FY 2013-14</b>	Quitters	\$76,467
	Mission Street Productions (HBO “Looking” 7 episodes)	553,276
	Real World	143,000
<b>Subtotal Rebates</b>		<b>\$772,743</b>
<b>Current Fund Balance (Table 2)</b>		<b>\$1,412,080</b>
<b>Projected Fund Balance in February 2014</b>		<b>\$639,337</b>

Under the proposed ordinance, the Film Rebate Program would be extended by one year and the authorized funding cap amount of the Program would be increased by \$1,000,000 from \$2,000,000 to \$3,000,000 for the total three-year period from July 1, 2012 through June 30, 2015 (FY 2012-13 through FY 2014-15). Therefore, the projected Fund balance as of February 2014 of \$639,337 plus the increased authorization of \$1,000,000 would make available up to \$1,639,337 to the Film Rebate Program for the remaining 16-month period from March 1, 2014 through June 30, 2015.

## **POLICY CONSIDERATION**

### **Film Rebate Program**

As noted above, the City’s Administrative Code Section 57.8(e)(1) requires the Controller’s Office to conduct an annual “assessment and review of the effect of the Film Rebate Program” for the first three years of the Film Rebate Program, and to submit an analysis to the Board of Supervisors in or after 2009. On December 21, 2011, the Controller’s Office issued a report to the Board of Supervisors on the results and overall economic impact of the Film Rebate Program



from the initial five-year period when eight film productions received rebates from the City totaling approximately \$1.5 million. The Controller's report found that together these eight productions (a) employed 1,135 San Francisco residents, on a short-term basis, or an average of 227 residents per year; (b) paid wages totaling approximately \$12.5 million, or an average of \$2.5 million per year; and (c) expended a total of approximately \$40.5 million, or \$8 million annually. Filmmakers that received the rebates reported that the Film Rebate Program was a key factor in choosing San Francisco for their production location. However, the Controller found that rebated productions represented only 9% of all filming permitted by the Film Commission.

In addition, in accordance with Administrative Section 57.8(e)(2), by December 31, 2013, the Film Commission working with the Controller's Office shall submit a report to the Board of Supervisors on the current results of the Film Rebate Program, addressing the objectives of the Program, including (a) a list of all film productions that have Film Commission permits; (b) number of qualified film productions; (c) number of San Francisco residents employed by such film production companies; (d) verification of the number of jobs and salaries paid to economically disadvantaged residents hired through the City's Workforce Development Program; (e) amount of rebates paid to film production companies; and (f) overall economic impact from the City's Film Rebate Program.

## **RECOMMENDATION**

Because the proposed ordinance would (a) expand the definition of the existing Film Rebate Program, (b) extend the Program by one year and (c) increase the Program's funding cap authorization by \$1,000,000, subject to Board of Supervisors appropriation approval, prior to the December 31, 2013 issuance of the upcoming joint Film Commission and Controller's report on the results of the Film Rebate Program, approval of the proposed ordinance is a policy decision.

**Item 2**  
**File 13-0799**

**Department:**  
San Francisco International Airport (Airport)

## **EXECUTIVE SUMMARY**

### **Legislative Objective**

- The proposed ordinance would amend City Administrative Code Section 10.100-18 to delete the expired provisions of the previously authorized Airport's Terminal 2 Promotion Fund, which expired on December 31, 2011, and authorize a new Airport Capital Improvement Promotion and Event Fund, which would expire on December 31, 2023.

### **Key Points**

- The proposed ordinance would establish a new Airport Capital Improvement Promotion and Event Fund as a Category 6 Fund, which would allow the Airport to (i) automatically appropriate these funds for expenditures consistent with the specified purposes and uses, and (ii) carry forward any unexpended balance remaining at the end of the fiscal year into the next fiscal year.
- The proposed Airport Capital Improvement Promotion and Event Fund would be established in order to receive private donations and authorize expenditures for holding events to market and promote major capital improvement projects at the Airport over the next ten years.

### **Fiscal Impact**

- For the opening of the Airport's new Terminal 2 in 2011, the Airport raised \$623,875 of private donations for the Terminal 2 Promotion Fund from 46 different entities. The Airport expended the \$623,875 plus \$346,457 of Airport funds for a total of \$970,332 for Terminal 2 promotional events.
- The Airport cannot estimate the total amount of private donations that would be received over the proposed ten-year term of the Airport Capital Improvement Promotion and Event Fund.
- An existing Airport capital improvement project, the renovation of Boarding Area E in Terminal 3, is scheduled to be completed by January 28, 2014, with an estimated total cost of \$761,947 for marketing and promotional activities. The Airport included \$200,000 of one-time funds in their FY 2013-14 budget, such that the Airport estimates raising the balance of \$561,947 from private donations which would be deposited into the proposed new Fund, to cover the total \$761,947 promotion costs for the new Terminal 3, Boarding Area E project.

### **Recommendations**

- Amend the proposed ordinance on page 2, lines 9 and 10 to (a) change "Budget Analyst" to "Budget and Legislative Analyst", (b) change the Airport's frequency of reporting from quarterly to annual, and (c) specify that such reports identify the amounts, dates, types, and sources of donations received and the amounts, dates and types of expenditures incurred.
- Amend the proposed ordinance to require Board of Supervisors approval by resolution of any donations of \$100,000 or greater, to be consistent with the Administrative Code provision that requires Board of Supervisors approval to accept and expend grants exceeding \$100,000 as well as the recently approved City Hall Preservation Fund.
- Approve the proposed ordinance, as amended.

## MANDATE STATEMENT

Charter Section 2.105 requires that legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

Section 10.100-18 of the City's Administrative Code established an Airport Terminal 2 Promotion Fund as a Category 6 Fund<sup>1</sup> to receive all donations of money, property and personal services to assist in promotional events and community outreach activities associated with the opening of the renovated Terminal 2, at the sole discretion of the Airport Commission. The Airport Director was responsible for submitting bi-monthly reports of revenues and expenditures to the Board of Supervisors and the Budget Analyst regarding the Terminal 2 Promotion Fund, which expired on December 31, 2011.

## BACKGROUND

### Terminal 2 Promotion Fund

After being closed for over ten years, from December 2000 until April 2011, the Airport opened a new domestic Terminal 2 on April 15, 2011, housing Virgin America and American Airlines. The new Terminal 2 consists of 721,000 total square feet of space, generating approximately \$27.5 million of revenues in FY 2012-13, including \$21.8 million from airline terminal fees and \$5.7 million from food and beverage and retail concessions. The Airport's Terminal 2 Promotion Fund was used by the Airport to conduct marketing and promotional activities in 2011 related to the opening of the new domestic Terminal 2.

All funds in the Airport Terminal 2 Promotion Fund were private donations of money, property and personal services. According to Ms. Sara Magoffin, Marketing Manager for the Airport, the Airport generated a total of \$623,875 into this Terminal 2 Promotion Fund from 46 different entities and expended the entire \$623,875 from this Fund for various promotional events, including the following four specific opening events:

- Sponsor preview on March 22, 2011;
- Gala event on April 6, 2011;
- Wrap event on April 7, 2011; and
- Community Open House on April 9, 2011.

As shown in the Table below, the Airport's operating budget included an additional \$346,457 resulting in total expenditures of \$970,332 for the promotion of the new Terminal 2 building.

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<sup>1</sup> Section 10.100-1 of the City's Administrative Code allows individual City departments to create Category 6 Funds, with Board of Supervisors approval, in order to (i) automatically appropriate funds deposited into the Category 6 Fund for expenditures consistent with the specified purposes and uses, and (ii) carry forward any unexpended and unencumbered balance remaining at the end of the fiscal year into the upcoming fiscal year.

**Table: Terminal 2 Promotion Expenditures**

Terminal 2 Promotion Fund	\$623,875
Airport Operating Budget	<u>346,457</u>
Total	\$970,332

Although the City's Administrative Code provided that the Airport Director was responsible for submitting bi-monthly reports to the Board of Supervisors and the Budget Analyst on the Terminal 2 Promotion Fund, on September 22, 2011, the Airport provided one report to the Board of Supervisors summarizing all of the revenues and expenditures in the Airport Terminal 2 Promotion Fund. This Terminal 2 Airport Promotion and Event Fund expired on December 31, 2011, at which time no monies remained in the Fund.

### 10-Year Capital Plan

San Francisco International Airport's current 10-Year Capital Improvement Plan which extends from FY 2013-14 to FY 2023-24 identifies \$4.1 billion of infrastructure projects, including

- redevelopment of Terminal 1;
- new Aircraft Control Tower;
- a consolidated administrative campus;
- reconfiguration of Terminal 3;
- construction of an on-Airport hotel; and
- runway safety improvements.

As each of these major capital improvements are completed, Ms. Magoffin advises that the Airport plans to hold opening events for key audiences, such as local, regional and international customers, airlines and aviation industry representatives, local community, partners and media to promote the Airport's new facilities and passenger services. In order to support these opening events, the Airport anticipates fundraising and collecting private donations from stakeholders related to the specific capital improvement project, such as aviation industry members, tenants, vendors and contractors.

### DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend City Administrative Code Section 10.100-18 to delete the expired provisions of the previously authorized Airport's Terminal 2 Promotion Fund, which expired on December 31, 2011, and authorize a proposed new special fund, the Airport Capital Improvement Promotion and Event Fund, which would expire on December 31, 2023. This new special fund would be established in order to receive donations and authorize expenditures for holding events to promote the opening of major capital improvement projects at the Airport.

Specifically, the proposed ordinance would:

- Delete obsolete provisions relating to the Terminal 2 Promotion Fund;

- Establish a new Airport Capital Improvement Promotion and Event Fund as a Category 6 Fund;
- Authorize the Airport Commission to accept and expend all gifts of money, property, and personal services, to be deposited in the Airport Capital Improvement Promotion and Event Fund for promotional and community outreach activities associated with the opening of Airport capital improvements;
- Separately account for each capital improvement project within the Fund, as determined by the Airport Commission;
- Deposit any unexpended balances remaining in the Airport Capital Improvement Promotion and Event Fund, when it expires on December 31, 2023 to the City's General Fund; and
- Require the Airport Director to submit a written report of revenues and expenditures from the Airport Capital Improvement Promotion and Event Fund to the Board of Supervisors and the Budget Analyst on a quarterly basis.

According to Ms. Magoffin, all contributions to the proposed new Airport Capital Improvement Promotion and Event Fund would be private donations of money, property and personal services. All expenditures from this Fund would be used to conduct marketing, promotional and outreach activities related to individual capital improvements, as specified in the 10-Year Capital Plan, or through FY 2023-24. Given that the last project in the 10-year plan is anticipated to end in mid-2023, the proposed Fund would expire on December 31, 2023.

## FISCAL IMPACTS

### Airport's Existing Marketing and Promotions Budget

The Airport's FY 2013-2014 budget includes \$1,000,000 of Airport operating revenues to fund a general marketing services contract with The M-Line. According to Ms. Magoffin, the Airport has an existing \$7,000,000 agreement with The M-Line for up to a total of seven years, or \$1,000,000 per year, to provide general marketing services for the Airport, which commenced December 1, 2011 and potentially extends through November 30, 2018.<sup>2</sup> These general marketing services include:

- research and strategic marketing planning;
- airline retention and new airline route support;
- concession and parking marketing;

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<sup>2</sup> The agreement between the Airport and M-Line was not subject to Board of Supervisors approval because the agreement was (1) under ten years and (2) under \$10,000,000. This agreement is for an initial three years, with two additional two-year options to extend, for a total of seven years.

- general awareness marketing planning;
- media placement;
- creative and design work; and
- production and management of events to support the Airport.

In addition, Ms. Magoffin advises that the Airport's FY 2013-14 budget includes \$270,000 of one-time marketing and promotion funds specifically for:

- (a) \$200,000 for promotional activities and management fees associated with the opening of the new Boarding Area E in Terminal 3; and
- (b) \$70,000 for early planning for the Aircraft Control Tower scheduled to be completed in the fall of 2015.

Ms. Magoffin advises that the Airport anticipates amending the existing \$7,000,000 contract with M-Line to add the \$270,000 of one-time funds included in the Airport's FY 2013-14 budget, for marketing and management fees associated with the opening of Boarding Area E and the Aircraft Control Tower.

### **Proposed Capital Improvement Promotion and Event Fund**

Ms. Magoffin cannot estimate the total amount of private donations that would be received over the proposed ten-year term of the Airport Capital Improvement Promotion and Event Fund. The amount of private funds raised and expenditures incurred for Airport project promotions will likely vary by capital improvement project. In accordance with the proposed ordinance, each Airport capital improvement project would have a separate account within the Fund.

Ms. Magoffin notes that an existing capital improvement project, the renovation of Boarding Area E in Terminal 3, is scheduled to be completed and open on January 28, 2014. The Attachment, provided by Ms. Magoffin, summarizes the estimated total \$761,947 for marketing and promotional activities for the opening of the new Terminal 3, Boarding Area E. Given the above-noted \$200,000 of FY 2013-14 Airport funds, Ms. Magoffin advises that the Airport estimates raising the balance of \$561,947 from private donations which would be deposited into the proposed new Fund, to cover the total \$761,947 promotion costs for the new Terminal 3, Boarding Area E project.

The Budget and Legislative Analyst notes that the proposed ordinance requires that any unexpended balance remaining in the Airport Capital Improvement Promotion and Event Fund, when it expires on December 31, 2023, be transferred to the City's General Fund. However, as noted above, although the previous Category 6 International Airport Promotion and Event Fund contained this same provision, no monies remained in the International Airport Promotion and Event Fund when it expired on September 30, 2001. As a result, no private monies were previously transferred to the City's General Fund.

**POLICY CONSIDERATIONS****Notification to the Board of Supervisor of Donations and Expenditures  
Greater than \$100,000**

San Francisco Administrative Code Section 10.100-305(b) currently requires Board of Supervisors approval by resolution for the acceptance or expenditure of any gift of cash or goods of a market value greater than \$10,000. In addition, San Francisco Administrative Code Section 10.170-1 requires Board of Supervisors approval by resolution to accept and expend grants exceeding \$100,000. In May of 2013, the Board of Supervisors created a new City Hall Preservation Fund to accept private donations to fund promotional, community activities, as well as maintenance and repair costs to commemorate the 100<sup>th</sup> anniversary of City Hall in 2015, with the requirement that donations greater than \$100,000 require approval by resolution of the Board of Supervisors.

The proposed ordinance would allow the Airport to create a new long-term capital improvement project fund to accept and expend donations and contributions without requiring any subsequent Board of Supervisors approval. As noted above, the proposed new Fund would extend for ten years. In order to ensure adequate oversight of the proposed new Airport Capital Improvement Promotion and Event Fund, the Budget and Legislative Analyst recommends amending the proposed ordinance to require Board of Supervisors approval by resolution of the acceptance and expenditure of gifts exceeding \$100,000. This recommendation would be consistent with the Administrative Code provision that requires Board of Supervisors approval to accept and expend grants exceeding \$100,000 as well as the recently approved City Hall Preservation Fund.

**Annual Reporting to the Board of Supervisors**

The proposed ordinance requires the Airport to submit quarterly written reports on the revenues and expenditures from the Airport Capital Improvement Promotion and Event Fund to the Board of Supervisors and the Budget Analyst. However, as noted above, the Airport only submitted one report to the Board of Supervisors and the Budget Analyst on September 22, 2011 on the previous Terminal 2 Promotion Fund, although the existing legislation requires the Airport to submit bi-monthly reports to the Board of Supervisors and the Budget Analyst.

Therefore, based on the large scale of the Airport's capital improvement projects and the above-noted recommendation to require approval of large donations that exceed \$100,000, the Budget and Legislative Analyst recommends that the Airport only be required to submit annual written reports, rather than quarterly reports. However, such annual reports should identify the amounts, dates, types, and sources of donations received and the amounts, dates and types of expenditures incurred. The proposed ordinance should also be amended to specify that such reports be submitted to the Board of Supervisors and the "Budget and Legislative Analyst".

**RECOMMENDATIONS**

1. Amend the proposed ordinance on page 2, lines 9 and 10 to (a) change “Budget Analyst” to “Budget and Legislative Analyst”, (b) change the Airport’s frequency of reporting from quarterly to annual, and (c) specify that such reports identify the amounts, dates, types, and sources of donations received and the amounts, dates and types of expenditures incurred.
2. Amend the proposed ordinance to require Board of Supervisors approval by resolution of any donations of \$100,000 or greater, to be consistent with the Administrative Code provision that requires Board of Supervisors approval to accept and expend grants exceeding \$100,000 as well as the recently approved City Hall Preservation Fund.
3. Approve the proposed ordinance, as amended.



## PROJECTED SFO TERMINAL 3/BOARDING AREA E OPENING EVENTS BUDGET

Estimated Budget for Boarding Area E opening events as of August 1, 2013

CATEGORY	GENERAL	SPONSOR PREVIEW	FAMILY	GALA	TOTAL
COUNT		150	5,000	500	5,650
HARD COSTS					
PAPER AND PROD	\$15,000	\$3,000	\$9,750	\$16,000	\$43,750
ENTERTAINMENT/TECHNICAL		\$7,500	\$46,000	\$65,500	\$119,000
FOOD SERVICE	\$ -	\$17,400	\$5,435	\$125,502	\$148,337
BEVERAGE SERVICE	\$ -	\$4,325	\$ -	\$23,260	\$27,585
EQUIPMENT	\$ -	\$2,075	\$6,000	\$25,000	\$33,075
DÉCOR	\$ -	\$6,500	\$10,000	\$35,000	\$51,500
VENUE/LOGISTICS	\$2,000	\$2,700	\$12,300	\$32,200	\$49,200
PROMOTION	\$2,500	\$650	\$9,350	\$12,000	\$24,500
ADMINISTRATION	\$45,000	\$5,000	\$30,000	\$35,000	\$115,000
MARKETING AND DESIGN SERVICES	\$150,000				\$150,000
GRAND TOTAL	\$214,500	\$49,150	\$128,835	\$369,462	\$761,947

<b>Item 4</b> <b>File 13-1038</b>	<b>Departments:</b> Technology, Administrative Services
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<ul style="list-style-type: none"> <li>The proposed resolution would approve a new lease between the City, as tenant, and Claire A. Spencer, as landlord, for 1995 Evans Street retroactive from August 1, 2013 through December 31, 2014, a term of 17 months, with one two-year option to extend the lease through December 31, 2016.</li> </ul>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>The proposed lease for 1995 Evans Street would be used as a temporary location by the Department of Technology's Public Safety Communications Division for the storage of equipment and the Department of Administrative Services' Central Shops for the storage of vehicles. The Public Safety Communications Division previously used the City-owned building at 901 Rankin Street for the storage of equipment but had to relocate because 901 Rankin Street was incorporated into the 60-year ground lease between the City and the San Francisco Market Corporation for the expansion and improvement of the San Francisco Wholesale Produce Market. The Public Safety Communications Division temporarily relocated to the City-owned property at 1800 Jerrold Avenue, which is under the jurisdiction of the City's General Services Agency and is used by the Central Shops for the storage of vehicles. Both the Public Safety Communications Division and the Central Shops must now relocate from 1800 Jerrold Avenue, because the property will be used by the Public Utilities Commission (PUC) for the renovation of the Southeast Water Pollution Control Plant as part of the PUC's Sewer System Improvement Program.</li> <li>The Real Estate Division expects to select a new property to serve as a permanent location for the Public Safety Communications Division to store equipment and the Central Shops to store vehicles, and to enter into negotiations with the property owner prior to the end of the 2013 calendar year</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>Annual rent under the proposed lease is \$840,000. The City's estimated expenditures for rent, utilities and maintenance for the initial 17-month term of the lease are \$1,260,000, and are included in the Real Estate Division's FY 2013-14 and FY 2014-15 budgets.</li> </ul>	
<b>Policy Consideration</b>	
<ul style="list-style-type: none"> <li>The proposed lease provides an option for the City to purchase 1995 Evans Street, which was identified in the City's 2014-2023 Capital Plan as a possible site to relocate the Police Department's Forensic Services Division and Traffic Company from the Hall of Justice. An agreement to purchase 1995 Evans Street would be subject to Board of Supervisors approval.</li> <li>The proposed purchase and reconstruction of 1995 Evans Street for the Forensic Services Division and Traffic Company would cost an estimated \$165 million and would be funded by the proposed second Earthquake Safety and Emergency Response General Obligation Bond, which would require Board of Supervisors' approval prior to submitting the bond measure to the voters in June 2014.</li> </ul>	
<b>Recommendation</b>	
<ul style="list-style-type: none"> <li>Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

Administrative Code Section 23.27 requires Board of Supervisors approval by resolution of all leases when the City is the tenant.

**Background****The Public Safety Communications Division's Relocation from 901 Rankin Street**

The Department of Technology's (DT) Public Safety Communications Division repairs and installs mobile data devices in public safety vehicles and maintains the City's emergency communication network and facilities. The Public Safety Communications Division previously used the City-owned building at 901 Rankin Street for storage of equipment.

In July 2012, the Board of Supervisors approved a new 60-year ground lease between the City and San Francisco Market Corporation for the expansion and improvement of the San Francisco Wholesale Produce Market, which included 901 Rankin Street (File 12-0530). Therefore, the Public Safety Communications Division was required to relocate from 901 Rankin Street in order to facilitate the expansion and improvement of the San Francisco Wholesale Produce Market.

The Public Safety Communications Division temporarily relocated to another City-owned property at 1800 Jerrold Avenue, which is under the jurisdiction of the City's General Services Agency. The Public Safety Communications Divisions shares the use of 1800 Jerrold Avenue with the Department of Administrative Services' Central Shops, which uses the property for the storage of vehicles.

**The Need for the Public Safety Communications Division and Central Shops to Relocate from 1800 Jerrold Avenue**

The San Francisco Public Utilities Commission (PUC) plans to permanently occupy 1800 Jerrold Avenue, which will be the location of newly-constructed biosolids digesters<sup>1</sup> as part of the reconstruction of the Southeast Water Pollution Control Plant under the PUC's Sewer System Improvement Program. The Real Estate Division is in the process of negotiating a jurisdictional transfer of 1800 Jerrold Avenue from the General Services Agency to PUC. As a result, both the Public Safety Communications Division and the Central Shops are required to find a new location for storage of equipment and vehicles.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve a new lease between the City, as tenant, and Claire A. Spencer, as landlord, for 1995 Evans Street retroactive from August 1, 2013 through December 31, 2014, a term of 17 months, with one two-year option to extend the lease through December 31, 2016. The Department of Technology's Public Safety Communications Division would use the proposed leased space for storage of equipment, and the Department of Administrative Services' Central Shops would use the proposed leased space for storage of vehicles.

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<sup>1</sup> Biosolids digesters break down biologic waste as part of the sewage treatment process.

The terms of the proposed lease are summarized in Table 1 below.

**Table 1: Summary of Lease Terms**

Initial Term	Retroactive August 1, 2013 through December 31, 2014
Square Feet	44,210 square feet of building space <u>89,200 square feet of land</u> 133,410 total square feet
Annual Rent	\$840,000 (approximately \$19 per square foot for 44,210 square feet of building space) <sup>2</sup>
Option to Extend	One two-year option to extend through December 31, 2016
Annual Rent During Extension	\$865,200 (3% increase)
Utilities and Maintenance	Paid by City
Janitorial and Security Services	Paid by City
Property Taxes and Insurance	Paid by Landlord
Tenant Improvements	None

### Rent

According to Mr. John Updike, Director of Real Estate, the rent of approximately \$19 per square foot per year for building space was negotiated between the City and the landlord and is fair market value, based on comparable rents for storage space in the eastern side of the City between Highways 101 and 280.

### Indemnification Clause

The proposed lease includes a provision indemnifying and holding harmless the landlord against claims and expenses, including attorney's fees, incurred as a result of the City's use of the property, the City's failure to meet its obligations under the lease, or acts or omissions of the City. According to Mr. Updike, the City is not likely to incur costs due to this provision because the City is using the property solely for storage and is making no improvements to the property.

### Retroactive Approval

The proposed lease is retroactive to August 1, 2013 when the City occupied the space. According to Mr. Updike, because the Public Safety Communications Division could not store all related materials and supplies at 1800 Jerrold Avenue and needed additional storage, the landlord agreed to allow the Public Safety Communications Division to occupy 1995 Evans Street early under Administrative Code Section 23.26, which authorizes the Director of Real Estate to enter into short term or month-to-month leases. According to Mr. Updike, the City has not paid rent for occupying the space since August 1, 2013, but will have to pay back rent retroactive to August 1, 2013 if the Board of Supervisors approves the proposed lease.

<sup>2</sup> According to Mr. John Updike, Director of Real Estate, rents for this type of property are generally based on the square footage of the building.

### Temporary Location of the Public Safety Communications Division and the Central Shops

According to Mr. Updike, the Public Safety Communications Division will store equipment and the Central Shops will store vehicles at 1995 Evans Street on a temporary basis for no longer than the term of the lease, including the two-year option to extend the lease through December 31, 2016. The Real Estate Division has identified five properties that could serve as a permanent location for the Public Safety Communications Division to store equipment and the Central Shops to store vehicles, and Mr. Updike expects to make a final property selection and enter into negotiations with the property owner prior to the end of the 2013 calendar year. Funds to partially offset the new costs to relocate the Public Safety Communications Division and the Central Shops to a permanent location would come from the ground lease rent between the City and the San Francisco Market Corporation, previously approved by the Board of Supervisors, and the jurisdictional transfer agreement to be negotiated between the City and the PUC.<sup>3</sup>

### FISCAL IMPACT

The City's costs for the proposed lease for the 17-month period from August 1, 2013 through December 31, 2014 are approximately \$1,260,000, as shown in Table 2 below.

**Table 2: Rent, Utilities and Maintenance**

	<b>Annual 12 Months from August 1, 2013 - July 31, 2014</b>	<b>5 Months from August 1, 2014 – December 31, 2014</b>	<b>Total 17-Month Term</b>
Rent	\$840,000	\$350,000	\$1,190,000
Utilities	<u>16,364</u>	<u>6,818</u>	<u>23,182</u>
Subtotal	\$856,364	\$356,818	1,213,182
One Time Maintenance			<u>46,818</u>
Total			\$1,260,000

<sup>1</sup> One time maintenance costs include fence repair, locksmith services, and pavement patching

Funds of \$1,260,000 were appropriated by the Board of Supervisors in the Real Estate Division's FY 2013-14 and FY 2014-15 budgets.

### POLICY CONSIDERATION

#### The proposed lease provides an option for the City to purchase the property

According to Mr. Updike, the Real Estate Division previously selected 1995 Evans Street for potential purchase by the City to permanently locate (a) the Police Department's Forensic Services Division, currently located at two locations in the Hall of Justice and the City-owned Building 606 in Hunter's Point, and (b) the Police Department's Traffic Company, currently located in the Hall of Justice.

<sup>3</sup> The Real Estate Division has not yet determined if the City will lease or purchase the site that will serve as the permanent location for the Public Safety Communications Division or Central Shops. Under the ground lease, the San Francisco Market Corporation pays rent of \$142,344 per year for the first 15 years of the ground lease to partially offset the General Fund impact of relocating the Public Safety Communications Division.

Under the proposed lease, the City has the option to purchase the 1995 Evans Street property for \$16,000,000. The City may exercise the purchase option during the initial 17-month lease term or the optional two-year extension of the lease through December 31, 2016. The purchase of the property by the City is subject to environmental, appraisal, and other evaluations, and requires separate Board of Supervisors' approval of the purchase agreement.

According to Mr. Updike, the purchase price in the proposed lease of \$16,000,000 is based on a land value of approximately \$180 per square foot, which was negotiated based on sales prices for comparable properties and anticipated market conditions at the time of purchase in approximately 2014 or 2015. The Real Estate Division will conduct an appraisal prior to entering into a purchase agreement for the property. According to Mr. Updike, the purchase price of \$16,000,000 in the proposed lease may be renegotiated by the City and the landlord as part of the purchase agreement negotiations, based on the appraisal and other evaluations of the property at the time of purchase and consistent with the proposed resolution, which states that purchase of the property is subject to "substantial due diligence" with regard to the property.

### **Relocation of the Police Department's Forensic Services Division and Traffic Company in the City's Capital Plan**

The City's ten-year 2014-2023 Capital Plan proposes a second \$428 million Earthquake Safety and Emergency Response General Obligation Bond in 2014 to continue the Auxiliary Water Supply System and Neighborhood Fire Station improvement program<sup>4</sup>; make seismic improvements to District Police Stations; relocate the Medical Examiner's Office, and the Police Department's Forensic Services Division, and Traffic Company to new locations; and improve the Animal Shelter.

Under the Capital Plan, of the proposed \$428 million Earthquake Safety and Emergency Response General Obligation Bond, \$165 million would be allocated to purchase and construct a new facility at 1995 Evans Street for the Forensic Services Division and Traffic Company. The proposed \$428 million Earthquake Safety and Emergency Response General Obligation Bond is subject to approval by the Board of Supervisors prior to submitting a ballot measure to the voters in 2014.

Environmental review in accordance with the California Environmental Quality Act is currently in progress to determine if 1995 Evans Street is the best location for the Police Department's Forensic Services Division and Traffic Company.

## **RECOMMENDATION**

Approve the proposed resolution.

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<sup>4</sup> The program was initially funded by the first \$412.3 million Earthquake Safety and Emergency Response General Obligation Bond, approved by San Francisco voters in 2010.