


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

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November 14, 2014

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** November 19, 2014 Budget and Finance Committee Meeting

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<p><b>Items 1, 2 and 3</b>  <b>Files 14-1102, 14-1103 &amp; 14-1104</b></p>	<p><b>Department:</b>                  Planning Department</p>
<p><b>Executive Summary</b></p>	
<p style="text-align: center;"><b>Legislative Objective</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would (a) approve three Mills Act historical property contracts with the owners of the residential property located in the Duboce Park Landmark District, and (b) authorize the Director of Planning and the Assessor to execute the subject historical property contract, which would reduce the assessed value of the properties according to a formula established in the Mills Act, thereby reducing property taxes payable by the property owners to the City, provided that owners rehabilitate, restore, preserve, and maintain their qualified historical property.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The three historical properties seeking a Mills Act contract are 68 Pierce Street (File 14-1102), 563-567 Waller Street (File 14-1103), and 621 Waller Street (File 14-1104).</li> <li>• The proposed Mills Act historical property contracts would be in effect for 10 years, with an additional year added automatically to the initial term on each anniversary date of the proposed historical property contract execution date. In other words, the reduced property taxes would continue annually, in perpetuity, unless the Mills Act historical property contract is terminated.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• For 68 Pierce Street (File 14-1102), property taxes are estimated to be reduced by \$9,528 or 51.3 percent in the first year of the Mills Act contract. The total estimated reduction in property taxes over the initial ten-year period of the contract is therefore \$95,280 (\$9,528 annually x ten years).</li> <li>• For 563-567 Waller Street (File 14-1103), property taxes are estimated to be reduced by \$6,519 or 28.5 percent in the first year of the Mills Act contract. The total estimated reduction in property taxes over the initial ten-year period of the contract is therefore \$65,190 (\$6,519 annually x ten years).</li> <li>• For 621 Waller Street (File 14-1104), property taxes are estimated to be reduced by \$14,846 or 60.1 percent in the first year of the Mills Act contract. The total estimated reduction in property taxes over the initial ten-year period of the contract is therefore \$148,460 (\$14,846 annually x ten years).</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed resolutions in File 14-1102, 14-1103 and 14-1104 are policy matters for the Board of Supervisors.</li> </ul>	

## MANDATE STATEMENT/BACKGROUND

### Mandate Statement

The Mills Act, codified in State Government Code Section 50280, authorizes local governments to enter into historic property contracts with owners of qualified historical properties, in which local governments reduce the assessed value of the property according to a formula established in the Mills Act, thereby reducing property taxes payable by the property owner to the City, provided that the subject owners rehabilitate, restore, preserve, and maintain their qualified historical properties.

The City's Administrative Code<sup>1</sup> specifies (a) required qualifications for properties to allow for approval of a Mills Act historical property contract, (b) the Mills Act historical property application and approval processes, and (c) the terms and fees for individual property owners to apply for Mills Act historical property contracts with the City in order to receive such Mills Act Property Tax reductions, subject to Board of Supervisors approval.

### Provisions of the Mills Act

In order for a Mills Act historical property contract to be approved<sup>2</sup>, the property must be designated a qualified historical property by being listed or designated in one of the following ways on or before December 31 of the year before the application is made:

- Individually listed in the National Register of Historic Places or the California Register of Historical Resources;
- Listed as a contributor to a historic district included on the National Register of Historic Places or the California Register of Historical Resources;
- Listed as a City landmark pursuant to Planning Code Article 10;
- Designated as contributory to a historic district; or
- Designated as significant<sup>3</sup> (Categories I and II) or contributory<sup>4</sup> (Categories III or IV).

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<sup>1</sup> Administrative Code Chapter 71

<sup>2</sup> Administrative Code Section 71.2

<sup>3</sup> Planning Code Section 1102(a) designates a building as Category I significant if it is (1) at least 40 years old and (2) judged to be a building of individual importance, and (3) is rated excellent in architectural design or as very good in both architectural design and relationship to the environment. Planning Code Section 1102(b) designates a building as Category II significant if (1) it meets the standards in Section 1102(a) and (2) it is feasible to add different and higher replacement structures or additions to the height at the rear of the structure without affecting the architectural quality or relationship to the environment and without affecting the appearance of the retained portions as a separate structure when viewing the principal facade.

<sup>4</sup> Planning Code Section 1102(c) designates a building as Category III contributory if it is (1) located outside a designated conservation district, (2) at least 40 years old, (3) judged to be a building of individual importance, and (4) rated either very good in architectural design or excellent or very good in relationship to the environment. Planning Code Section 1102(d) designates a building as Category IV contributory if it is (1) located in a designated conservation district, (3) judged to be a building of individual importance, (4) judged to be a building of contextual importance, and (4) rated either very good in architectural design or excellent or very good in relationship to the environment.

In addition, eligibility for Mills Act historical property contracts is limited to sites, buildings, or structures with an assessed valuation, as of December 31 of the year before the application is made, of \$3,000,000 or less for single-family dwellings and \$5,000,000 or less for commercial, industrial, or mixed-use buildings, unless the Board of Supervisors grants an exemption.

The lifecycle of a Mills Act application typically runs from May to December over the course of one year. If the foregoing conditions are met, a property owner may submit a Mills Act application to the Planning Department for review. The Planning Department reviews the application for completeness and forwards the application to the Assessor, which then calculates property valuations with and without a Mills Act contract. Once the property owner has had a chance to review the Assessor's findings, the application is passed to the Historic Preservation Commission for review. The Historic Preservation Commission will then review the application, including the proposed rehabilitation and maintenance plan, hold a public hearing, and make a recommendation for approval or disapproval to the Board of Supervisors. The Board of Supervisors will then review the Mills Act application and related materials from the Historic Preservation Commission and Assessor, hold a public hearing, and determine whether the City should enter into a Mills Act contract with the property owner. The process is complete once the City Attorney finalizes the Mills Act contract, which is then signed by both the Planning Department and property owner and recorded by the Assessor. Onsite property inspections occur every five years and are carried out by the Planning Department and the Assessor to monitor compliance with the Mills Act contract. Owners must also submit a yearly affidavit verifying compliance with the approved maintenance and rehabilitation plans.

As required by State law, the proposed Mills Act historical property contract would be in effect for 10 years, with an additional year added automatically to the initial term on each anniversary date of the proposed historical property contract execution date<sup>5</sup>, unless either party terminates the contract by submitting a notice of nonrenewal<sup>6</sup>, subject to Board of Supervisors approval. In other words, the reduced property taxes would continue annually, in perpetuity, until the Mills Act historical property contract is terminated.

#### Mills Act: Rehabilitation Plan Requirements

Under the Mills Act contract, the property owners must apply for appropriate building permits within six months after the Mills Act contract is recorded. Further, rehabilitation work must begin within six months of acquiring the necessary permits, and all of the rehabilitation work must be completed within three years of the date of receipt of the permits. Should the property owners fail to comply with the rehabilitation plan according to the deadlines listed above and fail to secure an exemption from meeting those deadlines from the Zoning Administrator, the Board of Supervisors may cancel the Mills Act contract. In that case, the property owners must pay a cancellation fee of 12.5% of the fair market value of the property, which is determined by the Assessor. If the property owners successfully obtain an exemption from the Zoning Administrator, then no fees would be owed.

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<sup>5</sup> According to State Government Code Section 50282

<sup>6</sup> The City must submit a nonrenewal notice 60 days prior to the date of renewal and the owners must submit a nonrenewal notice 90 days prior to the date of renewal.

The Mills Act contract requires the property owners to comply to periodic examinations of the property by representatives of (a) the Historic Preservation Commission, (b) the Office of the Assessor-Recorder, (c) the Department of Building Inspection, (d) the Planning Department, (e) the Office of the Historic Preservation of the California Department of Parks and Recreation, and (f) the State Board of Equalization with 72 hours advance notice to ensure compliance with the proposed historic property contract. Furthermore, the Planning Department and Assessor will conduct an inspection program to monitor the provisions of the contract. This program will involve a yearly affidavit issued by the property owner verifying compliance with the approved maintenance and rehabilitation plans as well as onsite inspections every five years.

#### Mills Act: Property Valuation

Property taxes are typically determined as portion of a property's assessed value, which largely depends on the property's sale price and year of purchase. According to the Assessor's Office, under a Mills Act contract, the calculation of the property tax reduction includes the following factors:

1. Market rates for rental income
2. Actual rent paid, if a unit is encumbered by a lease subject to rental control
3. An interest rate component as annually determined by the State Board of Equalization
4. Whether a unit is owner-occupied
5. The property tax rate
6. The estimated remaining life of the property

Following State law, the Assessor determines the actual/estimated net rental income of the historical property (items 1 & 2 above) and uses items 3 – 6 above to determine a capitalization rate. The income and capitalization rate in turn determine the overall value of the property, which is then taxed at the prevailing property tax rate. The Assessor recalculates the Mills Act valuation every year. Therefore, property tax rates, economic conditions in the local real estate market, and the extent to which the historical property is rented or owner-occupied may increase or decrease the Mills Act property valuation and taxes payable to the City each year. In addition, if a property has undergone substantial rehabilitation, the Assessor may extend the estimated remaining life of the property, which would enhance the Mills Act valuation and increase property taxes payable to the City.

#### **DETAILS OF PROPOSED LEGISLATION**

**File 14-1102:** The proposed resolution would (a) approve a Mills Act historical property contract with Diarmuid Russell and Heather Podruchny, the owners of the residential property located at 68 Pierce Street, and (b) authorize the Director of Planning and the Assessor to execute the subject historical property contract.

**File 14-1103:** The proposed resolution would (a) approve a Mills Act historical property contract with Brandon Miller and Jay Zaleski, the owners of the residential property located at 563-567

Waller Street, and (b) authorize the Director of Planning and the Assessor to execute the subject historical property contract.

**File 14-1104:** The proposed resolution would (a) approve a Mills Act historical property contract with Claude Zellweger & Renee Zellweger, the owners of the residential property located at 621 Waller Street, and (b) authorize the Director of Planning and the Assessor to execute the subject historical property contract.

### **Characteristics of the Three Historic Properties Seeking a Mills Act Contract**

A Mills Act historical property contract application was submitted for each of the subject properties to the Planning Department on May 1, 2014, which included a rehabilitation program detailing estimates of the necessary improvements to preserve each property as well as an annual maintenance plan. The City's Historic Preservation Commission has reviewed the Mills Act historical property contract application for all three subject properties, including the proposed rehabilitation program and annual maintenance plans. On October 1, 2014 the Historic Preservation Commission recommended approval of the proposed Mills Act historical property contract, rehabilitation program, and maintenance plan (Historic Preservation Commission Resolution Nos. 0737 - 0739) for the three subject properties. In order to continue work on the rehabilitation program included in the Mills Act historical property contract application, the owners of each property intend to apply for a Certificate of Appropriateness<sup>7</sup> from the Historic Preservation Commission.<sup>8</sup>

All three residential properties pending before the Board of Supervisors are listed as contributors<sup>9</sup> to the Duboce Park Landmark district. Therefore, each property qualifies as a historical property under the Administrative Code and is eligible for Mills Act historical property contract approval without an exemption being necessary.

According to the Planning Department's Mills Act Contract Case Report on 68 Pierce Street, the existing building at the intersection of Pierce and Waller Streets, built in 1899, is a two-story over raised-basement, wood frame, single-family dwelling in the Shingle style (See Exhibit 1 below).

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<sup>7</sup> A Certificate of Appropriateness is the entitlement required to alter an individual landmark and any property within a landmark district. It is not required for ordinary maintenance and repairs, if the replacement materials and details are in-kind.

<sup>8</sup> The Historic Preservation Commission is a 7-member body, appointed by the Mayor subject to Board of Supervisors' approval, that makes recommendations directly to the Board of Supervisors on the designation of landmark buildings, historic districts, and significant buildings.

<sup>9</sup> According to the Planning Department's Preservation Bulletin, No. 10, a contributing property in a Historic District is "A classification applied to a site, structure or object within an historic district signifying that it generally shares, along with most of the other sites, structures or objects in the historic district, the qualities that give the historic district cultural, historic, architectural or archaeological significance as embodied by the criteria for designating the historic district."

**Exhibit 1: 68 Pierce Street**



Source: Department of Planning

According to the Planning Department's Mills Act Contract Case Report on 563-567 Waller Street, the existing building at the intersection of Potomac and Waller Streets, built in 1900, is a three and a half story over raised-basement, wood frame, three-family dwelling designed in the Queen Anne style (See Exhibit 2 below).



**Exhibit 2: 563-567 Waller Street**



Source: Department of Planning

According to the Planning Department's Mills Act Contract Case Report on 621 Waller Street, the existing building on Waller Street between Carmelita and Pierce Streets, was built in 1900 by Fernando Nelson and is a two and a half story over raised-basement, wood frame, single-family dwelling in the Queen Anne style (See Exhibit 3 below).

**Exhibit 3: 621 Waller Street**



Source: Department of Planning

**File 14-1102: 68 Pierce Street**

Rehabilitation and Maintenance

Table 1 below summarizes actual and estimated costs of the work included in the rehabilitation program as well as the estimated completion dates. As shown in Table 1, most of the rehabilitation work has not yet started and the work expected to be completed will be done by 2018, as required by the Mills Act contract. To date, \$2,093 or 1.2 percent of the \$179,093 total estimated rehabilitation costs has been completed.

**Table 1: Actual and Estimated Costs of Rehabilitation Program at 68 Pierce Street**

Rehabilitation Plan	Expenditures to Date	Estimated Remaining Expenditures	Total Rehabilitation Expenditures	Completion Date
Drainage repair	\$2,093	\$0	\$2,093	2013
Window replacement (front)	\$0	\$15,600	\$15,600	2018
Window replacement (rear)	\$0	\$7,800	\$7,800	2018
Replace stairs	\$0	\$12,000	\$12,000	2018
Earthquake retrofit	\$0	\$96,000	\$96,000	2018
Replace/repair roof	\$0	\$18,000	\$18,000	2018
Repaint front elevation	\$0	\$21,600	\$21,600	2018
Repair garage wood	\$0	\$6,000	\$6,000	2018
<b>Totals</b>	<b>\$2,093</b>	<b>\$177,000</b>	<b>\$179,093</b>	

Source: Department of Planning

In addition to the rehabilitation plan detailed above in Table 1, the property owners have agreed to a maintenance plan, including maintenance of gutters, wood façade, and roof. Ongoing maintenance is currently estimated to cost the owners of 68 Pierce Street \$540 per year on average, depending on the timing of the inspection cycle, as shown in Table 2 Below.

**Table 2: Maintenance Budget for 68 Pierce Street**

Maintenance	Cost	Timing
Gutter inspections	\$600	Every 2 years
Façade inspection	\$600	Every 3 years
Roof inspection	\$300	Every 5 years
<i>Average Annual Cost</i>	<i>\$540</i>	<i>Every year</i>

Source: Department of Planning

**File 14-1103: 536-567 Waller Street**

Rehabilitation and Maintenance Plan:

Table 3 below summarizes actual and estimated costs of the work included in the rehabilitation program. Under the Mills Act, the proposed renovation work should be completed no later than 2018. As shown in Table 3, most of the rehabilitation work has been completed and work expected to be completed will be done by 2018, as required by the Mills Act contract. To date, \$597,085 or 99.7 percent of the \$598,935 total estimated rehabilitation costs has been completed.

**Table 3: Actual and Estimated Costs of Rehabilitation Program at 563-567 Waller Street**

Rehabilitation Plan	Expenditures to Date	Estimated Remaining Expenditures	Total	Completion Date
Replace foundation, doors, & railing	\$423,518	\$0	\$423,518	2012
Replace back siding, exit stairwell, and storage area	\$173,567	\$0	\$173,567	2014
Relocate/dress gas meter	\$0	\$1,850	\$1,850	2015
<b>Totals</b>	<b>\$597,085</b>	<b>\$1,850</b>	<b>\$598,935</b>	

Source: Department of Planning

In addition to the rehabilitation plan detailed above in Table 3, the property owners have agreed to a maintenance plan, which includes annual inspections of the windows, gutters, siding, paint, and trim and an inspection of the roof every five years. As shown in Table 4 below, cost estimates for these inspections are currently unavailable. If it is determined that the roof needs to be replaced, the owners estimate a cost of \$48,500 to pay for the cost of that project.

**Table 4: Maintenance Budget for 563-567 Waller Street**

Maintenance	Cost	Timing
Inspect windows, gutters, siding, paint, and trim	Unavailable	Annual
Inspect & replace roof	\$48,500, if replaced	Every 5 years

Source: Department of Planning

**File 14-1104: 621 Waller Street**Rehabilitation and Maintenance Plan:

Table 5 below summarizes the estimated costs of the work included in the rehabilitation program. Under the Mills Act, the proposed renovation work should be completed no later than 2018. As shown below in Table 5, rehabilitation work on the property has not started but is expected to be completed no later than 2018, the deadline required by the Mills Act contract.

**Table 5: Actual and Estimated Costs of Rehabilitation Program at 621 Waller Street**

Rehabilitation Plan	Expenditures to Date	Estimated Remaining Expenditures	Total	Completion Date
Repair ornamental wrought iron	\$0	\$18,250	\$18,250	2016
Window repair	\$0	\$17,800	\$17,800	2016
Grading & drainage repair	\$0	\$22,500	\$22,500	2015
Waterproof exterior	\$0	\$37,500	\$37,500	2015
Repaint exterior	\$0	\$21,450	\$21,450	2018
<b>Totals</b>	<b>\$0</b>	<b>\$117,500</b>	<b>\$117,500</b>	

Source: Department of Planning

In addition to the rehabilitation plan detailed above in Table 5, the property owners have agreed to a maintenance plan, including maintenance of wood façade, gutters, downspouts, and roof. As shown in Table 6 below, cost estimates for these inspections are currently unavailable. The property owners estimate a cost of \$50,000 - \$60,000 if inspections determine that the roof needs to be replaced.

**Table 6: Maintenance Budget for 621 Waller Street**

Maintenance	Cost	Timing
Inspect wood façade	Unknown	Every 3 years
Inspect gutters/downspouts	\$1,000 - \$6,000	Every other year
Replace roof	\$50,000 - \$60,000 (if replaced)	One time event
Inspect roof	Unknown	Every 5 years

Source: Department of Planning

**FISCAL IMPACT**

**File 14-1102 68 Pierce Street**

According to the Assessor-Recorder, the property at 68 Pierce Street is estimated to be assessed at \$1,562,056, with property taxes payable to the City in the estimated amount of \$18,557 in FY 2014-15.<sup>10</sup> Table 7 below reflects the estimated assessed value of 68 Pierce Street both with and without the requested Mills Act Historical Property contract. As shown in Table 7 below, the first year annual property taxes to be paid to the City by the property owners would be \$9,029, which is \$9,528 or 51.3 percent less than the \$18,557 in estimated annual property taxes that would otherwise be paid to the City, if the proposed historical property contract is not authorized. The estimated reduction in property taxes to be received by the City would be approximately \$95,280 (\$9,528 annually x ten years) over the initial ten-year period<sup>11</sup> of the proposed Mills Act Historical Property contract.

**Table 7: Summary of Estimated Assessed Value of 68 Pierce Street**

	<b>Without a Mills Act Historic Property Contract</b>	<b>With a Mills Act Historic Property Contract</b>	<b>First Year Reduction</b>	<b>Percent Reduction</b>
<b>Estimated Assessed Property Value (FY 14-15)</b>	\$1,562,056	\$760,000	\$802,056	-51.3%
<b>Estimated Property Taxes Payable to the City (FY 14-15)</b>	\$18,557	\$9,029	\$9,528	-51.3%

Source: Assessor-Recorder

As shown in Table 1 above, the rehabilitation program is currently estimated to cost a total of \$179,093 and is to be fully paid by the property owners. In addition, as shown in Table 2 above, ongoing maintenance costs estimated to be \$540 annually are to be fully paid by the property owners, with total maintenance costs estimated to be \$5,400 (\$540 annually x 10 years) over the initial ten-year period. Therefore, total estimated cost to the property owner of

<sup>10</sup> The Assessor-Recorder advises that property tax rates had not been finalized for FY 2014-15 when these estimates were developed and therefore the estimated property taxes assessed are based on the FY 2013-14 property tax rate of 1.188 percent of assessed value.

<sup>11</sup> The actual reduction in Property Taxes payable to the City fluctuates annually based on (a) variables in the formula specified in the Mills Act which determine the assessed value of the subject property, such as market rental rates and conventional mortgage interest rates, (b) the factored base year value of the subject property (which increases by no more than 2 percent per year) had a Mills Act Historical Property Contract not been approved, and (c) the Property Tax rate each year. Therefore, the actual annual reductions in Property Taxes payable to the City over the ten-year term of a Mills Act Historical Property Contract and payable annually thereafter, are not equal to the first year reduction in Property Taxes.

rehabilitating and maintaining 68 Pierce Street over the initial ten-year period of the proposed Mills Act Historical Property contract is \$185,193 which is \$89,913 more than the estimated reduction in property tax of \$95,280.

#### **File 14-1103: 563-567 Waller Street**

According to the Assessor-Recorder, the property at 563-567 Waller Street is estimated to be assessed at \$1,928,706, with property taxes payable to the City in the estimated amount of \$22,913 in FY 2014-15.<sup>12</sup> Table 8 below reflects the estimated assessed value of 563-567 Waller Street both with and without the requested Mills Act Historical Property contract. As shown in Table 8 below, the first year annual property taxes to be paid to the City by the property owners would be \$16,394, which is \$6,519 or 28.5 percent less than the \$22,913 in estimated annual property taxes that would otherwise be paid to the City, if the proposed historical property contract is not authorized. The estimated reduction in property taxes to be received by the City would be approximately \$65,190 (\$6,519 annually x ten years) over the initial ten-year period<sup>13</sup> of the proposed Mills Act Historical Property contract.

**Table 8: Summary of Estimated Assessed Value of 563-567 Waller Street**

	<b>Without a Mills Act Historic Property Contract</b>	<b>With a Mills Act Historic Property Contract</b>	<b>First Year Reduction</b>	<b>Percent Reduction</b>
<b>Estimated Assessed Property Value (FY 14-15)</b>	\$1,928,706	\$1,380,000	\$548,706	-28.5%
<b>Estimated Property Taxes Payable to the City (FY 14-15)</b>	\$22,913	\$16,394	\$6,519	-28.5%

Source: Assessor-Recorder

As shown in Table 3 above, the rehabilitation program is currently estimated to cost a total of \$598,935 and is to be fully paid by the property owners. In addition, as shown in Table 4 above, the property owners will incur the cost of inspections (the cost of which are not yet determined) and possibly a roof replacement. Therefore, total estimated cost to the property owner of rehabilitating and maintaining 563-567 Waller Street over the initial ten-year period

<sup>12</sup> The Assessor-Recorder advises that property tax rates had not been finalized for FY 2014-15 when these estimates were developed and therefore the estimated property taxes assessed are based on the FY 2013-14 property tax rate of 1.188 percent of assessed value.

<sup>13</sup> The actual reduction in Property Taxes payable to the City fluctuates annually based on (a) variables in the formula specified in the Mills Act which determine the assessed value of the subject property, such as market rental rates and conventional mortgage interest rates, (b) the factored base year value of the subject property (which increases by no more than 2 percent per year) had a Mills Act Historical Property Contract not been approved, and (c) the Property Tax rate each year. Therefore, the actual annual reductions in Property Taxes payable to the City over the ten-year term of a Mills Act Historical Property Contract and payable annually thereafter, are not equal to the first year reduction in Property Taxes.

of the proposed Mills Act Historical Property contract is at least \$598,935, which is \$533,745 more than the estimated initial ten-year reduction in property tax of \$65,190.

#### **File 14-1104: 621 Waller Street**

According to the Assessor-Recorder, the property at 621 Waller Street is estimated to be assessed at \$2,079,659, with property taxes payable to the City in the estimated amount of \$24,706 in FY 2014-15.<sup>14</sup> Table 9 below reflects the estimated assessed value of 621 Waller Street both with and without the requested Mills Act Historical Property contract. As shown in Table 9 below, the first year annual property taxes to be paid to the City by the property owners would be \$9,860, which is \$14,846 or 60.1 percent less than the \$24,706 in estimated annual property taxes that would otherwise be paid to the City, if the proposed historical property contract is not authorized. The estimated reduction in property taxes to be received by the City would be approximately \$148,460 (\$14,846 annually x ten years) over the initial ten-year period<sup>15</sup> of the proposed Mills Act Historical Property contract.

**Table 9: Summary of Estimated Assessed Value of 621 Waller Street**

	<b>Without a Mills Act Historic Property Contract</b>	<b>With a Mills Act Historic Property Contract</b>	<b>First Year Reduction</b>	<b>Percent Reduction</b>
<b>Estimated Assessed Property Value (FY 14-15)</b>	\$2,079,659	\$830,000	\$1,249,659	-60.1%
<b>Estimated Property Taxes Payable to the City (FY 14-15)</b>	\$24,706	\$9,860	\$14,846	-60.1%

Source: Assessor-Recorder

As shown in Table 5 above, the rehabilitation program is currently estimated to cost \$117,500 and is to be fully paid by the property owners. The estimated cost to the property owner of rehabilitating 621 Waller Street over the initial ten-year period of the proposed Mills Act Historical Property contract is \$117,500, which is \$30,960 less than the estimated initial ten-year reduction in property tax of \$148,460. However, as shown in Table 6 above, the property owners expect to incur additional costs for ongoing maintenance, for which cost estimates are

<sup>14</sup> The Assessor-Recorder advises that property tax rates had not been finalized for FY 2014-15 when these estimates were developed and therefore the estimated property taxes assessed are based on the FY 2013-14 property tax rate of 1.188 percent of assessed value.

<sup>15</sup> The actual reduction in Property Taxes payable to the City fluctuates annually based on (a) variables in the formula specified in the Mills Act which determine the assessed value of the subject property, such as market rental rates and conventional mortgage interest rates, (b) the factored base year value of the subject property (which increases by no more than 2 percent per year) had a Mills Act Historical Property Contract not been approved, and (c) the Property Tax rate each year. Therefore, the actual annual reductions in Property Taxes payable to the City over the ten-year term of a Mills Act Historical Property Contract and payable annually thereafter, are not equal to the first year reduction in Property Taxes.

unavailable, and for a new roof at an estimated cost of \$50,000 - \$60,000 should inspections determine that the roof needs to be replaced, which would result in rehabilitation and maintenance costs exceeding the property tax reduction. Furthermore, the property's Mills Act valuation is subject to change over time. Should the Assessor determine that market rental rates in comparable units rise, or if the unit is no longer owner-occupied, or the remaining life of the property is extended, then the Mills Act valuation and property taxes payable to the City would increase.

### **Current Property Taxes**

According to Peter Chou, Tax Payment Assistant Officer for the Office of the Treasurer & Tax Collector, property taxes assessed to all three properties have been paid by the subject properties to the City with no remaining balance outstanding.

## **POLICY CONSIDERATION**

### **The Board of Supervisors has Previously Approved 17 Mills Act Contracts, with Estimated Annual Property Tax Reductions of \$854,869**

The Duboce Park Landmark District was approved by the Board of Supervisors on June 4, 2013 (File 13-0070). Since that time, the Board of Supervisors has approved seven Mills Act applications within the District.<sup>16</sup> Approval of the pending Mills Act application at 68 Pierce Street, 563-567 Waller Street, and 621 Waller Street would therefore be consistent with previous actions by the Board of Supervisors.

Since 2002, the Board of Supervisors has approved 17 Mills Act contracts, all of which are ongoing, as shown in Table 10 below. If the Board of Supervisors approves the three pending Mills Act contracts (Files 14-1102, 14-1103, and 14-1104), total estimated annual property tax reductions will increase by \$30,893, from \$854,869 to \$885,762.

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<sup>16</sup> 50 Carmelita Street (13-0522), 66 Carmelita Street (13-0577), 70 Carmelita Street (13-0640), 56 Pierce Street (13-1157), 64 Pierce Street (13-1158), 56 Potomac Street (13-1159) and 66 Potomac Street (13-1160).



**Table 10: Previously Approved and Pending Mills Act Contracts<sup>17</sup>**

Board of Supervisors Approval Date	Address	Without Historical Property Agreement	With Historical Property Agreement	Estimated Reduction in Property Tax	Percent Reduction
05/13/02	460 Bush Street	\$44,519	\$24,472	\$20,047	45%
05/15/07	1080 Haight Street	82,415	32,453	49,962	61%
08/07/07	1735 Franklin Street	35,708	23,853	11,856	33%
11/18/08	690 Market Street	1,807,186	1,282,186	525,000	29%
12/03/10	1818 California	112,791	28,504	84,287	75%
07/30/13	201 Buchanan Street	31,052	19,465	11,588	37%
12/22/13	1772 Vallejo Street	74,250	26,381	47,869	64%
12/22/13	2550 Webster Street	34,744	29,978	4,766	14%
12/22/13	1019 Market Street	207,900	196,495	11,405	5%
12/22/13	3769 20th Street	21,206	11,081	10,125	48%
12/22/13	50 Carmelita Street	31,133	11,524	19,609	63%
12/22/13	66 Carmelita Street	23,760	8,554	15,206	64%
12/22/13	70 Carmelita Street	7,547	7,547	0	0%
12/22/13	56 Pierce Street	18,243	10,811	7,432	41%
12/22/13	64 Pierce Street	30,011	11,286	18,725	62%
12/22/13	56 Potomac Street	12,645	7,484	5,161	41%
12/22/13	66 Potomac Street	22,523	10,692	11,831	53%
<b>Total Previously Approved</b>		<b>\$2,597,633</b>	<b>\$1,742,766</b>	<b>\$854,869</b>	<b>33%</b>
<b>Subject Property</b>	68 Pierce Street	\$18,557	\$9,029	\$9,528	51%
<b>Subject Property</b>	621 Waller Street	24,706	9,860	14,846	60%
<b>Subject Property</b>	563-567 Waller Street	22,913	16,394	6,519	28%
<b>Total Pending</b>		<b>\$66,176</b>	<b>\$35,283</b>	<b>\$30,893</b>	<b>47%</b>
<b>Total</b>		<b>\$2,663,809</b>	<b>\$1,778,049</b>	<b>\$885,762</b>	<b>33%</b>

**The Board of Supervisors has Full Discretion to Determine Whether it is in the Public Interest to Enter into a Mills Act Contract**

According to Administrative Code Section 71.4(d),

The Board of Supervisors shall have full discretion to determine whether it is in the public interest to enter a Mills Act historical property contract regarding a particular qualified historical property. The Board of Supervisors may approve, disapprove, or modify and approve the terms of the historical property contract. Upon approval, the Board of Supervisors shall authorize the Director of Planning and the Assessor-Recorder to execute the historical property contract.

<sup>17</sup> Estimated annual property taxes are based on information provided by the Assessor to the Budget and Legislative Analyst's Office at the time of Board of Supervisors approval of the Mills Act contracts.

Because the Mills Act provides the Board of Supervisors discretion in approving a Mills Act contract, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

**Because the Mills Act Contracts Continue Indefinitely Unless Cancelled, the Planning Department Needs to Annually Report to the Board of Supervisors on the Status of Mills Act Contracts**

Once the Mills Act contract has been enacted, the initial term is for 10 years, which is automatically extended each year on the anniversary date of the contract. The historic property contract continues indefinitely unless the property owner of the Board of Supervisors files a notice of nonrenewal; once the notice of nonrenewal has been filed, the term of the historic property contract extends for a final 10-year term and is no longer automatically renewed each year.

Administrative Code Section 71.7 requires that the Planning Department and the Assessor-Recorder's Office submit a joint report to the Board of Supervisors and the Historic Preservation Commission every three years. This report was not submitted as required on the initial due date of March 31, 2013. The next report is due on March 31, 2016.

When the Board of Supervisors approved the 11 Mills Act contracts in December 2013, the Board amended the resolutions to request the Director of Planning submit an annual report to the Board of Supervisors, Mayor, Controller, and Budget and Legislative Analyst that details for each property with an existing historic property agreement (1) the original date of approval by the Board of Supervisors of the agreement; (2) the annual property tax amount under the historic property agreement; (3) the percent reduction in the annual property tax amount due to the historic property agreement; (4) the reduction in annual property tax revenues to the City; and (5) conformance of the property to the provisions of the historic property agreement.

According to Timothy Frye, Preservation Coordinator, the Planning Department intends to report on the status of the previously approved Mills Act contracts before the end of the calendar year.

**RECOMMENDATION**

Approval of the proposed resolutions in File 14-1102, 14-1103 and 14-1104 are policy matters for the Board of Supervisors.

<b>Item 4</b> <b>File 14-1121</b>	<b>Department:</b> San Francisco Municipal Transportation Agency (SFMTA)
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## EXECUTIVE SUMMARY

### Legislative Objective

- Ordinance authorizing the San Francisco Municipal Transportation Agency (SFMTA) to include in any contract for security services the SFMTA executes within the next year after issuing a competitive solicitation, provisions that require: (1) payment of prevailing wages by both the contractor and subcontractors to any individual providing security services under the contract, and (2) transitional employment and retention for the prior contractor's employees as set forth in Section 21C.7 of the San Francisco Administrative Code.

### Key Points

- Cypress Security currently provides security services under an existing contract with SFMTA from September 1, 2008, which has been extended through March 31, 2015, for a total of \$35,900,000. Cypress Security currently pays prevailing wages under this contract.
- In response to an Invitation for bids on July 16, 2014, the SFMTA received three bids to provide future security services from (a) Andrews International for \$29,226,587, (b) Cypress Security Services for \$30,537,266 and (c) ABC Security for \$39,989,510. The SFMTA Board of Directors approved a contract with Andrews International, the lowest responsive bidder, which included prevailing wages. However, Cypress Security Services submitted a protest. Andrews International withdrew its bid and subsequently SFMTA rejected all three bids.
- Under the proposed ordinance, prevailing wages for SFMTA security services would be defined as the same compensation and fringe benefits paid to Cypress Security Services employees, the SFMTA existing security contractor, on the date that SFMTA issues a new Request for Proposal to secure new contract security services.

### Fiscal Impact

- Under the proposed ordinance, the SFMTA is estimated to pay an additional \$218,446 annually or a total of \$1,310,679 over a six-year security contract term.

### Policy Consideration

- If the proposed ordinance is approved, it is likely to reduce the number of responses to the SFMTA's future solicitation, as the proposed language appears to significantly advantage the existing contractor, Cypress Security Services.

### Recommendations

- Amend the proposed ordinance to delete the language on pages 2 and 3 which defines "prevailing wages" as the amount of compensation, including fringe benefits or the matching equivalent thereof, paid by the incumbent contractor to its security guard employees as of the date of the issuance of the competitive solicitation.
- Approve the proposed ordinance, as amended.

## MANDATE STATEMENT & BACKGROUND

### Mandate Statement

Charter Section 2.105 authorizes all legislative acts by written ordinance or resolution, subject to majority vote of the members of the Board of Supervisors.

Section 21C.7 of the City's Administrative Code currently requires (a) any individual performing services under specified covered contracts with the City and County of San Francisco be paid at least the prevailing rate of wages<sup>1</sup> and (b) successor contractors must provide transitional employment and retention of the prior contractors' employees<sup>2</sup>. Such covered contracts currently include motor bus services, janitorial services, public off-street parking lots, garages or storage facilities for automobiles, theatrical services, solid waste generated by the City, moving services, and trade show and special event work, as specifically defined in the Code. In accordance with the Administrative Code, the Board of Supervisors must fix and determine the prevailing rate of wages for these covered contracts at least once a year. In addition, the requirement to retain the prior contractors' employees must be stated in all initial bid packages for the covered contract.

### Background

#### Existing SFMTA Security Services Contract

On August 12, 2008, based on a competitive bidding process, the Board of Supervisors approved a three-year contract between SFMTA and Cypress Security Services, with one three-year option to extend, to provide armed and unarmed security services for a not-to-exceed \$15,800,000 (Resolution No. 372-08). Cypress Security currently pays prevailing wages under this contract with SFMTA.

To date, this contract between the SFMTA and Cypress Security Services has been amended six times to allow subcontracted services, increase salaries, change staffing and scope of work, clarify overtime billings and extend the term and increase the contract amount. Most notable, on August 2, 2011, the Board of Supervisors approved the third amendment, which authorized the SFMTA to exercise the option to extend the Cypress Security Services contract by an additional three years, or through August 31, 2014, for an additional \$17,100,000 or total contract not-to-exceed \$32,900,000 (Resolution No. 333-11). In addition, on July 21, 2014, the SFMTA approved the Sixth Amendment to the contract to extend the term by one month until

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<sup>1</sup> The requirement to pay prevailing wages includes the hourly wage rate and the hourly rate of each fringe benefit, which together equals the hourly prevailing rate of wages as well as wage rates for overtime and holiday pay.

<sup>2</sup> A successor contractor must (a) retain for a six-month transition employment period, employees who have worked at least 15 hours per week and have been employed by the ending contractor or its subcontractors, if any, for the preceding 12 months under the covered contract, providing that just cause does not exist to terminate such employee; (b) retain employees of the prior contractor by seniority within job classifications if fewer employees are required to perform the new contract; (c) maintain a preferential hiring list of eligible employees that were not retained by the successor contractor; (d) not discharge any retained employee without cause; (e) perform a written performance evaluation for each retained employee after six months; and (f) offer continued employment to retained employees, if the employee's performance is satisfactory, under the terms and conditions established by the successor contractor.

September 30, 2014 to provide sufficient time for a new security contractor to commence operations.

Under the existing contract, Cypress Security Services is responsible for (a) armed guard services for SFMTA Revenue Operations personnel collecting fare box revenues and (b) unarmed guard services for SFMTA shops, facilities, offices, and property. Cypress Security currently operates 24 hours a day, seven days a week, with a total of 97 staff.

### Recent Competitive Bids

On June 24, 2014, the SFMTA Board of Directors authorized the Director of Transportation to issue a new Invitation for Bids to provide armed and unarmed security services for three years for the SFMTA. On July 16, 2014, the SFMTA received three bids to provide armed and unarmed security services for three years with one three-year option, or a total of six years, as summarized in Table 1 below:

**Table 1: Competitive Bids for SFMTA Security Services**

<b>Security Services Firms</b>	<b>Six Year Bids</b>
Andrews International	\$29,226,587
Cypress Security Services	30,537,266
ABC Security	39,989,510

On September 2, 2014, the SFMTA Board of Directors adopted a resolution (SFMTA Resolution No. 14-138) authorizing the Director of Transportation to execute a contract with Andrews International, the lowest responsive bidder, to provide armed and unarmed security services, for up to six years, for a total not-to-exceed \$29,226,587. Under the proposed low bid, Andrews International was proposing to pay prevailing wages<sup>3</sup>. Cypress Security Services filed a protest to the proposed award.

On September 10, 2014, Andrews International withdrew its bid. On September 10, 2014, the Budget and Finance Committee tabled a proposed resolution to approve a new security contract between the SFMTA and Andrews International (File 14-0871). Consequently, in order to provide for sufficient time to conduct a competitive process to award a new contract, on September 30, 2014, the Board of Supervisors approved a seventh amendment to the existing Cypress Security Services contract with SFMTA to extend the term for six months through March 31, 2015 and increase the existing \$32,900,000 contract by up to \$3,000,000 (File 14-0984; Resolution 380-14) for a total not to exceed \$35,900,000.

<sup>3</sup> Although Andrews International was proposing to pay prevailing wages, the drafted agreement with the Service Employees International Union (SEIU) was going to require Andrews International to retain Cypress Security Services employees and the seniority of those employees which came with a higher wage rate than the prevailing wage rates.

**DETAILS OF PROPOSED LEGISLATION**

The proposed ordinance would authorize the SFMTA to include in any new contract for security services that the SFMTA executes within the next year after issuing a competitive solicitation, provisions that require: (1) payment of prevailing wages by both the contractor and subcontractors to any individual providing security services under the contract, and (2) transitional employment and retention for the prior contractor's employees as set forth in Section 21C.7 of the San Francisco Administrative Code.

SFMTA has rejected the three recent security services bids, shown in Table 1 above. Mr. Ashish Patel, SFMTA Manager of Contracts and Procurement advises that SFMTA plans to undertake a new competitive Request for Proposal (RFP) process to select a new security contractor, over the next approximately four months. As noted above, the existing contract with Cypress Security Services extends through March 31, 2015. Mr. Patel reports that, upon completion of the RFP competitive process, a new six-year contract for security services would be brought back to the Board of Supervisors for approval, likely in February of 2015.

The proposed ordinance specifies that the term "prevailing wages" shall not be defined under Section 21C.7 of the City's Administrative Code, but rather shall be defined as the amount of compensation, including fringe benefits or the matching equivalent paid by the incumbent contractor to its security guard employees as of the date of the issuance of the competitive solicitation. Therefore, prevailing wages for SFMTA security services would be defined as the same compensation and fringe benefits paid to Cypress Security Services employees, the SFMTA existing security contractor, on the date that SFMTA issues the RFP to secure new contract security services.

If the proposed ordinance is approved, the SFMTA would therefore be required to include language in their new security services RFP that specifies that any contractor that bids to provide security services for the SFMTA (a) must pay the same compensation and fringe benefits as paid to Cypress Security Services employees, and (b) must provide transitional employment and retention of the existing Cypress Security Services employees, by:

- (1) Retaining for six-months employees who have worked at least 15 hours per week and been employed by the prior contractor or its subcontractors, if applicable, for the preceding 12 months;
- (2) Retaining employees of the prior contractor by seniority within job classifications if fewer employees are required to perform the new contract;
- (3) Maintaining a preferential hiring list of eligible employees that were not retained by the successor contractor;
- (4) Not discharging any retained employee without cause;
- (5) Performing a written performance evaluation for each retained employee after six months; and
- (6) Offering continued employment to retained employees, if the employee's performance is satisfactory, under the terms and conditions established by the successor contractor.

The proposed ordinance would only be effective for any contract for security services which the SFMTA executes within the next year. Subsequently, the SFMTA would determine if the same or similar provisions are required in the future. As such, the proposed ordinance would be uncodified and not reflected in the City's Administrative Code. On September 16, 2014, the SFMTA Board of Directors approved the language in the proposed ordinance (SFMTA Resolution No 14-143).

## FISCAL IMPACT

Mr. Patel advises that because the current contract with Cypress Security Services does not break out the wages and fringe benefits relative to overhead and profit, the actual compensation paid to individual Cypress Security Services employees cannot be determined. However, Mr. Patel notes that a comparison of the bids in Table 1 above reflect the cost for Cypress Security Services which included prevailing wage rates and employee retention and the cost for Andrews International, which included only prevailing wage rates. As shown in Table 2 below, based on these recent comparative bids, the proposed ordinance would result in the SFMTA paying an additional \$218,446 annually, or a total of \$1,310,679 during a new six-year contract term.

**Table 2: Comparison of Costs**

Security Services Firms	Six Year Bids	Annual Cost
Andrews International	\$29,226,587	\$4,871,098
Cypress Security Services	30,537,266	5,0889,544
Difference	\$1,310,679	\$218,446

SFMTA security contract costs are paid through SFMTA's FY 2014-15 operating budget, as appropriated by the Board of Supervisors.

## POLICY CONSIDERATION

As noted above, the proposed ordinance specifies that the term "prevailing wages" shall not be defined under Section 21C.7 of the City's Administrative Code, but rather defined as the amount of compensation, including fringe benefits or the matching equivalent paid to Cypress Security Services, the existing contractor.

If the proposed ordinance is approved, it is likely to reduce the number of responses to the SFMTA's solicitation, and therefore the competitiveness of the bidding process, because the proposed language appears to significantly advantage the existing contractor, Cypress Security Services. Currently, the existing contractor, Cypress Security Services has the advantage of providing the existing SFMTA security services. Under the proposed ordinance, Cypress

Security Services would also have the advantage of setting the specific wages and fringe benefits that would be required to be paid by all contractors.

Instead, the Budget and Legislative Analyst recommends that the proposed ordinance be amended to make the term “prevailing wages” consistent with the provisions as defined under Section 21C.7 of the City’s Administrative Code.

Mr. Patel notes that since all firms would have to pay their security guards the same hourly rates and benefits, the firm that is the most efficient would presumably have the lowest overhead. In addition, any firm willing to reduce their profit rate could have a financial advantage. Therefore, Mr. Patel notes that financial competition could potentially come from reduced overhead and profit rates charged by competing security firms.

## RECOMMENDATIONS

1. Amend the proposed ordinance to delete the language on pages 2 and 3 which defines “prevailing wages” as the amount of compensation, including fringe benefits or the matching equivalent thereof, paid by the incumbent contractor to its security guard employees as of the date of the issuance of the competitive solicitation.
2. Approve the proposed ordinance, as amended.



<p><b>Item 6</b> <b>File 14-1035</b></p>	<p><b>Department:</b> Public Utilities Commission (PUC)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p>The proposed resolution would authorize the fourth amendment to the existing contract between the Public Utilities Commission (PUC) and the URS Corporation (URS) to increase the not-to-exceed contract amount by \$500,000, from \$14,373,561 to \$14,873,561 for URS to provide New Irvington Tunnel project closeout services and inspect the existing Irvington Tunnel.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The existing Irvington Tunnel was completed in 1930 and is currently the only water conveyance tunnel that connects the water system in the Sierra Nevada mountains to the Alameda Creek Watershed. Because the existing Irvington Tunnel is the only water conveyance tunnel between these two water systems, it has been in constant use since 1966 without regular maintenance or repair.</li> <li>• The New Irvington Tunnel is an additional water conveyance tunnel that connects the water systems in in the Sierra Nevada mountains to the Alameda Creek Watershed. Once the New Irvington Tunnel is completed, the PUC will be able to drain the existing tunnel, inspect the tunnel for immediate repairs and deferred maintenance, and install new security structures at the ends of the existing tunnel.</li> <li>• In June 2006, the PUC entered into a contract with URS Corporation (URS), following a competitive solicitation process, to provide (a) geotechnical investigation, (b) engineering design services, and (c) support services during bid, award, construction, and close-out for the project.</li> <li>• The proposed resolution would authorize the fourth amendment to the existing contract for URS to provide New Irvington Tunnel project closeout services and inspecting the existing Irvington Tunnel.</li> <li>• According to Mr. Carlos Jacobo, PUC Budget Director, inspecting the existing Irvington Tunnel was not part of the original contract with URS but is being added because the work is consistent with the Environment Impact Review (EIR) that was approved for this project.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would increase the not-to-exceed contract amount by \$500,000 to provide \$150,000 in funds for URS to inspect the existing Irvington Tunnel, \$50,000 for archiving services, and \$300,000 for continued services through the end of the New Irvington Tunnel project.</li> <li>• According to Mr. Jacobo, funding for the requested \$500,000 increase will be provided from existing proceeds of Water Revenue bonds, as previously approved by the Board of Supervisors.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT / BACKGROUND

### Mandate Statement

City Charter Section 9.118(b) states that a contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification with a \$500,000 impact or more is subject to Board of Supervisors approval.

### Background

#### New Irvington Tunnel Project

The existing Irvington Tunnel was completed in 1930 and is currently the only water conveyance tunnel that connects the water system in the Sierra Nevada mountains to the Alameda Creek Watershed. Because the existing Irvington Tunnel is the only water conveyance tunnel between these two water systems, it has been in constant use since 1966 without regular maintenance or repair. According to Mr. Carlos Jacobo, San Francisco Public Utilities Commission (PUC) Budget Director, repairing or maintaining the existing Irvington Tunnel requires draining the tunnel, which would significantly interrupt water supply in the Bay Area if the New Irvington Tunnel was not operational.

The New Irvington Tunnel is an additional water conveyance tunnel that connects the water systems in in the Sierra Nevada mountains to the Alameda Creek Watershed. The New Irvington Tunnel project is part of the PUC's Water System Improvement Program and is included in the PUC capital plan. Once the New Irvington Tunnel is completed, the PUC will be able to drain the existing tunnel, inspect the tunnel for immediate repairs and deferred maintenance, and install new security structures at the ends of the existing tunnel. Once the existing tunnel is repaired and improved, both tunnels will be functional and will provide constant water supply.

#### URS Corporation Contract

In June 2006, the PUC entered into a contract with URS Corporation (URS), following a competitive solicitation process, to provide (a) geotechnical investigation, (b) engineering design services, and (c) support services during bid, award, construction, and close-out for the project. Since June 2006, the PUC has amended the contract three times to increase the not-to-exceed contract and to extend the effective term of the contract, as shown in Table 1 below.

**Table 1: Original Contract Between the PUC and URS, Inc. Has Been Amended Three Times to Increase the Not-To-Exceed Contract Amount and Term**

	Term	Increase	Not-to-Exceed Contract Amount
Original Contract	June 2006 - June 2013	n/a	\$8,600,000
First Amendment	-	\$1,398,561	9,998,561
Second Amendment	June 2013 - June 2014	3,900,000	13,898,561
Third Amendment	June 2014 - June 2015	475,000	14,373,561
<b>Total Increase</b>		<b>\$5,773,561</b>	

According to Mr. Jacobo, through November 7, 2014, the PUC had expended or encumbered \$14,322,348, or 96.6 percent, of the currently authorized amount of \$14,373,561.

Because the initial term was for seven years and for an amount less than \$10,000,000, the contract was not subject to Board of Supervisors approval. The second amendment, which increased the contract amount by \$3,900,000 from \$9,998,561 to \$13,898,561, was subject to Board of Supervisors approval (File 09-0879) because it increased the total contract amount to more than \$10 million. The third amendment to the contract, which increased the amount by \$475,000, was not subject to Board of Supervisors approval.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the fourth amendment to the existing contract between the PUC and URS to increase the not-to-exceed contract amount by \$500,000, from a not-to-exceed contract amount of \$14,373,561 to a not-to-exceed contract amount of \$14,873,561 for URS to provide New Irvington Tunnel project closeout services and inspecting the existing Irvington Tunnel, and to extend the term of the contract by one year from June 2015 through June 2016, which increases the contract term to a total of ten years.

The original contract amount between PUC and URS will have increased by \$6,273,561 or 72.9 percent, from \$8,600,000 in 2006 to \$14,873,561 under the proposed fourth amendment. The total New Irvington Project budget, including the subject contract with URS, has increased by \$124,461,000 or approximately 58 percent, from the original budget of \$214,650,000 in 2005 to the current budget of \$339,111,000. According to the September 3, 2009 memorandum from the PUC to the Budget Analyst, "the discovery of difficult underground construction conditions during geotechnical investigations required substantial revisions to the original design concept for the New Irvington Tunnel".

In August 2014 a 65-foot section of the steel pipe liner inside the tunnel failed, which may cause a delay in the New Irvington Tunnel completion date. According to the quarterly Water System Improvement Project report, "a detailed investigation is under way with the SFPUC retaining a third party independent consultant to evaluate the cause of the failure...a few disputed issues remain unresolved... and the CM (construction management) team is working to define and resolve these issues with the contractor<sup>1</sup>. It is expected that settlement of these issues will result in an increase in the contract cost".

According to Mr. Jacobo, the requested contract extension and related \$500,000 increase in the contract amount is for URS to provide for additional services during the project close-out phase with emphasis on archiving documents and to expand the scope of services to include draining and inspecting the existing Irvington Tunnel to determine any repairs that may require immediate attention and to catalog deferred maintenance in the tunnel.

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<sup>1</sup> The construction contractor is Southland/Tutor Perini Joint Venture; the construction management contractor is Hatch Mott MacDonald; and the design contractor is URS Corporation.

According to Mr. Jacobo, inspecting the existing Irvington Tunnel was not part of the original contract with URS but is being added because the work is consistent with the Environment Impact Review (EIR) that was approved for this project.

**FISCAL IMPACT**

A summary of the additional contract costs of \$500,000 is shown in Table 1 below.

**Table 1: Requested \$500,000 Increase in Not-To-Exceed Contract Amount**

Service	Estimated Cost
Tunnel Inspection	\$150,000
Archiving	50,000
Continuing Service for 12 Months	300,000
<b>Total</b>	<b>\$500,000</b>

According to Mr. Jacobo, PUC does not expect any further amendments to this contract with URS. Funding for the requested \$500,000 increase will be provided from existing proceeds of Water Revenue bonds, as previously approved by the Board of Supervisors.

**RECOMMENDATION**

Approve the proposed resolution.

<b>Item 7</b> <b>File 14-1151</b>	<b>Department:</b> Public Utilities Commission (PUC)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed Resolution 14-1151 would authorize the San Francisco Public Utilities Commission (SFPUC) to approve a contract with Carollo Engineers, Inc. for planning and engineering services for the New 250 MGH Headworks Facility at the Southeast Water Pollution Control Plant (SEP).</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• Within the Southeast Water Pollution Control Plant (SEP) that is owned and operated by the Public Utilities Commission (PUC), the headworks facility is the first treatment process in the liquid wastewater stream.</li> <li>• It contains solid removal equipment such as fine screens, grit removal, and odor control systems.</li> <li>• The existing facility does not meet current operational, maintenance, structural and seismic requirements. It has inefficient debris and grit removal systems, resulting in severe impacts on the performance of downstream treatment processes.</li> <li>• The overall project of replacing the headworks facility is referred to as the New 250 MGD Headworks Facility. A total of \$185 million is allocated to this project in Wastewater's Ten-Year Capital Plan. This contract approves 14,000,000 for planning, detailed design, and engineering support services during construction, start-up, and closeout.</li> <li>• The work for this contract will be conducted in two phases. Phase 1 will consist of Planning and Preliminary Design, and Phase 2 will consist of Detailed Design, Procurement, Engineering Construction and Start-up Support.</li> <li>• PUC selected Carollo Engineers, Inc., after releasing an RFP on July 23, 2014, with responses due by August 22, 2014. PUC also received a response from MWH Global. Carollo received a score of 873.56 and MWH received a score of 771.61, out of 1000 possible points.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Under the contract, total payment for the project is not to exceed \$14,000,000.</li> <li>• An estimated total of \$5,849,139 will be spent on Phase 1 tasks, and an estimated total of \$8,150,861 will be spent on Phase 2 tasks.</li> <li>• The source of funds is wastewater revenue bonds, as appropriated by the Board of Supervisors.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <p>Approve the proposed resolution.</p>	

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

City Charter Section 9.118(b) states that a contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification with a \$500,000 impact or more is subject to Board of Supervisors approval.

**Background**

The Southeast Water Pollution Control Plant (SEP), that is owned and operated by the Public Utilities Commission (PUC), was commissioned in 1952 as a primary treatment plant and was upgraded to a secondary plant in 1982. This plant treats 80% of the City's wastewater and storm water flows. SEP receives and treats up to 250 million gallons per day (MGD) during wet weather and 60 million gallons per day during dry weather.

Within the SEP, the headworks facility is the first treatment process in the liquid wastewater stream. It contains the critical solids removal equipment such as the fine screens, grit removal, and odor control systems. The existing facility does not meet current operational, maintenance, structural and seismic requirements. It has inefficient debris and grit removal systems resulting in severe impacts on the performance of downstream treatment processes.

As part of the SEP New 250 MGD Headworks project, a new headworks facility will be constructed. Building this new facility will improve the downstream treatment process and protect the new biosolids equipment from damage by such debris including rags, sand, and abrasive grit. Failure to construct this new facility may result in severe public health, safety, regulatory and environmental impacts. It will include pumps, screens, screenings washer and compactors, grit removal units, grit washers, screenings and grit conveyance, screenings and grit hoppers, and/or dumpsters, and odor control.

The SEP New 250 MGD Headworks Project is included in Wastewater's Ten-Year Capital Plan: Sewer System Improvement Program (SSIP). A total of \$184.9 million is allocated to this Project, of which \$185,000 has been expended to date. The project is expected to be completed in March 2020.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would authorize the General Manager of the PUC to execute a six-year, not-to-exceed \$14,000,000 agreement with Carollo Engineers, Inc., for specialized planning and engineering design services for the proposed new 250 million gallons per day headworks facility serving as the first treatment process at the Southeast Water Pollution Control Plant.

The term of the agreement is six years, following Board of Supervisors approval. The contract planning and engineering services are anticipated to begin in January 2015 and end in January 2021. According to Rosanna Tse, Contract Manager for the Public Utilities Commission, the

contract date extends beyond the project completion date in order to allow sufficient time for start-up and close-out activities. The bulk of the spending will occur by March, 2020.

Payment for contract services is not to exceed \$14 million, or approximately 7.6 percent of the \$184.9 million SEP New Headworks Project budget.

PUC selected Carollo Engineers, Inc., after advertising a request for proposals (RFP) on July 23, 2014. Proposals were due on August 22, 2014. A total of two proposals were received. The other bidder was MWH Global. The evaluation and selection process consisted of three phases. The first phase was the submittal of the written proposal. The second phase was an oral interview. The third phase was a review of the overhead and profit schedule. Teams could be awarded up to 1,000 points: 450 points for the written proposal, 500 points during the oral interview phase, and 50 points for the overhead and profit schedule.

The evaluation panel consisted of individuals knowledgeable on the subject matter and included staff from SFPUC and other city agencies. The final scoring of the two proposals is in Table 1 below.

**Table 1: Final RFP Scoring for Headworks Facility Contract**

<b>Firms</b>	<b>Written Proposal</b>	<b>Oral Score</b>	<b>Overhead and Profit Schedule</b>	<b>Final Score</b>
Carollo Engineers, Inc.	394.38	429.18	50	873.56
MWH Global	384.73	336.88	50	771.61

Source: Public Utilities Commission

The planning and engineering design services for the new 250 MGD headworks facility project will proceed in two consecutive phases. Phase 1 will consist of Planning and Preliminary Design, and Phase 2 will consist of Detailed Design, Procurement, Engineering Construction and Start-up Support. In Phase 1, the contractor will lead most of the tasks. The contractor's specific scope of work in Phase 2 will be considered "as-needed" until the performance of the Contractor in Phase 1 is evaluated.

The performance of service under this contract will be executed according to a task order process. The contractor is required to provide adequate quality control processes and deliverables in conformance with the technical requirements of the task order.

There are no options to extend in the contract.

## **FISCAL IMPACT**

Payment for contract services is not to exceed \$14,000,000. An estimated total of \$5,849,139 will be spent on Phase 1 tasks, and an estimated total of \$8,150,861 will be spent on Phase 2 tasks.

Table 2 below illustrates the total amount to be expended on each task and the anticipated delivery date for each task. The source of funds is wastewater revenue bonds, as appropriated by the Board of Supervisors.

**Table 2: Project Budget: Estimated Cost by Task and Delivery Date**

Task	Services	Anticipated Delivery Dates	Cost
<b>Planning and Preliminary Engineering Phase</b>			
1-2	Project Management, and Quality Assurance/Control	December 2015	\$958,302
3-6	Review Background Information, Surveying Information, Utility Information, Geotechnical and Hazardous Material Investigation	March 2015 – July 2015	784,576
7	Conceptual Engineering Report	August 2015	1,094,444
8	Design Criteria Report	September 2015	130,049
9	35% Design Submittal	December 2015	2,079,501
10	Develop and Run Hydraulic Scale Model	December 2015	146,471
16	Training and Technology Transfer	Continuous	27,580
17	Communication and Public Outreach	Continuous	140,950
NA	Other Direct Costs and Subconsultant Markups	Continuous	487,266
<b>Planning Phase Sub-Total</b>			<b>\$5,849,139</b>
<b>Detailed Design and Construction Support Phase*</b>			
1	Project Management and Coordination of Proposer's Service	Not provided	\$800,000
2	Quality Assurance/Quality Control	Not provided	500,000
11-13	Detailed Design	Not provided	4,150,000
14	Engineering Support During Bid and Award	Not provided	100,000
15	Engineering Support During Construction, Start-up and Closeout	Not provided	2,000,000
16	Training and Technology Transfer	Continuous	2,420
17	Communication and Public Outreach	Continuous	9,050
NA	Other Direct Costs and Subconsultant Markups	Continuous	589,391
<b>Estimated Design and Construction Phase Sub-Total</b>			<b>\$8,150,861</b>
<b>Total Contract Cost</b>			<b>\$14,000,000</b>

Source: Public Utilities Commission

## RECOMMENDATION

Approve the proposed resolution.



<p><b>Item 8</b> <b>File 14-1155</b></p>	<p><b>Department:</b> Real Estate Division Office of Community Investment and Infrastructure (OCII)</p>
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**Executive Summary**

**Legislative Objectives**

- The proposed resolution would: (1) authorize the First Amendment to the Option Agreement for the Purchase and Sale of Real Property between the City, the Transbay Joint Powers Authority (TJPA), and the Office of Community Investment and Infrastructure (OCII); (2) execute a consent to the conditions of the Transbay Joint Powers Authority’s Bridge Loan; and (3) acknowledge the Subordination of the Option Agreement for the Purchase and Sale of Real Property for Transbay Parcels F, O, O’, and O”.

**Key Points**

- In January 2010, TJPA entered into \$171,000,000 loan under the Transportation Infrastructure Finance and Innovation Act (the TIFIA Loan) to fund a portion of the Transit Center Project costs. According to TJPA, the disbursement conditions of the TIFIA Loan include, among other things: (1) the requirement that TJPA receive gross land sales proceeds of \$429,000,000 from the State-owned parcels (or allocation of alternative funding acceptable to TIFIA); and (2) evidence that the Transit Center is fully funded.
- The Transbay Joint Powers Authority has received \$222,000,000 in gross land sales proceeds to date, which is \$207,000,000 or 48 percent less than the \$429,000,000 required to disburse the TIFIA loan. Therefore, the TIFIA loan has not yet been disbursed and TJPA does not have access to the expected \$171,000,000 in loan proceeds. TJPA expects to sell additional Transbay parcels by late September 2015, resulting in sufficient funds to disburse the TIFIA loan.
- TJPA has obtained a Bridge Loan from Goldman Sachs, through a competitive process, which will allow TJPA to continue construction on the Project while it moves to fulfill the disbursement requirements of the TIFIA Loan. Once the TIFIA Loan is disbursed it will be used to pay down the Bridge Loan. TJPA expects to close the Bridge Loan between December 10, 2014 and January 27, 2015. TJPA expects to sell additional properties and set up the Community Facilities District that will allow TJPA to meet the conditions of the TIFIA in September/October 2015. Finally, TJPA expects to pay down the Bridge Loan in December 2015 – January 2016, after it has secured the TIFIA Loan and, to avoid a pre-payment penalty, no sooner than 12 months after closing the Bridge Loan
- Four Transbay parcels are required by the lender, Goldman Sachs, to be pledged as security for the Bridge Loan, which TJPA and OCII would otherwise sell to fund the project.
- The First Amendment to the Option Agreement, which is the subject of the proposed legislation, would subordinate OCII’s option to acquire parcels F, O, O’, and O” in order for these parcels to be pledged as security for the proposed \$171 million Bridge Loan. TJPA and OCII would be allowed to sell parcel F if parcel F is sold at fair market value for no less than the parcel F lien release price established in the Credit Agreement between TJPA and Goldman Sachs, and TJPA deposits the parcel F gross sales proceeds into a lockbox account as collateral for the Bridge Loan.

- Also, currently TJPA is using parcels O, O', and O'' for temporary facilities during the Transit Center construction. TJPA intends to sell parcels O, O', and O'' when these parcels are no longer needed for temporary facilities during construction but faces restrictions on sale of these parcels under the security conditions of the Bridge Loan. TJPA and OCII can sell these parcels if they are sold release price established in the Credit Agreement, and the gross sales proceeds are placed into a lockbox account as collateral for the Bridge Loan
- Regardless of the repayment status of the Bridge Loan, development of all four parcels would still be subject to the operative affordable housing requirements. Parcel F is subject to a minimum 15 percent onsite affordable requirement. The Transbay Redevelopment Project Area as a whole has a 35 percent affordable housing requirement.

#### **Fiscal Impact**

- Of the \$171,000,000 loan, \$133,973,000 would fund the Transit Center project, \$32,360,000 would be placed in a capitalized interest reserve, and \$4,667,000 would pay transaction fees. The loan would be repaid by proceeds from the TIFIA loan once it is disbursed.
- The cost of financing the Bridge Loan would otherwise have been used to fund Project expenses. That cost is expected to be a maximum of \$37,027,000 for four years of financing, the maximum term for the Bridge Loan. However, the risks of not acquiring interim financing through the Bridge Loan include: (1) suboptimal pricing on Transit Center Project contractors for soft/hard costs of construction; (2) suboptimal pricing on the sale of parcels, the funds of which will be used to fund the Transit Center Project; (3) delays in the Transit Center Project, which is scheduled to be substantially complete in late 2017.

#### **Policy Consideration**

- The proposed legislation does not bind the City to make any expenditure, incur any indebtedness, or in any way obligate itself under TJPA's Bridge Loan nor approve the financial structure of the Bridge Loan and the underlying credit issues of the Transbay Program.
- Approval of the proposed legislation would facilitate TJPA's obtaining the proposed Bridge Loan by allowing OCII to subordinate its option to purchase parcels F, O, O' and O'' in order to be pledged as security for the Bridge Loan. The Budget and Legislative Analyst recommends approval of the proposed legislation because (a) TJPA has represented that the Bridge Loan is necessary to continue construction of the Transit Center, and (b) the risk to the project of not selling these parcels on schedule is minimal.<sup>1</sup>

#### **Recommendation**

- Approve the proposed resolution.

<sup>1</sup> TJPA expects to repay the Bridge Loan prior to 2016, which is before the dates by which OCII would exercise its options to purchase these parcels. Should the Bridge Loan still be outstanding by 2016, OCII and TJPA have developed a plan that would allow for the sale of these parcels on schedule and meet the terms of the Bridge Loan.

## MANDATE STATEMENT

California Government Code Section 6586.5 requires that any joint powers authority seeking debt financing for construction, acquisition or financing of a public capital improvement project located within the geographic boundaries of one or more local agencies of the joint powers authority must obtain approval from the legislative entity of that local agency. Under the Code, the City must approve the proposed Transbay Joint Powers Authority (TJPA) loan and make a finding that it will be of significant public benefit.

City Charter 9.118 requires any sale or other transfer of real property owned by the City and County of San Francisco be subject to Board of Supervisors approval. Pursuant to Charter 9.118, the Board approved Ordinance 99-06 (File 06-0347) approving the Option Agreement between the TJPA, the former San Francisco Redevelopment Agency (now the Office of Community Investment and Infrastructure), and the City and County of San Francisco, which granted an option to acquire certain City property, without granting the Director of Property authority to make any modifications to that agreement. Changes to the Option Agreement therefore require approval of the Board of Supervisors.

Under Ordinance No, 215-12, the Board of Supervisors, acting in its capacity as the legislative body of the Successor Agency to the former Redevelopment Agency of the City and County of San Francisco, retained the authority to approve any material changes in the obligation the Successor Agency (also known as the Office of Community Investment and Infrastructure) has to provide affordable housing.

## BACKGROUND

### Transbay Redevelopment Project Overview

The Board of Supervisors approved the *Transbay Redevelopment Plan* on June 21, 2005 (File 05-0184). This provided for the redevelopment of the 40-acre area (the Redevelopment Project Area) generally bounded by Mission, Main, Second, and Folsom Streets in downtown San Francisco. The goals of the project are to (1) revitalize the Redevelopment Project Area, which was subject to blight, (2) provide new and additional retail, office, and housing units, (3) upgrade the Transbay Terminal, and (4) provide a framework of development controls and design guidelines to ensure that private development within the Redevelopment Project Area is consistent with the City's Redevelopment Plan. A particular feature of this project is that it includes a requirement that 35 percent of newly built housing units be affordable, comprising (1) 25 percent for persons and families whose incomes do not exceed 60 percent of the area median income, and (2) 10 percent for persons and families whose incomes do not exceed 120 percent of area median income.

The *Transbay Redevelopment Plan* was developed by the San Francisco Redevelopment Agency. That entity, along with all 400 redevelopment agencies in California, was dissolved in February 1, 2012 by Order of the California Supreme Court.<sup>2</sup> In response, the California Legislature passed and the Governor adopted Assembly Bill (AB) 1484, a bill modifying the redevelopment

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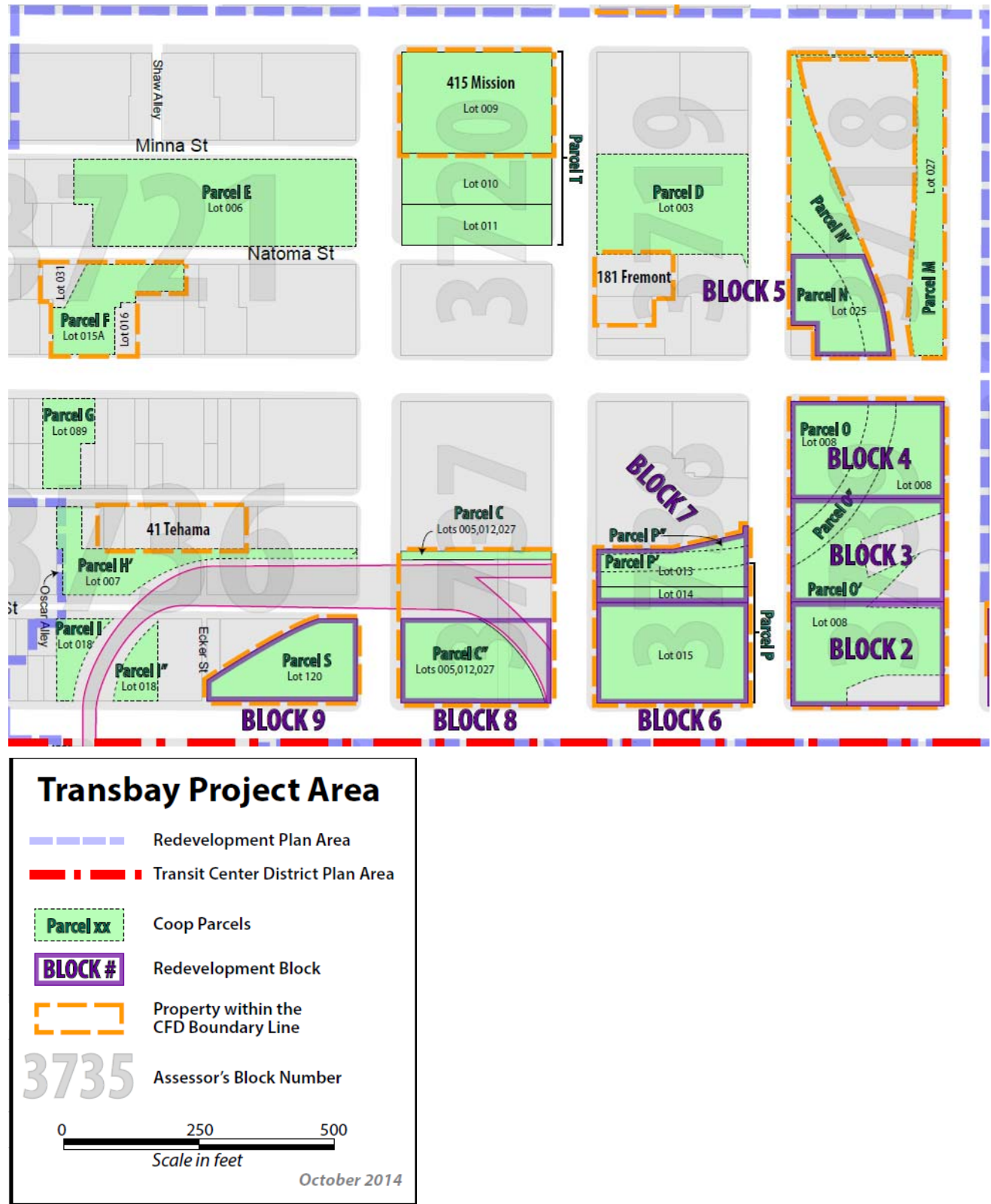
<sup>2</sup> California Redevelopment Association *et al.* v. Ana Matosantos, 53 Cal. 4<sup>th</sup> 231 (2011).

dissolution bill, AB 26, which was largely upheld by the California Supreme Court. As a result of these legislative changes, the San Francisco Redevelopment Agency became the Successor Agency to the San Francisco Redevelopment Agency, which is now known as the Office of Community Investment and Infrastructure (OCII). OCII is obligated to complete the implementation of the major development projects, including the Transbay Redevelopment Project, pending at the time of the dissolution of the redevelopment agencies. OCII manages the implementation of the *Transbay Redevelopment Plan*, including the enforcement of development controls and the affordable housing requirement, and the acquisition, marketing, transfer, and management of parcels within the Redevelopment Project Area. A separate entity, the Transbay Joint Powers Authority (TJPA) has primary jurisdiction over the financing, design, development, construction, and operation of the Transbay Transit Center Project.

### **The Parcels**

Exhibit 1 below shows a portion of the Redevelopment Project Area, focusing on the parcels that are relevant for the proposed legislation. In accordance with the *Transbay Redevelopment Plan*, OCII plans to prepare parcel F (plus two adjacent properties) for commercial development as an office space with a 750-foot office tower, with potential for up to 85 residential units (15% affordable). On the portion of parcels O, O', and O'' that make up Block 4, OCII anticipates a residential development tower with approximately 450 units, 33 percent of which (or 148 units) would be affordable housing, plus an additional 100 units of affordable housing in the adjacent building. Parcel F is located on Howard Street between Second and First Streets. Parcels O, O', and O'' make up a portion of the block between Beale and Main Streets and Howard and Folsom Streets. Parcels O, O', and O'' also include portions of Block 3 (programmed to be a park) and Block 2 (programmed to be a 100% affordable housing development). Parcel F is subject to a minimum 15% onsite affordable requirement per the Transbay Redevelopment Plan and the Planning Code. Parcels O, O', and O'' are part of the Transbay Redevelopment Project Area, which as a whole has a 35 percent affordable housing requirement per AB 812 and the Transbay Redevelopment Plan.

**Exhibit 1: The Transbay Redevelopment Project Area**



Source: TJPA

### **The Cooperative Agreement**

On July 8, 2003, the Board of Supervisors approved a *Cooperative Agreement* between the TJPA, the California Department of Transportation (Caltrans), and the City and County of San Francisco (File 03-0997). The *Cooperative Agreement* authorizes the transfer of certain State-owned parcels within the Redevelopment Project Area, at no cost, from Caltrans to the City and the TJPA for use in construction of the Transit Center Project or to sell in order to fund Transit Center Project construction costs. According to the *Cooperative Agreement*, the State retains the power to reverse the parcel transfer, unless the parcels are sold to a third party and the funds from the sale are dedicated to pay for Transit Center Project capital costs, or until the TJPA timely completes construction of the Transit Center Project.

### **The Option Agreement**

On May 9, 2006, the Board of Supervisors approved the *Tax Increment Allocation and Sales Proceeds Pledge Agreement (the Pledge Agreement)*, described below, and the *Option Agreement for the Purchase and Sale of Real Property (the Option Agreement)* between the TJPA, the former San Francisco Redevelopment Agency (now OCII), and the City and County of San Francisco (File 06-0347). The *Option Agreement* gives OCII the right to purchase from the City and the TJPA (the Option), at no cost, those State-owned parcels in the Redevelopment Project Area that are not required for the Transit Center Project, and which are transferred from Caltrans to the City or to the TJPA, in accordance with the *Cooperative Agreement*. After exercising the right to acquire, OCII would sell these parcels to private developers or enter into a long-term ground lease with nonprofit developers, for development that is consistent with the *Transbay Redevelopment Plan*. The State will remove its power of termination when the parcels are sold for fair market value and the funds are deposited into a trust account dedicated to pay for Transit Center Project capital costs. Finally, under the *Pledge Agreement*, all gross sales proceeds and net tax increment revenue (net of tax increment needed for affordable housing and pass-throughs) generated by the State-owned parcels have been pledged to the TJPA.

TJPA is currently using parcel F for the construction of new bus ramps and a train box and parcels O, O', and O'' for the temporary terminal facilities and expects these uses to continue until late 2016 and late 2017, respectively. Thus, OCII may not currently exercise the Option to acquire these parcels.

### **Tax Increment Revenue**

On May 9, 2006, the Board of Supervisors approved *Tax Increment Allocation and Sales Proceeds Pledge Agreement (the Pledge Agreement)* and the *Option Agreement for the Purchase and Sale of Real Property*, described above (File 06-0347). The *Pledge Agreement* pledged the tax increment revenue from the State-owned parcels in the Redevelopment Project Area to TJPA for 45 years. Tax increment financing is a project financing strategy, whereby the redevelopment agency (1) issues debt (tax allocation bonds), subject to Board of Supervisors approval, and uses future incremental ad valorem tax revenues (tax increment), primarily property tax revenues, to repay such debt. In other words, the increases in property tax revenue within a redevelopment project area are used to finance the redevelopment project.

**TIFIA loan**

In January 2010, TJPA entered into \$171,000,000 loan under the Federal Highway Administration Transportation Infrastructure Finance and Innovation Act (the TIFIA Loan) to fund a portion of the Transit Center Project costs, which was approved by the Board of Supervisors on November 24, 2009 (File No. 09-1333).

According to Ms. Sara Gigliotti, Chief Financial Officer for the TJPA, the disbursement conditions of the TIFIA Loan include, among other things: (1) the requirement that TJPA receive gross land sales proceeds of \$429,000,000 from the State-owned parcels (or allocation of alternative funding acceptable to TIFIA); and (2) evidence that the Transit Center is fully funded.

The Transbay Joint Powers Authority has received \$222,000,000 in gross land sales proceeds to date, which is \$207,000,000 or 48 percent less than the \$429,000,000 required to disburse the TIFIA loan. Therefore, the TIFIA loan has not yet been disbursed and TJPA does not have access to the expected \$171,000,000 in loan proceeds. As a result of the downturn in the US economy, and the real estate market in particular, from late 2007 to mid-2009, TJPA and OCII agreed to defer certain land sales until the market improved. Now that the market has improved, OCII has released Blocks 6, 7, 8, and 9 for disposition and development. Block 5 is currently available for development.

According to Ms. Tiffany Bohee, Executive Director of OCII, all developers in Blocks 5, 8, and 9 are in compliance with the terms and conditions of their respective exclusive negotiations agreements with OCII and OCII fully expects to close and transfer the properties in 2015.

According to Ms. Gigliotti, TJPA has received \$222,000,000 in gross sale proceeds from State-owned parcel T and Block 6, shown in Table 1 below. As stated above, under the 2008 *Option Agreement*, OCII has an option to acquire certain former State-owned Parcels and is charged with preparing and selling those parcels and providing the gross sales proceeds to TJPA. Table 1 below shows the expected revenue of \$510,130,000 from the sale of State-owned parcels in 2015, which exceeds the \$429,000,000 condition for disbursement in late 2015.

**Table 1: Expected Revenue to TJPA from Sales of State-owned Parcels in 2015**

<b>Area</b>	<b>Expected Revenue</b>	<b>Expected Timing</b>
Parcel T and Block 6	\$222,000,000	Received
Block 9	43,630,000	February 2015
Block 5	172,500,000	September 2015
Subtotal Actual and Expected Future Revenues	\$438,130,000	
Block 8	72,000,000	October 2015
<b>Total Actual and Expected Future Revenues</b>	<b>\$510,130,000</b>	

Source: TJPA

TJPA and TIFIA executed a first amendment to the TIFIA Loan in June 2014 which recognizes the formation of the Transbay Mello-Roos Community Facilities District<sup>3</sup> and its corresponding authorization to issue bonds as evidence of full funding for Phase 1, even before the bonds themselves are sold. The City and County of San Francisco has completed two of the three legislative actions required to form the Community Facilities District (including Files 14-0644, 14-0645, 14-0814, 14-0815, 14-0816, and 14-0836). The Board of Supervisors has called a special landowner election related to formation of the Community Facilities District in late December 2014; TJPA expects the Board of Supervisors to consider the final authorization in January 2015.

TJPA intends to repay the TIFIA Loan with: (1) net tax increment funds generated by certain State-owned parcels in the Transbay Redevelopment Area; (2) future contributions from Alameda-Contra Costa Transit District (“AC Transit”) related to use of the new Transit Center; and (3) income derived from certain permitted investments of (1) and (2). The current schedule calls for TIFIA loan repayment to begin by February 2020 after substantial completion of Phase 1 of the Project.

According to Ms. Sally Oerth, Deputy Director of OCII, the Transit Center Project is in the construction phase. Foundation work consists of the buttress, shoring and excavation trade package, which is 97 percent complete, and the below grade structural concrete substructure trade package, which is 77 percent complete. Above-grade structural work currently in the construction phase includes the structural steel trade package, which is 35 percent complete, and the structural concrete superstructure, which is 2 percent complete. Utility relocation is substantially complete, and the bus ramps are 4 percent complete.<sup>4</sup>

Table 2 below shows the total project funding of \$1.9 billion for Phase 1 of the Transit Center Project by funding source.

<sup>3</sup> The State Legislature enacted the Mello-Roos Community Facilities Act, in 1982, as amended, which authorizes local governments to establish Community Facilities Districts to fund public works and services.

<sup>4</sup> All percentages as of September 30, 2014.



**Table 2: Total Transit Center Project Funding (Phase 1)**

Sources	Phase 1 Amount (\$ Millions)
Land Sales	\$510,200,000
ARRA (American Recovery and Reinvestment Act) High Speed Rail	400,000,000
TIFIA Loan	171,000,000
AB 1171 <sup>a</sup>	150,000,000
Regional Measure 2 <sup>b</sup>	143,000,000
Regional Measure 1 <sup>b</sup>	54,400,000
San Francisco Prop. K Sales Tax	139,000,000
Federal Grants (FTA/FRA/FEMA) <sup>c</sup>	65,100,000
AC Transit Contribution	39,000,000
Transit Center District Plan (Park) <sup>d</sup>	28,500,000
State Regional Transportation Improvement Program (RTIP)	10,200,000
Miscellaneous Local	8,700,000
One Bay Area Transit Grant	6,000,000
San Mateo Sales Tax	4,500,000
Transit Center District Plan (Phase 1) <sup>d</sup>	169,800,000
<b>Total</b>	<b>\$1,899,400,000</b>

Source: TJPA

<sup>a</sup> AB 1171 was adopted by the California legislature to fund the cost of seismic retrofit of Bay Area toll bridges.

<sup>b</sup> Regional Measures 1 and 2 set tolls on Bay Area bridges to pay for transportation projects.

<sup>c</sup> Federal Transportation Administration, Federal Railroad Administration, and Federal Emergency Management Agency

<sup>d</sup> The Transit Center District Plan funds public improvements through the Community Facilities District, development impact fees and other fees.

## DETAILS OF THE PROPOSED LEGISLATION

The proposed resolution would: (1) authorize the First Amendment to the Option Agreement for the Purchase and Sale of Real Property between the City, the Transbay Joint Powers Authority, and the Office of Community Investment and Infrastructure, as the Successor Agency to the San Francisco Redevelopment Agency; (2) execute a consent to the conditions of the Transbay Joint Powers Authority's Bridge Loan; and (3) acknowledge the Subordination of the Option Agreement for the Purchase and Sale of Real Property for Transbay Parcels F, O, O', and O''.

### Bridge Loan

As noted above, TJPA secured a TIFIA loan in the amount of \$171,000,000 which cannot be disbursed until TJPA receives gross property sales proceeds of at least \$429 million. Because TIFIA, does not expect to receive gross property sales proceeds until September 2015, as shown in Table 1 above, the TIFIA loan is not expected to be disbursed until late 2015 at the earliest. Therefore, TJPA is securing a Bridge Loan to enter into construction contracts for the various

components of the Transit Center construction work. Because of the competitive construction environment, TJPA believes that delays in construction contracting will result in construction cost increases. TJPA further believes the Bridge Loan would allow TJPA to time the sale of the former State-owned parcels with the current recovery of the real estate market, maximizing the value of the parcels.

According to Ms. Gigliotti, TJPA conducted a competitive procurement process for interim bridge financing, releasing a Request for Proposals on February 28, 2014. Nine proposals were received in April from various banks and investment banking firms. Ultimately a selection committee with representatives from TJPA; Sperry Capital, TJPA's financial consultant; Nixon Peabody, TJPA's financial counsel; and the City & County of San Francisco Office of Public Finance, ranked a proposal from Goldman Sachs for a direct loan as the highest proposal. TJPA and Goldman Sachs have been working since April 2014 to negotiate the Credit Agreement and related documents.

TJPA expects to close the Bridge Loan between December 10, 2014 and January 27, 2015.

TJPA intends, and is required by the terms of the Bridge Loan, to repay the Bridge Financing in full with proceeds of the TIFIA Loan. As noted above, these conditions are expected to be satisfied in late 2015.

#### Bridge Loan Uses

Table 3 below shows the expected uses of the \$171 million Bridge Loan funds at close. An estimated \$133,973,000 or 78.3 percent of the Bridge Loan is expected to certify and pay for construction contracts, and to a lesser extent pay for certain soft costs, described in more detail below. An estimated \$32,360,000 or 18.9 percent of the Bridge Loan will go towards interest expense and interest rate hedging, described in more detail below. Finally, transaction fees are estimated to comprise \$4,667,000 or 2.7 percent of the nominal amount of the Bridge Loan.

According to Ms. Oerth, without the Bridge Loan, it would be difficult for TJPA to keep construction moving forward on the planned schedule for substantial completion in late 2017. The Bridge Loan will allow TJPA to certify and pay for construction work planned for the period. Without the Bridge Loan (or some other source of funds), TJPA would likely focus its available resources on critical trade work such as the train box and structural steel; TJPA may be required to cease work under most other trade packages; and it may be difficult to keep even critical packages moving forward until the conditions for TIFIA disbursement are met.

**Table 3: Estimated Uses of Bridge Loan Funds<sup>5</sup>**

<b>Use of Funds</b>	<b>Amount</b>
Proceeds to TJPA	\$133,973,000
Capitalized Interest/Hedging Fees	\$32,360,000
Transaction Fees	\$4,667,000
<b>Total</b>	<b>\$171,000,000</b>

Source: TJPA

TJPA will not receive enough revenue from net tax increments during the term of the Bridge Loan to pay the Bridge Loan's financing costs. As shown in Table 3, proceeds from the Bridge Loan will be used to fund the capitalized interest account and to pay the one-time interest rate hedging cost at financial close. This capitalized interest account will be used to pay interest each quarter to the lenders during the term of the Bridge Loan. Once the TJPA repays the Bridge Loan in full, any balance in the capitalized interest account will be returned to TJPA and any remaining portion of the interest rate hedging agreement may be sold to a third party.

TJPA expects to use the Bridge Loan to certify construction contracts, either continuing work already underway, or certifying notices to proceed for contracts to be awarded. Ultimate use will depend on the progress of trade subcontractors in the field and actual amounts and dates of new trade subcontract awards. TJPA anticipates the following uses for the Bridge Loan's estimated \$133,973,000 proceeds:

- Below Grade Concrete (continuation of work)
- Structural Steel (continuation of work)
- Glass Curtain Walls/Skylights (award of design/build subcontract)
- Logistics (continuation of work)
- Bus Ramps (continuation of work)
- Miscellaneous Metals/Metal Stairs (continuation of work)
- Framing/Drywall (continuation of work)
- Fireproofing (continuation of work)
- Inspection costs
- Subguard costs
- Reimbursable Contractor Expenses
- Construction Management Oversight consultant fees

#### Bridge Loan Lending Terms

The Bridge Financing in the proposed agreement between TJPA and Goldman Sachs will take the form of a direct loan in the amount of \$171,000,000. The Bridge Loan will have a 4-year term, with one disbursement on the closing date, with the option to pre-pay the loan without penalty 12 months after the closing date. The Bridge Loan has a variable interest rate, based upon the 3-month adjusted London Interbank Offered Rate (LIBOR), plus a 2.25 percent which

<sup>5</sup> These are estimates only; indicative costs and estimates are as of September and October 2014; actual costs dependent upon market and finalized at financial close of Bridge Loan.

steps up 50 basis points (0.5 percent) each year that the loan is outstanding. Table 4 below summarizes these interest rates over the life of the Bridge Loan.

**Table 4: Bridge Loan Interest Rate**

<b>Period</b>	<b>Applicable Margin</b>
From and including the Closing Date to but excluding the first anniversary thereof:	2.25%
From and including the first anniversary of the Closing Date to but excluding the second anniversary of the Closing Date:	2.75%
From and including the second anniversary of the Closing Date to but excluding the third anniversary of the Closing Date:	3.25%
From and after the third anniversary of the Closing Date:	3.75%

Source: TJPA

Goldman Sachs is requiring that TJPA enter into an interest rate hedging agreement for the full notional amount of the Bridge Loan principal, \$171,000,000, so that the maximum amount of capitalized interest needed over the four-year term of the Bridge Loan can be determined and deposited into the capitalized interest account at financial close and used to fund interest expense each quarter until the loan is repaid. Once the TJPA repays the Bridge Loan in full, any balance remaining in the capitalized interest account will be returned to TJPA and any remaining portion of the interest rate hedging agreement may be sold to a third party

- **Under the proposed Bridge Loan between the City and Goldman Sachs, Goldman Sachs would require parcels F, O, O' and O'' to be pledged as security to the loan. Approval of the First Amendment to the Option Agreement would subordinate OCII's right to purchase Transbay Parcels F, O, O' and O'' from TJPA in order for these parcels to be pledged as security for the Bridge Loan.**

Under the *Cooperative Agreement* between the California Department of Transportation, the TJPA, and the City, Caltrans may transfer certain State-owned property in the Redevelopment Project Area, at no cost, to the City and the TJPA for use in construction of the Transit Center Project or to sell in order to fund Transit Center Project construction costs. According to the *Cooperative Agreement*, the State retains the power to reverse the parcel transfer, unless the parcels are sold to a third party and the funds from the sale are dedicated to pay for Transit Center Project capital costs, or until the TJPA timely completes construction of the Transit Center Project.

Under the *Option Agreement* between the TJPA, the former San Francisco Redevelopment Agency (now OCII), and the City, OCII has the right to purchase from the City and the TJPA, at no cost, those State-owned parcels in the Redevelopment Project Area that are not required for the Transit Center Project. TJPA currently owns Parcels F, O, O', and O'', subject to OCII's right to purchase them from TJPA.

Under the proposed Bridge Loan between the City and Goldman Sachs, Goldman Sachs would require parcels F, O, O' and O'' to be pledged as security to the loan. In particular, in addition to the pledged net tax increment from the State-owned parcels in the Redevelopment Project Area, the following is also required:

1. TJPA pledges its interest in parcel F by offering a deed of trust as security to the Bridge Loan; lenders release the deed of trust if parcel F is sold at fair market value for no less than the parcel F lien release price established in the Credit Agreement between TJPA and Goldman Sachs, and TJPA deposits the parcel F gross sales proceeds into a lockbox account as collateral for the Bridge Loan.
2. TJPA enters into a negative covenant that prohibits it from selling or encumbering parcels O, O', and O'' until the Bridge Loan is repaid in full or they are subdivided into Blocks 2, 3, and 4, Block 4 is sold at fair market value for no less than the Block 4 lien release price established in the Credit Agreement, and TJPA deposits the Block 4 gross sales proceeds into a lockbox account as collateral for the Bridge Loan.
3. OCII subordinates the Option Agreement and OCII's interest in parcels F, O, O', and O'' until the Bridge Loan is repaid in full. OCII would retain the right to exercise its Option as to Parcel F and Block 4 even while the Bridge Financing is outstanding so long as they are sold at fair market value for no less than the lien release price established for them under the Credit Agreement with Goldman Sachs and deposited into a lockbox account as collateral until the Bridge Loan is repaid in full. (Further, OCII would retain the right to exercise its option as to the remainder of parcels O, O', and O'' (known as Blocks 2 and 3) without obtaining a minimum amount of gross sales proceeds or placing them in the lockbox account.)

OCII's subordination of the Option Agreement and OCII's interests requires the City, TJPA, and OCII to amend the existing Option Agreement. Approval of the Amendment to the Option Agreement is the legislation that is before the Board of Supervisors.

- **Goldman Sachs requires the State (Caltrans) to relinquish its right to cancel its transfer of parcels F and Redevelopment Block 4 and also any interest in the sales proceeds generated from the parcels, as provided by the Cooperative Agreement.**

According to the October 10, 2014 memorandum from the OCII Executive Director to the OCII Commissioners, Caltrans will release its power of termination over parcel F and Block 4 upon TJPA's deposit of the proceeds of the Bridge Loan into a trust account set up for land sales proceeds to pay for capital costs associated with construction of the Transit Center Project, less amounts necessary to reserve for capitalized interest, hedging costs, required expense reserves and transaction fees with respect to the Bridge Financing and up to \$9.9 million to pay for construction-related soft costs for the Project.

According to Ms. Gigliotti, there is no allocation or seniority ranking among the various portions of the security requirements in the Bridge Loan. Should TJPA default on the Bridge Loan, Goldman Sachs can declare the full amount of the loan immediately due and payable and exercise its remedies against any or all of the collateral simultaneously or in whatever order it chooses. Once all obligations owed to the lender are satisfied, Goldman Sachs has no further interest in the remaining collateral.

Ms. Gigliotti notes that the likelihood of a payment default by TJPA is remote as the only payments due during the term of the loan are interest, and the full amount of the interest is being set aside from loan proceeds at the time the loan is made.

When TJPA draws on the TIFIA Loan and repays the Bridge Loan, the deed of trust on parcel F and the agreement not to encumber parcels O, O', and O'', will be released.

#### Risks of the Bridge Loan Security Conditions

As stated above, Goldman Sachs requires TJPA to offer a deed of trust on parcel F and to agree not to encumber parcels O, O', and O'' to secure the Bridge Loan. Further, Caltrans must relinquish its right to cancel the transfer of the State-owned parcels. TJPA is currently using parcel F for the construction of new bus ramps and a train box and parcels O, O', and O'' for the temporary terminal facilities and expects these uses to continue until late 2016 and late 2017, respectively. Thus, OCII may not currently exercise the Option to acquire these parcels from TJPA until late 2016 (parcel F) or late 2017 (parcels O, O', and O''). After that time, TJPA and OCII plan to sell the parcels for disposition and development consistent with the Transbay Redevelopment Project, with the gross sales proceeds and net tax increment pledged to the Transit Center Project.

According to Ms. Gigliotti, if the Bridge Loan is outstanding 18 months after closing date of the Bridge Loan, TJPA will endeavor to subdivide Parcels O, O', and O'' into Redevelopment Blocks 2, 3, and 4, and record a deed of trust on Block 4 (which contains portions of parcels O, O', & O'') in favor of Goldman Sachs to replace the agreement not to encumber. If the Bridge Loan has not been repaid three years after the closing, TJPA covenants to commence and diligently pursue the process for issuing one or more series of bonds or other indebtedness secured by net tax increment in an aggregate amount at least sufficient to repay the Bridge Loan in full, at which time the deed of trust and agreement not to encumber would be released. Thus, TJPA anticipates repaying the Bridge Financing under the terms and timeframes specified in the loan.

- **Approval of the First Amendment to the Option Agreement does not change the City's ability to require that 35 percent of housing in the Redevelopment Project Area be affordable.**

Regardless of the repayment status of the Bridge Loan, development of all four parcels is controlled by the *Transbay Redevelopment Plan* and under the Subordinations, OCII and the City have the ability to require affordable housing of Parcels O, O', and O'' sufficient to meet the 35 percent affordable housing obligation in the Redevelopment Project Area as a whole. Since the City's Planning Department has jurisdiction over parcel F development, any residential component at parcel F would be subject to City's standard in-fill 15 percent affordable housing requirement. OCII and City retain the obligation and authority to determine the infrastructure, affordable housing, and open space requirements that apply to any development on parcels F, O, O', and O''.<sup>6</sup>

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<sup>6</sup> OCII has development authority over properties it owns and properties developed in Zone 1, which includes parcels O, O', O'', and O'', while City's Planning has the development authority over private developments in Zone 2, which includes Parcel F. If a private party obtains Parcel F through the deed of trust, rather than a sale through OCII, future development would be handled by the City's Planning Department.

Furthermore, under the *Pledge Agreement*, the tax increment revenue generated from the parcels would remain allocated to TJPA.

The proposed legislation would make the amendments necessary to the *Option Agreement* so that the security conditions of the Bridge Loan can be fulfilled. In particular, the proposed legislation would authorize the Director of Property to (1) execute, the Option Agreement Amendment and the City Consent Letter, (2) to acknowledge the subordinations on parcels F, O, O', and O" and (3) authorize the Director of Real Estate to make further modifications to the *Option Agreement* in the future, without Board approval, should the Director of Real Estate and City Attorney determine the modifications are in the best interests of the City and do not materially increase the obligations or liabilities of the City, or decrease the benefits to the City, and are in compliance with all applicable laws, including the City's Charter. According to the TJPA, these non-material modifications could include providing more precision as to the procedure for OCII to exercise its option and refining legal descriptions.

### Fiscal Impact

The proposed legislation does not bind the City to make any expenditure, incur any indebtedness, or in any way obligate itself under TJPA's Bridge Loan nor approve the financial structure of the Bridge Loan and the underlying credit issues of the Transit Center Project. There would be no impact on the City's receipt of tax increment revenue.

Since the financing cost of the Bridge Loan is expected to be funded entirely from the Bridge Loan itself, the full \$171,000,000 of the TIFIA loan will not be used for construction as originally anticipated. TJPA expects to meet the conditions of the TIFIA disbursement in late 2015, however the timing of the disbursement remains uncertain and dependent on the sale of the Blocks 9, 5, and 8 and successfully forming a Mello-Roos Community Facilities District.

Should TJPA not meet the TIFIA disbursement requirements for the entire term of the Bridge Loan, TJPA will spend a maximum of \$37,027,000 on interest expense and capitalization, hedging fees, and transaction fees, as shown in Table 3 above. Depending upon actual interest rates and hedging costs at close, TJPA estimates it can absorb the transaction fees, hedging costs, and interest expense for just over one year within its existing project budget. Should the Bridge Loan be outstanding for more than one year, TJPA would need to identify savings or cost-cutting measures within its budget or seek a budget increase and identify funding for such an increase. Potential sources for a budget increase include a net tax increment financing, use of additional CFD funds towards Phase 1, or use of land sale proceeds otherwise planned for Phase 2 of the Transit Center Project, the Downtown Extension. To the extent that revenue and funding sources are not used for Phase 1, they may be applied towards Phase 2, the Downtown Extension.

**SUMMARY**

In order to move forward with Phase I of the Transbay Transit Center Project, TJPA requires access to funds to certify construction contracts. TJPA previously secured a \$171 million TIFIA loan, but must generate at least \$429 million in proceeds from the sale of Transbay parcels to disburse the loan. To date, TJPA has generated only \$222 million of the required \$429 million in parcel sale proceeds but anticipates an additional \$216.1 million in parcel sale proceeds by September 2015.

TJPA has obtained a Bridge Loan commitment from Goldman Sachs, through a competitive process, which will allow TJPA to continue construction on the Project while it moves to fulfill the disbursement requirements of the TIFIA Loan. Once the TIFIA Loan is disbursed it will be used to pay down the Bridge Loan. TJPA expects to close the Bridge Loan between December 10, 2014 and January 27, 2015. TJPA expects to sell additional properties and set up the Community Facilities District that will allow TJPA to meet the conditions of the TIFIA in September/October 2015. Finally, TJPA expects to pay down the Bridge Loan in December 2015 – January 2016, after it has secured the TIFIA Loan and, to avoid a pre-payment penalty, no sooner than 12 months after closing the Bridge Loan.

Four Transbay parcels are required by the lender, Goldman Sachs, to be pledged as security for the Bridge Loan, which TJPA and OCII would otherwise sell to fund the Project. The lender, Goldman Sachs, is requiring the following to secure the Bridge Loan:

1. The State relinquish its right to cancel its transfer of parcels F, O, O', and O'' and also any interest in the sales proceeds generated from the parcels.
2. TJPA pledges the net tax increment revenue generated by parcels F, O, O', and O'', as well as by other former State-owned parcels in the Transbay Redevelopment Project Area.
3. TJPA pledge its interest in parcel F by offering a deed of trust.
4. TJPA enters into a negative covenant that prohibits it from selling or encumbering parcels O, O', and O'' until the Bridge Loan is repaid in full or the northern portion of parcels O, O', and O'' known as "Block 4" is sold for no less than a specified lien release price, with the Block 4 gross sales proceeds deposited in a specified amount into a lockbox account as collateral for the Bridge Loan.
5. TJPA and OCII subordinate the Option agreement and OCII's interest in parcels F, O, O', and O''. OCII would retain the right to exercise its option even while the Bridge Financing is outstanding so long as a minimum amount of proceeds from the sale of the related real estate collateral, specified in the agreement with Goldman Sachs, is deposited into a lockbox account as collateral until the Bridge Loan is repaid in full.

The First Amendment to the Option Agreement, which is the subject of the proposed legislation, would subordinate OCII's option to acquire parcels F, O, O', and O'' in order for these parcels to be pledged as security for the proposed \$171 million Bridge Loan. TJPA and OCII would be allowed to sell parcel F if parcel F is sold at fair market value for no less than the



parcel F lien release price established in the Credit Agreement between TJPA and Goldman Sachs, and the parcel F gross sales proceeds are deposited into a lockbox account as collateral for the Bridge Loan.

Also, currently TJPA is using parcels O, O', and O'' for temporary facilities during the Transit Center construction. TJPA intends to sell parcels O, O', and O'' when these parcels are no longer needed for temporary facilities, but faces restrictions on sale of these parcels under the security conditions of the Bridge Loan. TJPA and OCII can sell these parcels if Block 4 is sold at fair market value for no less than the Block 4 lien release price established in the Credit Agreement, and the Block 4 gross sales proceeds are placed into a lockbox account as collateral for the Bridge Loan.<sup>7</sup>

The cost of financing the Bridge Loan would otherwise have been used to fund Project expenses. That cost is expected to be a maximum of \$37,027,000 for four years of financing, which is the maximum term for the Bridge Loan. However, the risks of not acquiring interim financing through the Bridge Loan include:

- Suboptimal pricing on Transit Center Project contractors for soft/hard costs of construction.
- Suboptimal pricing on the sale of parcels, the funds of which will be used to fund the Transit Center Project.
- Delays in the Transit Center Project, which is scheduled to be substantially complete in late 2017.

Regardless of the repayment status of the Bridge Loan, development of all four parcels is controlled by the *Transbay Redevelopment Plan* and under the Subordinations, OCII and the City have the ability to require affordable housing of Parcels O, O', and O'' sufficient to meet the 35 percent affordable housing obligation in the Redevelopment Project Area as a whole. Any housing development on Parcel F is subject to a minimum 15 percent onsite affordable requirement, if the development contains any housing units, per the Transbay Redevelopment Plan and the Planning Code. OCII still retains the ability to require the affordable housing needed on Parcels O, O', and O'' are part of the Transbay Redevelopment Project Area, which as a whole has a to meet the overall 35 percent affordable housing requirement for the Transbay Redevelopment Project Area per AB 812 and the Transbay Redevelopment Plan.

The proposed legislation does not bind the City to make any expenditure, incur any indebtedness, or in any way obligate itself under TJPA's Bridge Loan nor approve the financial structure of the Bridge Loan and the underlying credit issues of the Transbay Program.

Under the *Pledge Agreement*, the tax increment revenue generated from the parcels would remain allocated to TJPA. TJPA will pledge this revenue to Goldman Sachs as security for the Bridge Loan.

Approval of the proposed legislation would facilitate TJPA's obtaining the proposed Bridge Loan by allowing OCII to subordinate its option to purchase parcels F, O, O' and O'' in order to be

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<sup>7</sup> As shown in the Exhibit, parcels O, O', and O'' are partially located in Block 4.

pledged as security for the Bridge Loan. The Budget and Legislative Analyst recommends approval of the proposed legislation because (a) TJPA has represented that the Bridge Loan is necessary to continue construction of the Transit Center, and (b) the risk to the project of not selling these parcels on schedule is minimal.<sup>8</sup>

## RECOMMENDATION

Approve the proposed legislation.

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<sup>8</sup> TJPA expects to repay the Bridge Loan prior to 2016, which is before the dates by which OCII would exercise its options to purchase these parcels. Should the Bridge Loan still be outstanding by 2016, OCII and TJPA have developed a plan that would allow for the sale of these parcels on schedule and meet the terms of the Bridge Loan.

**Item 9**  
**File 14-1033**

**Department:**  
Human Services Agency

### EXECUTIVE SUMMARY

#### Legislative Objectives

- The proposed resolution would authorize: (1) a new five-year lease between the City as Tenant and Bayview Plaza, LLC as Landlord at 3801 Third Street to provide administrative space for the Human Services Agency, (2) construction of tenant improvements at the site, (3) monthly rent of \$39,216 during construction of tenant improvements, and then \$41,478 per month after completion of improvements.

#### Key Points

- In 2009, the Board of Supervisors approved six leases between the City, as Tenant, on behalf of the Human Services Agency (HSA), and Bayview Plaza, as Landlord, to lease 3801 Third Street for Suites 200, 205, 210, 230, 235 and 240 to be used for HSA programming, including Family and Children's Services and Child Welfare Services. The original term of the lease was for one year from September 1, 2009 until August 31, 2010 with annual options to extend on a year-to-year basis with a final ending date of August 31, 2014. Since August 31, 2014 the leases have been extended on a month-to-month basis. The total square footage for these suites was 13,096 square feet, and the total initial monthly rent was \$32,216 (\$2.46 per sq. ft.). As of August 31, 2014 the Monthly rent was \$35,490 (\$2.71 per sq. ft.).
- Under the proposed lease, HSA seeks to renovate the premises by combining the six existing Suites 200, 205, 210, 230, 235, 240 and adding Suite 220 into a single space. The renovation would add programmatic space for HSA, including a child care room, a large multipurpose training and meeting room, and larger common work space for additional staff. The expected cost of the tenant improvements is \$1,097,291. Of this amount, \$232,193 will be paid by the Landlord as stipulated by the lease and the remaining \$865,098 will be paid by the City.
- According to the San Francisco Environment Code, municipal construction projects with square footage of over 5,000 are required to achieve LEED Gold certification. Mr. David Curto, Director of Contracts and Facilities at HSA, advises that while the total square footage of the proposed renovation is 15,083 square feet, the amount of square footage to be added to the premises is only 1,987. As such, HSA may request a waiver from the Municipal Green Building Task Force to exclude this project from LEED certification.

#### Fiscal Impact

- Under the proposed lease, rent per square foot in the first year will be \$2.75 per square foot per month, an increase by 1.5 percent compared to the existing lease. Total rent paid will be \$497,739 in the first year of operation, an increase by 16.9 percent compared to the final year of the prior lease because the square footage increases with the merged suite. The expected cost of the tenant improvements is \$1,097,291. Of this amount, \$232,193 will be paid by the Landlord as stipulated by the lease and the remaining \$865,098 will be paid by the City. Funds for these improvements were approved through HSA's Fiscal Year 2014-15 budget.

#### Recommendations

- Amend the proposed resolution to state the revised estimate of the City's costs for tenant improvements of \$865,098.
- Approve the proposed resolution as amended.

## MANDATE STATEMENT

San Francisco Administrative Code Section 23.27 requires Board of Supervisors approval by resolution of leases on behalf of the City as tenant.

## BACKGROUND

In 2009, the Board of Supervisors approved six leases between the City, as Tenant, on behalf of the Human Services Agency (HSA), and Bayview Plaza, as Landlord, to lease 3801 Third Street for Suites 200, 205, 210, 230, 235 and 240 to be used for HSA programming, including Family and Children's Services and Child Welfare Services. The original term of the lease was for one year from September 1, 2009 until August 31, 2010 with annual options to extend on a year-to-year basis with a final ending date of August 31, 2014, for total lease terms of five years. Since August 31, 2014 the leases have been extended on a month-to-month basis. The total square footage for these suites was 13,096 square feet, and the total initial monthly rent was \$32,216 (\$2.46 per sq. ft.). As of August 31, 2014 the monthly rent was \$35,490 (\$2.71 per sq. ft.)

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize: (1) a new five-year lease between the City as Tenant and Bayview Plaza, LLC as Landlord for 15,083 square feet of space at 3801 Third Street to provide administrative space for the Human Services Agency, (2) construction of tenant improvements at the site with estimated costs to the City of \$865,098, (3) monthly rent of \$39,216 during construction of tenant improvements, and then \$41,478 per month after completion of improvements. Table 1 below summarizes the key lease provisions.

**Table 1: Key Lease Provisions**

Area	15,083 square feet
Rent	<ul style="list-style-type: none"> <li>• \$39,216 monthly (\$2.60 per sq. ft.) prior to completion of improvements</li> <li>• \$41,478 monthly (\$2.75 per sq. ft.) upon completion of improvements</li> </ul>
Rent adjustments	<ul style="list-style-type: none"> <li>• Rent to be adjusted according to the Consumer Price Index (CPI).</li> <li>• Increase shall be not less than 3 percent and more than 5 percent.</li> </ul>
Term	Five years after completion of improvements
Options to extend	<ul style="list-style-type: none"> <li>• One additional five year term</li> <li>• Rent to be reset to 95% of Fair Market Value</li> </ul>
Services and Utilities	<ul style="list-style-type: none"> <li>• Paid by Landlord</li> </ul>
Tenant Improvements	<ul style="list-style-type: none"> <li>• Merge the existing suites</li> <li>• Add new programmatic space</li> <li>• Any improvements must comply with LEED Gold Certification<sup>1</sup></li> </ul>

<sup>1</sup> LEED (Leadership in Energy and Environmental Design) is a program of the U.S. Green Building Council that certifies buildings constructed for energy and environmental efficiency. LEED has four certification levels: certified, silver, gold and platinum.

### Proposed Tenant Improvements to Premises

HSA will increase its staff at Bayview Plaza from 48 to approximately 77 at the premises, an increase of 29 staff, due to the high proportion of HSA's child welfare cases in the Bayview-Hunters Point area. According to Mr. Curto, the larger common work space will allow staff members who spend time outside of the office on site visits to share work stations, thus reducing the total number of work stations that are needed to accommodate 29 additional staff.

The multipurpose training room will provide space for trainings, workshops and other gatherings, including the Bay Area Academy, a program funded by the State of California which offers training courses for child welfare workers and foster parents. Additionally, the City's Child Advocacy Center, where all forensic interviews for child abuse cases are conducted, is located one half of a block away from Bayview Plaza. Mr. Derek Chu, Budget Director at HSA, states that locating these services in closer proximity will allow for more efficient services and faster processing of cases, but will not reduce the need for current staffing levels and no additional savings are anticipated due to these service enhancements.

The approximately 29 additional staff at Bayview Plaza are relocating from City-owned space at 170 Otis Street and leased space at 3120 Mission Street. Mr. Curto states that HSA is hiring 56 additional staff members<sup>2</sup> who will work out of 170 Otis Street and 3120 Mission Street, many of whom will fill the spaces vacated by the approximately 29 staff moving to Bayview Plaza.

The tenant improvements would be performed by the Landlord according to specifications made by the City. According to Mr. Curto, the tenant improvements are expected to be completed in four months upon approval of the proposed lease. Therefore, if the proposed lease is approved by the Board of Supervisors in November 2014, the proposed tenant improvements would be completed in March 2015 and the space available for occupancy in April 2015. According to Ms. Claudine Venegas, Senior Real Property Officer at Real Estate Division, the premises will continue to be occupied by HSA during the four month renovation period. Staff will be moved within the Bayview Plaza and temporarily relocated to other HSA facilities to accommodate the tenant improvements.

The expected cost of the tenant improvements is \$1,097,291. Of this amount, \$232,193 will be paid by the Landlord as stipulated by the lease and the remaining \$865,098 will be paid by the City. A full project budget for the tenant improvements is included in Table 2 below.

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<sup>2</sup> The Board of Supervisors approved 53 new positions in FY 2013-14 and 39 new positions in FY 2014-15 for CalFresh, CalWorks, Family and Children's Services, and In-Home Supportive Services.

**Table 2: Proposed Tenant Improvements Budget**

<b>Project Element</b>	<b>Cost</b>
Demolition	\$25,000
Walls & Doors	105,581
HVAC	128,206
Electrical	120,664
Flooring	75,415
LEED Certification Elements	165,913
Plumbing & Restrooms	<u>100,000</u>
Construction Costs	\$720,779
Soft Costs	90,498
Permits	33,937
Furnishings, Fixtures & Equipment	180,000
Construction Contingency (10% of Construction Costs)	<u>72,078</u>
<i>Total Project Cost</i>	<i>\$1,097,291</i>
Less Landlord Allowance	<u>(232,193)</u>
<b>Net Cost to City</b>	<b>\$865,098</b>

The proposed resolution states that the City's costs for tenant improvements are estimated to be \$685,098.10. The resolution should be amended to state the revised estimate of the City's costs for tenant improvements of \$865,098.

#### LEED Certification for Renovation

According to the San Francisco Environment Code, municipal construction projects with square footage of over 5,000 are required to achieve LEED Gold certification. To achieve LEED Gold certification, the project must meet selected San Francisco-specific LEED credit requirements, which include, but are not limited to: (1) Stormwater Management; (2) Indoor Water Use Reduction; (3) Energy Performance; (4) Enhanced Refrigerant Management; and (5) Low Emitting Materials. The proposed renovation will undergo a conceptual design phase in which HSA will consult with a LEED Accredited Professional to determine which credits will be applicable for the project and the costs to implement those credits. According to Mr. Curto, the \$165,913 amount listed in the budget for LEED Elements was provided by Real Estate Division based on a previous project, and will be adjusted based on the consultation with the LEED Accredited Professional.

Mr. Curto advises that while the total square footage of the proposed renovation is 15,083 square feet, the amount of square footage to be added to the premises is only 1,987, which is less than the 5,000 square feet required for LEED certification. Mr. Curto further advises that for this reason, HSA may request a waiver from the Municipal Green Building Task Force to

exclude this project from LEED certification<sup>3</sup>. Should this waiver be granted, the LEED elements will not be incorporated into the project and the overall project budget will be reduced to reflect this change.

## FISCAL IMPACT

The proposed resolution will increase the City's costs at Bayview Plaza due to: (1) increased rent per square foot; (2) increased square footage; and (3) construction costs to merge seven suites into one suite.

### Increased Rent per Square Foot and Increased Square Footage

Under the proposed lease, rent per square foot in the first year will increase by 1.5 percent but total rent will increase by 16.9 percent compared to the final year of the prior lease because the square footage increases, as shown in Table 3 below.

**Table 3: Increase in Rent per Square Foot and Square Footage under Proposed Lease**

	Prior Lease		Proposed	Increase in First Year of New Lease Compared to Fifth Year of Prior Lease	Percent Increase
	First Year	Fifth Year	First Year		
	September 1, 2009 to August 31, 2010	September 1, 2013 to August 31, 2014	Occupancy April 1, 2015 through March 31, 2016		
Rent per Square Foot per Month	\$2.46	\$2.71	\$2.75	\$0.04	1.5%
Total Square Footage	<u>13,096</u>	<u>13,096</u>	<u>15,083</u>	<u>1,987</u>	<u>15.2%</u>
Total Rent per Month	\$32,216	\$35,490	\$41,478	\$5,988	16.9%
<b>Total Annual Rent</b>	<b>\$386,594</b>	<b>\$425,882</b>	<b>\$497,739</b>	<b>\$71,856</b>	<b>16.9%</b>

The Budget and Legislative Analyst estimates the total cost of the proposed lease through the initial five-year lease term to be \$3,498,612<sup>4</sup>. Table 4 below provides the detail of these costs.

<sup>3</sup> The Municipal Green Building Task Force reviews municipal construction projects during their design and construction to ensure that responsible City departments are complying with the requirements of the Environment Code. The Task Force is comprised of representatives from 12 City departments who are appointed by the Mayor.

<sup>4</sup> This estimate assumes a 3 percent annual increase.

**Table 4: Costs to the City under Proposed Lease**

<b>Lease Year</b>	<b>Monthly Rent</b>	<b>Annual Rent</b>
<b>Year One</b>		
Renovation		\$865,098
Construction Period	\$39,216	156,863
Occupancy	\$41,478	331,826
Year One Subtotal		\$1,353,787
Year Two	\$42,723	512,671
Year Three	\$44,004	528,051
Year Four	\$45,324	543,893
Year Five	\$46,684	560,210
<b>Total</b>		<b>\$3,498,612</b>

The proposed rent of \$2.75 per square foot per month was found to be of fair market value by the Real Estate Division based on an analysis from the CoStar Group, a commercial real estate information company<sup>5</sup>.

Funding for first year costs to the City of \$1,353,787 includes:

- \$902,525 (2/3 of costs) in State and Federal program allocations for CalWorks, MediCal, CalFresh, and Child Welfare Services; and
- \$451,262 (1/3 of costs) in City General Fund monies.

The Board of Supervisors approved these expenditures through HSA's Fiscal Year 2014-15 budget.

## RECOMMENDATIONS

1. Amend the proposed resolution to state the revised estimate of the City's costs for tenant improvements of \$865,098.
2. Approve the proposed resolution as amended.

<sup>5</sup> The CoStar Group analysis reviewed properties in the surrounding area and found that the average rental price for these properties was \$3.61 per square foot.



<b>Item 10</b> <b>File 14-1014</b>	<b>Department:</b> General Services Agency - Department of Public Works (DPW)
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<p>The proposed resolution would approve the sixth amendment to the existing executive construction manager services contract between the DPW and Jacobs to (1) expand the scope, and (2) increase the total not-to-exceed contract amount by \$4,474,706 from the existing not-to-exceed contract amount of \$16,400,000 to a not-to-exceed contract amount of \$20,874,706.</p>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>• In November 2008, the San Francisco voters approved Proposition A, which authorized the issuance of up to \$887,400,000 in General Obligation Bonds to rebuild San Francisco General Hospital.</li> <li>• For the San Francisco General Hospital (SFGH) Rebuild Program, the Department of Public Works (DPW) selected (a) Webcor Construction, LP (Webcor) to serve as the construction manager/general contractor in October 2008; and (b) Jacobs Project Management (Jacobs) to serve as the executive construction manager in August 2008.</li> <li>• In December 2010, the Board of Supervisors amended the contract between the DPW and Jacobs (File 10-1375), that authorized the DPW to add additional projects to the contract, increasing the not-to-exceed contract amount by \$8,400,000 from \$8,000,000 to \$16,400,000.</li> <li>• Under the proposed resolution, Jacobs would provide additional executive construction manager services to the SFGH Rebuild Program that were not anticipated under original scope, including (1) bringing Building 2 of the SFGH Campus up to the State-required seismic standards, and (2) renovating the tunnel connection and bridge connection from SFGH Campus Building 5 to the new SFGH Campus Building 25.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>• The proposed resolution would increase the current not-to-exceed contract amount of \$16,400,000 by \$4,474,706 including \$2,475,026 for Jacobs and \$1,999,680 for subcontractors that provide planning, cost estimating, scheduling, engineering and other services to Jacobs. The requested amended contract amount of \$4,474,706 will be paid using available General Obligation bond proceeds previously appropriated by the Board of Supervisors.</li> </ul>	
<b>Recommendations</b>	
<ul style="list-style-type: none"> <li>• Amend the proposed resolution to reduce the total not-to-exceed contract amount by \$60,756 from a not-to-exceed amount of \$20,874,706 to a not-to-exceed amount of \$20,813,950.</li> <li>• Approve the proposed resolution as amended.</li> </ul>	

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

City Charter Section 9.118(b) states that a contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification with a \$500,000 impact or more is subject to Board of Supervisors approval.

In 1973, the California Legislature enacted the Alfred E. Alquist Hospital Seismic Safety Act, which required that acute care hospitals in California had to meet seismic safety requirements to ensure that acute care hospitals remain functional after a major earthquake. In 2000, the California Legislature enacted Senate Bill 1801, which required that the hospitals be either (a) retrofitted to meet the mandated seismic safety requirements, or (b) demolished and rebuilt to meet the mandated seismic safety requirements.

**Background**

In November 2008, the San Francisco voters approved Proposition A, which authorized the issuance of up to \$887,400,000 in General Obligation Bonds to rebuild San Francisco General Hospital.

For the San Francisco General Hospital (SFGH) Rebuild Program, the Department of Public Works (DPW) selected through competitive Request for Qualifications (RFQ) processes,

- (a) Webcor Construction, LP (Webcor) to serve as the construction manager/general contractor in October 2008; and
- (b) Jacobs Project Management (Jacobs) to serve as the executive construction manager in August 2008.

Jacobs oversees the construction manager/general contractor, Webcor. Executive construction manager services include quality assurance, contract compliance, inspections, hospital record inspections, and specialized construction expertise.

The original contract between DPW and Jacobs was for an approximately eight-year term from September 2008 through December 2016 in the not-to-exceed amount of \$8,000,000. This contract was not subject to Board of Supervisors approval because it was for a term less than ten years and for an amount less than \$10 million.

In December 2010, the Board of Supervisors amended the contract between the DPW and Jacobs (File 10-1375), that authorized the DPW to add additional projects to the contract, increasing the not-to-exceed contract amount by \$8,400,000 from \$8,000,000 to \$16,400,000. Allocations made to the contract to date are \$16,339,244, which is \$60,756 less than the approved not-to-exceed contract amount of \$16,400,000.

As of October 20, 2014, the DPW had expended \$15,094,395, or 92 percent, of the currently authorized \$16,400,000 not-to-exceed contract amount as shown in Table 1 below.

**Table 1: Summary of Expenditures**

	Jacobs	Subcontractors <sup>1</sup>	Totals
Current Contract Not-to-Exceed Amount			\$16,400,000
Phase I - Pre-Construction Services	3,861,653	3,627,071	7,488,724
Phase II - Construction Services	4,079,705	3,525,966	7,605,671
Total	7,941,358	7,153,037	15,094,395
Remaining Contact Amount			\$1,305,605

<sup>1</sup> Subcontractors provide planning, cost estimating, scheduling, engineering and other services to Jacobs.

According to Mr. Ronald Alameida, DPW Program Manager, the initial estimated budget for the SFGH Rebuild Program assumed that DPW would develop internal staff capacity and would internalize some of the services provided by Jacobs. However, DPW later determined that it could not train or hire staff to provide the same level of service because hospital construction requires specific expertise. Therefore, DPW has been using the existing contract at a higher than anticipated rate.

According to Mr. Alameida, the SFGH Rebuild Program is estimated to be completed on approximately June 1, 2015, which is three weeks later than the initial estimated completion date of May 7, 2015, and as of October 2014, 81 percent of the budget for the entire SFGH Rebuild Program including the subject contract with Jacobs has been expended.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the sixth amendment to the existing executive construction manager services contract between the DPW and Jacobs to (1) expand the scope, and (2) increase the total not-to-exceed contract amount by \$4,474,706 from the existing not-to-exceed contract amount of \$16,400,000 to a not-to-exceed contract amount of \$20,874,706.

### Expanded Scope

Under the proposed sixth amendment, Jacobs would provide additional executive construction manager services to the SFGH Rebuild Program that were not anticipated under original scope, including (1) bringing Building 2 of the SFGH Campus up to the State-required seismic standards, and (2) renovating the tunnel connection and bridge connection from SFGH Campus Building 5 to the new SFGH Campus Building 25, which is scheduled to open in December 2015.

According to Mr. Alameida, SFGH Campus Building 2 was previously thought to be in compliance with the State-required seismic standards but has since been found to be lacking and needs to be renovated including replacing the interior walls and installing new anchorage for wall-mounted equipment.

According to Mr. Alameida, because the renovations of the basement tunnel connection and the bridge connection have increased in size and scope as the projects have developed, DPW will continue to require the services provided by Jacobs through the end of the project.

## FISCAL IMPACT

The proposed resolution would increase the current not-to-exceed contract amount of \$16,400,000 by \$4,474,706 to \$20,874,706 for Jacobs to provide additional executive construction manager services for the approximately 23-month term from February 2015 through December 2016.

Table 2 below shows the estimated costs of these services.

**Table 2: Increased Contract Costs for Jacobs Construction Management and Subcontractors for Calendar Years 2015 and 2016**

	Calendar Year 2015	Calendar Year 2016	Total
<i>Jacobs Construction Management</i>			
Jacobs Staff Time	\$1,236,117	\$1,122,902	\$2,359,040
Jacobs Travel and Supplies	15,100	902	16,002
5% Mark-Up for Sub-Contractors	63,363	36,621	99,984
<b>Sub-Total, Jacobs</b>	<b>\$1,314,580</b>	<b>\$1,160,446</b>	<b>\$2,475,026</b>
<i>Subcontractors</i>			
Document Control	205,650	211,253	416,903
Project Engineering	255,143	215,016	470,159
Cost Estimating	806,467	306,151	1,112,618
<b>Sub-Total, Subcontractors</b>	<b>\$1,267,260</b>	<b>\$732,420</b>	<b>\$1,999,680</b>
<b>Total Contract Costs</b>	<b>\$2,581,840</b>	<b>\$1,892,866</b>	<b>\$4,474,706</b>

According to Mr. Alameida, the requested amended contract amount of \$4,474,706 will be paid using available General Obligation bond proceeds previously appropriated by the Board of Supervisors.

Since the SFGH currently has \$60,756 in unused contract authority provided by the Board of Supervisors, the Budget and Legislative Analyst's Office recommends amending the proposed resolution to reduce the total not-to-exceed contract amount by \$60,756 from a not-to-exceed amount of \$20,874,706 to an amount not to exceed \$20,813,950.

## RECOMMENDATIONS

1. Amend the proposed resolution to reduce the total not-to-exceed contract amount by \$60,756 from a not-to-exceed amount of \$20,874,706 to a not-to-exceed amount of \$20,813,950.
2. Approve the proposed resolution as amended.

**Item 11**  
**File 14-1079**

**Department:**  
San Francisco International Airport

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution would authorize Modification No. 1 to the Agreement between the San Francisco International Airport (Airport) and Signature Flight Support Corporation (Signature). The modification of the Agreement would: (1) extend the term of the Agreement by five years, to expire on September 30, 2022; and (2) require Signature to further renovate the Executive Air Terminal Building and Hangars A and B. Other provisions of the existing agreement are unchanged.

### Key Points

- In 2007, the Airport awarded a ten-year Fixed Base Operator Lease and Operating Agreement (the Agreement) to Signature to provide services to general aviation customers, which included retail fuel sales, aircraft maintenance, and management of the Executive Air Terminal Building and Hangars A and B. Rent paid under the Agreement was the greater of Minimum Annual Guarantee rent or Percentage rent. The Agreement required Signature to refurbish Executive Air Terminal Building and Hangars A and B; and to construct a new hangar (Hangar C).
- The lease modification will extend the expiration date until September 30, 2022, five years beyond the current expiration date of September 30, 2017. According to Ms. Teresa Rivor, Senior Property Manager at the Airport, the Agreement was extended because Signature sought to amortize its investment in the Hangar C over a longer term.
- Through the proposed agreement modification, Signature will perform tenant improvements to the Executive Air Terminal Building within 180 days from October 1, 2017. The tenant improvements shall include: (1) roof restorations for the Executive Air Terminal Building and Hangars A and B; (2) upgrading the camera monitoring system; (3) upgrades to HVAC systems; (4) replacement of existing signage with a LED sign; and (5) updated paint, carpet and furniture. Costs for these tenant improvements will be fully paid by Signature.

### Fiscal Impact

- The Budget and Legislative Analyst estimates the total MAG rent to be collected through the remaining of the Agreement term from October 1, 2014 through September 30, 2022 to be \$109,586,378, of which \$70,511,537 would be paid during the extended five-year term from October 1, 2017 through September 30, 2022. Signature would continue to pay the greater of MAG rent or percentage rent during the extended term.

### Recommendation

- Approve the proposed resolution.

## MANDATE STATEMENT

According to San Francisco City Charter Section 9.118, contracts entered into by a department, board or commission having anticipated revenue to the City and County of one million dollars or more, or the modification, amendment or termination of any contract which when entered into had anticipated revenue of one million dollars or more, shall be subject to approval of the Board of Supervisors by resolution.

## BACKGROUND

In 2007, as a result of a competitive process, the San Francisco Airport (Airport) awarded a Fixed Base Operator Lease and Operating Agreement (the Agreement) to Signature Flight Support Corporation (Signature) to provide services to charter and private aviation customers. The services provided include retail fuel sales, aircraft maintenance, and management of the Executive Air Terminal Building and Hangars A and B.

The term of the Agreement began on October 1, 2007 and was set to expire on September 30, 2017. Rent paid under the Agreement was the greater of:

(a) the Minimum Annual Guarantee (MAG) of \$11,000,000 in the first year, adjusted annually by the Consumer Price Index (CPI), or

(b) percentage rent equal to the sum of:

- 100% of aircraft landing fees;
- 27% of all fuel sales;
- 55% of all aircraft parking fees;
- 40% of advertising gross revenues;
- 26% of other gross revenues; and
- 1% of gross sales of aviation aircraft.

The Agreement required Signature to make tenant improvements to the premises including: (1) refurbish, redecorate and modernize the interiors and exteriors of the Executive Air Terminal Building and Hangars A and B; and (2) construct a new hangar (Hangar C). The minimum investment amount required for tenant improvements to the Executive Air Terminal Building and Hangar A and B was \$2,222,750. The estimated cost to construct Hangar C was \$7,500,000.

Ms. Teresa Rivor, Senior Property Manager at the Airport, states that due to the decline in demand for hangar storage, Signature requested deferrals to construct the new hangar in 2009, 2010, 2011, and 2012, which were subsequently approved by the Airport. In May 2013, Signature requested an additional deferment and was denied by the Airport. As a result, Signature began construction on the new hangar (now called Hangar C) in November 2013, which was completed on October 27, 2014.

According to Ms. Rivor, Signature previously completed the required work to the interiors and exteriors of the Executive Air Terminal Building and Hangars A and B.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize Modification No. 1 to the Agreement between the Airport and Signature to continue to provide retail fuel sales, aircraft maintenance, and management of the Executive Air Terminal Building and existing hangars for charter and private aviation customers at the Airport. The modification of the Agreement would: (1) extend the term of the Agreement by five years, to expire on September 30, 2022; and (2) require Signature to construct additional tenant improvements to the Executive Air Terminal Building and Hangars A and B, as discussed below. Other provisions of the existing Agreement are unchanged.

### Term of the Agreement

The lease modification will extend the lease term from October 1, 2017 until September 30, 2022. According to Ms. Rivor, the Agreement was extended because to allow Signature to amortize its investment in the renovated facility through September 30, 2022.

### Proposed Tenant Improvements to Premises

Through the proposed modification, Signature will construct tenant improvements to the Executive Air Terminal Building and Hangars A and B within 180 days from October 1, 2017. The required tenant improvements include: (1) roof restorations for the Executive Air Terminal Building and Hangars A and B; (2) upgrading the camera monitoring system; (3) upgrades to HVAC systems; (4) replacement of existing signage with a LED sign; and (5) updated paint, carpeting and furniture.

Design for the tenant improvements will be performed by Signature and subject to approval by the Airport Director and the Airport Design Review Committee to ensure that all tenant improvements adhere to guidelines established by the Airport.<sup>1</sup> The tenant improvements will be performed by contractors approved by the Airport. The Airport will continue to retain ownership of the Executive Air Terminal Building and Hangars A and B upon completion of the tenant improvements.

## FISCAL IMPACT

The rent provisions under the proposed modification, which require the payment by Signature to the Airport of the greater of the Minimum Annual Guarantee (MAG) rent or Percentage rent, are the same as under the existing Agreement with Signature.

### Minimum Annual Guarantee

According to Ms. Rivor, Airport staff conducted a survey of 13 fixed base operator agreements throughout the country which similar structures as San Francisco. The survey found that MAG rates provided in the existing Agreement between the Airport and Signature is above market value compared to other airports. MAG charged under the existing Agreement between Signature

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<sup>1</sup> The Design Review Committee consists of three members including the Airport's principal architect, and two community design/architect representatives. The Committee reviews photographs, floor plans, and detailed plans of the proposed improvements when approving the tenant's plans. The Design Review Committee Coordinator is responsible for record-keeping and on-site review of completed projects to ensure compliance with the Design Review Committee's approvals.

and the Airport was the highest rent of any of the 13 airports included in the survey. The average rent paid was \$4,350,000<sup>2</sup>. The 13 airports were: Washington Dulles, Miami, San Diego, Las Vegas, Boston, Tampa, San Jose, Newark, Chicago, Orlando, Denver, Portland, and Philadelphia.

Signature paid the Airport MAG rent of \$12,517,536 from October 1, 2013 through September 30, 2014. The Airport estimates that the MAG rent from October 1, 2014 through September 30, 2015 will be \$12,767,887, based on an estimated CPI adjustment of 2 percent. As shown in Table 1 below, Signature has paid rent to the Airport totaling \$83,107,024 from October 1, 2007 through September 30, 2014.

**Table 1: Annual Rent Paid to Date by Signature**

Year	Annual Rent Paid to Airport	Rent Type
10/1/2007 - 09/30/2008	\$11,396,404	Percentage Rent
10/1/2008 - 09/30/2009	11,667,887	Percentage Rent
10/1/2009 - 09/30/2010	11,486,362	MAG
10/1/2010 - 09/30/2011	11,748,474	Percentage Rent
10/1/2011 - 09/30/2012	12,022,187	Percentage Rent
10/1/2012 - 09/30/2013	12,268,174	MAG
10/1/2013 - 09/30/2014	12,517,536	MAG
<b>Total Rent Paid</b>	<b>\$83,107,024</b>	

Source: EIS and Airport Business Manager

The Budget and Legislative Analyst estimates the total MAG rent to be paid by Signature to the Airport from October 1, 2014 through September 30, 2022 is \$109,586,378, based on annual CPI adjustments of two percent as shown in Table 2 below. Signature would continue to pay the greater of MAG rent or percentage rent during the extended term.

**Table 2: Estimated MAG Rent to Be Paid By Signature During the Remaining Agreement Term**

Year	Estimated Annual MAG Rent	Annual Percentage Increase
10/1/2014 - 09/30/2015	\$12,767,887	2%
10/1/2015 - 09/30/2016	13,023,245	2%
10/1/2016 - 09/30/2017	13,283,709	2%
Subtotal, Existing Term	39,074,841	
10/1/2017 - 09/30/2018	13,549,384	2%
10/1/2018 - 09/30/2019	13,820,371	2%
10/1/2019 - 09/30/2020	14,096,779	2%
10/1/2020 - 09/30/2021	14,378,714	2%
10/1/2021 - 09/30/2022	14,666,289	2%
Subtotal, Proposed Extended Term	70,511,537	
<b>Total Estimated MAG Rent to be Paid</b>	<b>\$109,586,378</b>	

Source: EIS and Airport Business Manager

## RECOMMENDATION

Approve the proposed resolution.

<sup>2</sup> MAG at these 13 airports ranged from \$600,000 to \$10,900,000.