CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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October 19, 2018

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: October 25, 2018 Budget and Finance Committee Meeting

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Item 2 **Files 18-0932** *(Continued from the October 18, 2018)*	**Department:** Public Works

EXECUTIVE SUMMARY

Legislative Objectives

The proposed ordinance appropriates up to $200,000,000 of Special Tax Bonds, Series 2018A and Series 2018B, for financing related to the Transbay Transit Center Project and Transbay Plan Infrastructure Project in FY 2018-19. Of the $200 million appropriation, $29.0 million would be allocated to the City's Department of Public Works to pay for streetscape improvements.

Key Points

- In September 2014, the Board of Supervisor authorized the formation of a community facilities district (CFD) for new large developments located near the new Transbay Transit Center to provide funding for public infrastructure, including the rooftop park, train box, Caltrain extension, and streetscape improvements. In January 2015, the Board of Supervisors authorized the issuance and sale of not to exceed $1.4 billion in special tax bonds for the Transbay Transit Center CFD. Pursuant to a Joint Community Facilities Agreement between the City and the Transbay Joint Powers Authority, 82.6 percent of the CFD proceeds will finance a portion of the Transbay project, including the Rooftop Park, train box, and Caltrain extension. The remaining 17.4 percent of proceeds will finance streetscape improvements within the CFD and capacity enhancements for the closest Bay Area Rapid Transit District (BART) stations.
- The City completed the first issuance of bonds in November 2017 in the amount of $207.5 million. A second issuance in the amount of $200 million is currently pending before the Board of Supervisors. The bonds are not secured by public funds.

Fiscal Impact

- Of the $200,000,000 appropriation of bond proceeds, $29,031,261 is appropriated to the Department of Public Works for streetscape improvements in the CFD.
- Funding for the streetscape improvements would remain on Controller's Reserve until cash for the projects is needed in FY 2019-20 and FY 2020-21, at which time the bonds would be sold.
- Although the Office of Public Finance currently anticipates selling approximately $173 million in bonds, a variety of market conditions could change to be more favorable at the time of sale, which would result in project funds above the estimated $173 million.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

BACKGROUND

In September 2014, the Board of Supervisor authorized the formation of a Mello-Roos community facilities district (CFD) for new large developments located immediately south of Market Street near the new Transbay Transit Center (known as the Salesforce Transit Center) to provide funding for the Transbay project and related public infrastructure (File No. 14-0814; Resolution No. 350-14). Properties that receive a zoning bonus that allows for development exceeding the current height and floor-to-area ratios in the City's Planning Code must participate in the CFD.

In January 2015, the Board of Supervisors authorized the issuance and sale of not to exceed $1.4 billion in special tax bonds for the Transbay Transit Center CFD (File No. 15-0018; Resolution No. 002-15).

Pursuant to a Joint Community Facilities Agreement between the City and the Transbay Joint Powers Authority, 82.6 percent of the CFD proceeds will finance a portion of the Transbay project, including the rooftop park, train box, and Caltrain extension. The remaining 17.4 percent of proceeds will finance streetscape improvements within the CFD and capacity enhancements for the closest Bay Area Rapid Transit District (BART) stations.

In November 2017, the City completed the first issuance of Transbay Transit Center CFD bonds (Series 2017A and 2017B) in the aggregate amount of $207.5 million.

A proposed resolution currently pending before the Board of Supervisors would authorize the second issuance of Transbay Transit Center CFD bonds (Series 2018A and 2018B) in an amount not to exceed $200 million (File No. 18-0940). Based on project cost estimates and schedules, the Office of Public Finance expects to deliver approximately $173 million in bond proceeds based on assumptions about market conditions expected at the time of sale.

Both the 2017 and 2018 bonds are secured by a pledge of special tax revenues collected in the CFD. Special taxes are levied on certain properties in the CFD for 30 years following issuance of both a Certificate of Occupancy and Tax Commencement Authorization. According to the Office of Public Finance, in FY 2018-19, the CFD anticipates collecting approximately $15.5 million in special tax revenues, with collections increasing to approximately $19.4 million by the end of FY 2019-20, and to approximately $19.8 million by the end of FY 2020-21. The bonds are not secured by public funds.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance appropriates up to $200,000,000 of Special Tax Bonds, Series 2018A and Series 2018B, for financing related to the Transbay Transit Center Project and Transbay Plan Infrastructure Project in FY 2018-19.

Estimated sources and uses of the funds available for FY 2018-19 are shown below.

Sources and Uses of Funds[1]

	Amount
Sources	
Bond Proceeds	$200,000,000
Total Sources	$200,000,000
Uses	
Transbay Transit Center Project Fund	$147,741,045
Streetscape Improvements	29,031,261
BART Infrastructure Improvements	2,032,882
Subtotal, Project Costs	$178,805,188
Debt Service Reserve	15,020,943
Capitalized Interest	2,882,924
Cost of Issuance	3,232,882
City Services Auditor (0.2% of proceeds)	58,063
Subtotal, Reserves, Interest, Issuance, and Other Costs	$21,194,812
Total Uses	$200,000,000

The uses of the funding outlined above would be placed on Controller's Reserve pending sale of the special revenue tax bonds and approval from the Controller's Office of Public Finance for the fund release.

FISCAL IMPACT

Of the $200,000,000 appropriation of bond proceeds, $29,031,261 is appropriated to the Department of Public Works for the following streetscape improvements.

[1] As discussed further below, the Office of Public Finance expects the bond par amount to be $173 million rather than $200 million based on market conditions. According to the September 21, 2018 memorandum from the Office of Public Finance to the Board of Supervisors, a bond par amount of $173 million would reduce project funds from $178.8 million (shown in the table above) to $154.4 million.

Streetscape Improvement Projects and Budgets

Project Description	FY 2019-20	FY 2020-21	Total
Improvements on Howard St between 3rd St and Embarcadero, including pedestrian signal at under ramp park; reconfigure Steuart St from one-way to two-way between Howard St and Mission St with mid-block pedestrian signal	$13,135,276	$8,231,173	$21,366,448
Beale St loading improvements for Casual Carpool dropoff between Clementina St and Howard St	2,482,125		2,482,125
Beale St sidewalk, bicycle facility, and loading improvements between Market St and Mission St	3,723,188		3,723,188
Install pedestrian crossing signal on Beale St at Clementina St	672,000		672,000
Improve pedestrian connection between MoMA and Transit Center on Natoma St	262,500		262,500
Install striped bike lane on Main Street and pedestrian crossing at Clementina St on Main Street	525,000		525,000
Total	$20,800,088	$8,231,173	$29,031,261

According to Mr. Devin Macaulay, Budget Manager at Public Works, funding for the streetscape improvements would remain on Controller's Reserve until cash for the projects is needed in FY 2019-20 and FY 2020-21, at which time the bonds would be sold.

According to Ms. Jamie Querubin, Deputy Director of the Controller's Office of Public Finance, actual bond proceeds will depend on market conditions at time of the bond sales. Although the Office of Public Finance anticipates selling approximately $173 million in bonds based on current market conditions, the requested appropriation of not-to-exceed $200 million exceeds this amount to provide flexibility should market conditions be more favorable at the time of sale. Conditions that could result in a change in the anticipated project fund and/or par amount above the estimated $173 million include: (1) bonds issued on a federally tax-exempt basis; (2) bonds issued with a debt service reserve fund surety policy or smaller cash reserve fund; (3) fluctuations in market interest rates between the date of authorization by the Board of Supervisors and the sale of the bonds; (4) changes in required deposits for capitalized interest; and (5) changes in estimated delivery date expenses.

Based on current market conditions, the Office of Public Finance estimates average annual debt service of approximately $10.7 million, based on a 30-year term and an overall borrowing cost of 4.27 percent for the issuance of federally taxable bonds. The anticipated total par amount of $173 million is estimated to result in $153 million in interest payments and total debt service of approximately $328.5 million over the life of the bonds.

RECOMMENDATION

Approve the proposed ordinance.

Item 4 **File 18-0886**	**Department:** Emergency Management Recreation and Park

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed legislation (1) amends Ordinance Number 171-00 to transfer Margaret S. Hayward playground property, directly adjacent to the existing Combined Emergency Communications Center at 1011 Turk Street, from the Recreation and Park Department to the Department of Emergency Management; (2) restores to the Recreation and Park Department select subsurface real property to the east of the Combined Emergency Communications Center that was previously allocated to Emergency Management; (3) affirms the Planning Department's determination under the California Environmental Quality Act (CEQA); and (4) finds that the amendment is consistent with the General Plan and the eight priority policies of Planning Code, Section 101.1.

Key Points

- The City's 911 Call Center and Department of Emergency Management offices are located at 1011 Turk Street, which occupies part of the six-acre Margaret S. Hayward Park. Two projects are proposed on the Hayward park site: (1) renovation of Hayward playground and other recreational facilities, beginning in 2018; and (2) future construction of new Emergency Management facilities as a Combined Emergency Communication Center.
- The proposed ordinance transfers 9,813 square feet of park space currently used for tennis courts to Emergency Management to construct the new Combined Emergency Communications Center. Construction of the new Combined Emergency Communications Center is part of the City's Ten-Year Capital Plan, but requires future voter approval of Earthquake Safety and Emergency Response General Obligation Bonds in 2020.

Fiscal Impact

- No appraisal has been conducted to calculate the value of the 9,813 square feet to be transferred from Recreation and Park to Emergency Management. Under the proposed ordinance, Emergency Management would be required to compensate Recreation and Park by either providing (1) a site in the Western Addition to be used by Recreation and Park as tennis courts for 50 years, including sufficient funds to develop the tennis courts, or (2) $3 million (compounded by 5 percent per year) for Recreation and Park to acquire a site in the Western Addition neighborhood for use as tennis courts.

Recommendation

- Because the Board of Supervisors has not yet approved submitting a proposition to voters to authorize the issuance of general obligation bonds to fund development of the new Combined Emergency Call Center, the Budget and Legislative Analyst considers approval of the proposed ordinance to be a policy matter for the Board of Supervisors.

MANDATE STATEMENT

Administrative Code Section 23.3 requires Board of Supervisors approval for the sale or conveyance of City-owned property.

BACKGROUND

Margaret S. Hayward Playground is an approximately six-acre park bordered by Golden Gate Avenue, Gough Street, Turk Street, and Laguna Street. The park currently includes a children's playground, two recreation clubhouse buildings leased to the YMCA, a temporary building previously occupied by the Western Addition Computer Technology Center, two sport courts, a multi-use field, two tennis courts, the James P Lang's two softball diamonds, and a field house/bleacher structure. The City's 911 Call Center and Emergency Operations Center (also called the "Combined Emergency Communications Center") operated by the Department of Emergency Management (Emergency Management) at 1011 Turk Street are located within the six-acre park.

The City Charter restricts transfer of Recreation and Park property for other uses without voter approval. However, real property in the Hayward Playground has been set aside by ordinance for the construction and operation of a central fire alarm station since 1914. In July 2000 the Board of supervisors set aside additional real property in the Hayward Playground for Emergency Management to construct and operate a Combined Emergency Communications Center (CECC), which currently acts as the agency's headquarters (Ordinance 171-00). The 2000 ordinance also states that an approximately 14,650 square foot area would eventually transfer to the Recreation and Park Department but that Emergency Management would retain the right to use approximately 11,740 square feet of subsurface space below it.

DETAILS OF PROPOSED LEGISLATION

The proposed legislation (1) amends Ordinance Number 171-00 to transfer Margaret S. Hayward playground property, directly adjacent to the existing Combined Emergency Communications Center at 1011 Turk Street, from the Recreation and Park Department to the Department of Emergency Management; (2) restores to the Recreation and Park Department select subsurface real property to the east of the Combined Emergency Communications Center that was previously allocated to Emergency Management; (3) affirms the Planning Department's determination under the California Environmental Quality Act (CEQA); and (4) finds that the amendment is consistent with the General Plan and the eight priority policies of Planning Code, Section 101.1.

The proposed legislation addresses a property transfer in support of two proposed projects:

Department of Emergency Management Headquarters Expansion

Preliminary planning is underway for a proposed addition to Emergency Management headquarters. Emergency Management considers the current space to be inadequate for the City's monitoring systems, increasing dispatcher staffing levels, and the need for a modified parking solution. The proposed project would construct a two-floor below-grade parking structure and 12,000 square feet of office space at an estimated cost of $29 million. The planned source of funds for the expansion is the 2020 Earthquake Safety and Emergency Response General Obligation Bond, subject to future voter approval. This project was included as an enhancement project in the Public Safety service area of the City's Ten Year Capital Plan.

Recreation and Park Department Playground Renovation

The Margaret Hayward Playground is slated for renovation scheduled to begin in the fall of 2018. The playground is a named bond project in the 2012 Clean and Safe Neighborhood Parks Bond. The Margaret Hayward Playground Renovation was designed in coordination with Emergency Management's plans for their site. The project received Categorical Exemption from CEQA in August of 2017. In February of 2018 the Commission approved proposed design improvements to the Hayward Playground. The contract to renovate the Hayward Playground was competitively bid in June of 2018 and the recommendation for award of construction contract was made to the Commission on September 20, 2018. The contract assumes the property in question is transferred.

Figure 1. Site Map

The proposed modification to the property will:

a) restore to the Recreation and Park Department portions of the subsurface area that Emergency Management no longer needs while allowing the Combined Emergency Communications Center to maintain a security perimeter, and

b) transfer property currently occupied by two tennis courts adjacent to and west of the Combined Emergency Communications Center from the Recreation and Park Department to Emergency Management.

In July of 2017 the Recreation and Park Commission recommended that the Board of Supervisors adopt an ordinance setting aside real property in Hayward Playground for an expansion of the Department of Emergency Management's Combined Emergency Communications Center. The proposed ordinance accounts for two phases of modifications:

Phase I modifies the lot line for the renovation of Margaret S. Hayward Playground and accommodates Emergency Management's need for a security buffer not originally required when their building was constructed. With phase I, all necessary lot line modifications for both the playground renovation and the planned Emergency Management expansion are in place.

Phase II anticipates the conditional allocation of the site occupied by the tennis courts to Emergency Management in order to accommodate Emergency Management's proposed expansion. As noted above, the Emergency Management expansion project is considered an "enhancement project" in the City's Ten Year Capital Plan, but is dependent on financing to be secured through the Earthquake Safety and Emergency Response General Obligation Bond, which must be placed on the ballot and approved by voters.

The proposed transfer of real property is subject to the City making a finding by resolution adopted no later than June 30, 2028 that the following conditions of transfer were satisfied by December 31, 2027:

1. Emergency Management has secured sufficient funding to pay for the planning, design, and construction of the proposed new building; and
2. Emergency Management will provide the Recreation and Park Department with either of the following as replacement for the two tennis courts: a) a department-approved site serving the Western Addition or b) in-lieu contribution of $3 million.

Figure 2. Current Allocation of Hayward Park Property to Emergency Management and Recreation and Park

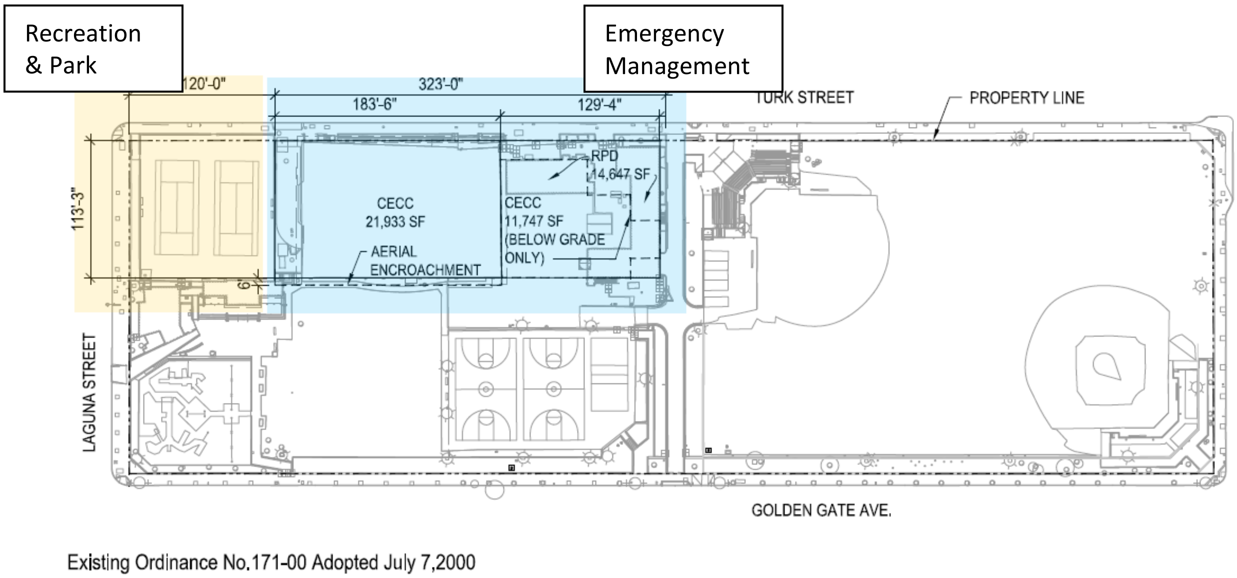

Figure 3. Proposed Transfer of Hayward Park Property between Emergency Management and Recreation and Park

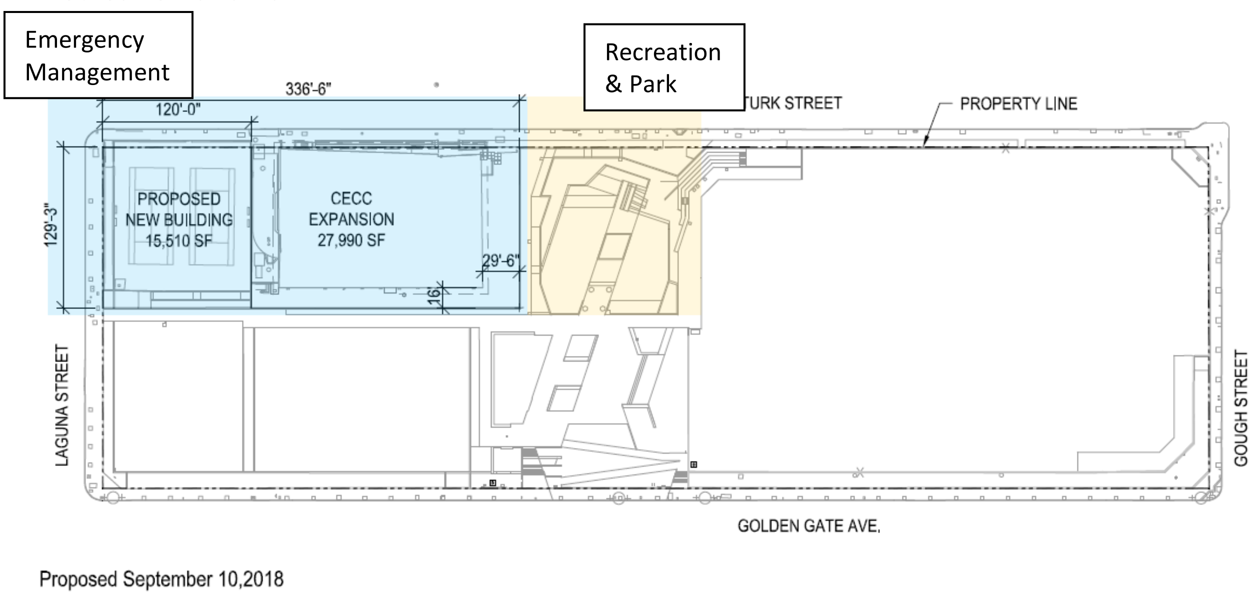

Figure 4. Proposed Property Transfer in Square Feet

	Total change to Emergency Management (sq. ft.)	Total change to Recreation and Park (sq. ft.)
Difference from existing (phase 1)	(5,697)	5,697
Conditional transfer (phase 2)	15,510	(15,510)
Net total	**9,813**	**(9,813)**

FISCAL IMPACT

Under the proposed transfer of property, the Recreation and Park Department would give up 9,813 square feet and Emergency Management would gain 9,813 square feet. According to Ms. Sarah Madland, Director of Policy and Public Affairs for the Recreation and Park Department, no appraisal has been conducted so the value of the 9,813 to be transferred from Recreation and Park to Emergency Management has not been calculated.

Under the proposed ordinance, Emergency Management would be required to compensate Recreation and Park for transferring the property currently used by two Recreation and Park Department tennis courts by either providing (1) a site in the Western Addition to be used by Recreation and Park as tennis courts for 50 years, including sufficient funds to develop the tennis courts, or (2) $3 million (compounded by 5 percent per year) for Recreation and Park to acquire a site in the Western Addition neighborhood for use as tennis courts.

POLICY CONSIDERATION

The proposed ordinance states that:

> "It is the policy of the Board of Supervisors that no property substantially beyond the footprints described above be set aside within the Hayward Playground for emergency center uses and urges the City Administrator not to consider additional land within the Hayward Playground for such uses, except for boundary adjustments or other reservations of subsurface or below-grade space that may be necessary for the design, construction, or operation of the Combined Emergency Call Center and/or proposed new building, and that do not significantly interfere with the recreational purposes of the surrounding lands."

As noted above, the proposed ordinance would transfer 9,813 square feet of Recreation and Park Department property to Emergency Management for construction of a new Combined Emergency Communications Center. Construction of the new Combined Emergency Communications Center is in the City's Ten Year Capital Plan to be funded by the issuance of Earthquake Safety and Emergency Response General Obligation Bonds in 2020, subject to future Board of Supervisors and voter approval. Because the Board of Supervisors has not yet approved submitting a proposition to voters to authorize the issuance of general obligation bonds to fund development of the new Combined Emergency Call Center, the Budget and Legislative Analyst considers approval of the proposed ordinance to be a policy matter for the Board of Supervisors.

RECOMMENDATION

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

Item 5 File 18-0928	Department: Department of Public Health (DPH) Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a four year extension of a lease between Department of Public Health (DPH), as tenant, and AIM TWO, as landlord, for office and parking space at 755 and 759 South Van Ness Avenue. The lease will commence upon approval by the Board of Supervisors and Mayor and continue through approximately October 2022.

Key Points

- DPH has occupied the space at 755 and 759 South Van Ness Avenue since 1981, and currently operates its Transitional Aged Youth (TAY) Program, HIV Mental Health Case Management Program, and the Mission Family Center (MFC) in the space.
- The existing lease between DPH and AIM TWO was from December 1, 2013 through June 30, 2018, with one four-year option to extend the lease. DPH has continued to occupy the space at the existing rent on a month-to-month basis since expiration of the existing lease on June 30, 2018.

Fiscal Impact

- The existing lease provides for the rent to increase to 95 percent of the fair market rent. To determine the fair market rent the Real Estate Division used the CoStar database to search for Class B office space in the neighborhood surrounding the South Van Ness property. According to the Real Estate Division, first year rent of approximately $3.33 per square foot per month (or nearly $40 per square foot per year) represents 95 percent of fair market rent.
- Total first year rent is $541,258 and estimated utility costs are $20,224, for total first year costs of $561,502, which are included in DPH's FY 2018-19 and FY 2019-20 budgets approved by the Board of Supervisors.
- The lease agreement includes an annual adjustment to the Consumer Price Index (CPI), at be no less than 3 percent and no more than 5 percent of the previous year's rent. The total estimated cost for the rent of the four-year lease extension ranges between $2,264,422 and $2,332,890.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Under Administrative Code Section 23.27, leases with a term of more than one year or rent of more than $5,000 per month, in which the City is the tenant, are subject to the Board of Supervisors approval, by resolution.

BACKGROUND

In 1981, the Board of Supervisors approved an initial one-year lease with four one-year options to extend (Resolution No. 756-81), between the Department of Public Health (DPH), as tenant, and AIM TWO, as landlord, for a 13,545 square foot office space at 755 and 759 South Van Ness Avenue and an adjacent 3,675 square foot parking lot at no further cost, from July 1, 1981 through June 30, 1986. Since 1986, the Board of Supervisors has approved subsequent leases between DPH and AIM TWO at the same locations.

In 2013, the Board of Supervisors approved a new four-year seven-month lease between DPH and AIM TWO at 755 and 759 South Van Ness Avenue. The lease commenced on December 1, 2013 and expired June 30, 2018 and included one four-year option to extend. DPH has continued to occupy the space at the existing rent on a month-to-month basis since expiration of the existing lease on June 30, 2018 paying a monthly rate of $45,037.13 (approximately $3.32 per square foot per month). According to Ms. Sandi Levine, project manager with the Real Estate Division, the proposed lease extension was not submitted to the Board of Supervisors prior to the end date of the existing lease due to staff turnover and administrative delays[1].

Under the existing lease, DPH provides Community Behavior Health Service programs that include clinical mental health services and operations of the Transitional Aged Youth (TAY) Program[2] and HIV Mental Health Case Management Program[3] in the space at 755 South Van Ness Avenue and operations of the Mission Family Center (MFC)[4] at 759 South Van Ness Avenue.

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[1] According to Ms. Levine, although the existing lease has a holdover provision to increase the rent to 110 percent of the rent at the end of the lease, the landlord did not increase the rent.

[2] The Transitional Aged Youth (TAY) Program at 755 and 759 South Van Ness serves San Francisco youth aged sixteen through twenty-five (16 – 25) who are dealing with gender issues, i.e., gender non-conforming, transgender, and gender variant. Services provided are: individual psychotherapy, clinical case management with wrap around services and housing, group therapy, and psychiatric medication evaluation and monitoring.

[3] The HIV Mental Health Case Management Program provides individual psychotherapy, clinical case management and group therapy and psychiatric medication and monitoring for individuals with HIV-related mental health issues.

[4] The Mission Family Center (MFC) is an adolescent and children's counseling center and serves clients up to 18 years old. Services provided are: counseling assessment and evaluation; medication evaluation and management; individual therapy for individual with co-morbidity (mental health and substance abuse); consultation to San Francisco schools; and family therapy.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution exercises the four-year option to extend the lease between DPH and AIM TWO for 755 and 759 South Van Ness Avenue. The lease terms are summarized in Table 1 below.

Table 1: Summary of Proposed Lease Extension at 755 and 759 South Van Ness Avenue

Term	Four years commencing upon approval by the Board of Supervisors and Mayor through approximately October 2022.
Square feet (approximate)	13,545 office space 3,675 adjacent parking lot at no additional cost
Rent per square foot per month Total rent per month Total annual rent	Approximately $3.33 per square foot $45,104.85 $541,259.2
Parking	Includes adjacent parking lot at no further cost
Annual rent increases	Annual adjustment to Consumer Price Index (CPI), but no less than 3% and more than 5% of the previous year.
Utilities and services	City pays all utilities. The lease includes janitorial services paid by the landlord
Options to further extend	None

The leased space would continue to be used to provide space for clinical mental health services and operations of DPH's Transitional Aged Youth (TAY) Program, HIV Mental Health Case Management Program, and the Mission Family Center (MFC).

FISCAL IMPACT

The existing lease provides for the rent to increase to 95 percent of the fair market rent. According to Ms. Levine, to determine the fair market rent the Real Estate Division used the CoStar database to search for Class B office space in the neighborhood surrounding the South Van Ness property.[5] The fair market value for the property was the average of these office spaces.

As shown in Table 2 below, the first year total rent and utility expenses are expected to total $561,502. Total General Fund monies of $541,258 for rent and $20,244 for utilities are included in DPH's FY 2018-19 and FY 2019-20 budgets, as previously approved by the Board of Supervisors.

[5] The fair market value for Class B and C office space within the Mission District was $65 per square foot per year at the high end and $25.99 per square foot per year at the low end. The agreed upon fair market value for properties in the area was $42 per square foot per year.

Table 2: Total First Year Costs for the Proposed Lease at 755 and 759 South Van Ness Avenue

Rent ($3.33 per square foot per month or $45,105 total)	$ 541,258
Utilities – Estimated[6]	20,244
Total First Year Costs	$ 561,502

Under the terms of the existing lease, the rent increases annually by the Consumer Price Index (CPI), at be no less than 3 percent and more than 5 percent of the previous year's rent. As shown in Table 3 below, the total estimated cost for the rent of the proposed new lease ranges between $2,264,422 and $2,332,890.

Table 3: Estimated Range of Total Rent for the Proposed DPH Lease for Four Years

Lease Year	Minimum Monthly Rent (3% increase)	Minimum Annual Rent (3% increase)	Maximum Monthly Rent (5% increase)	Maximum Annual Rent (5% increase)
1	$ 45,105	$541,258	$ 45,105	$541,258
2	46,458	557,496	47,360	568,321
3	47,852	574,221	49,728	596,737
4	49,287	591,447	52,215	626,574
Total		**$2,264,422**		**$2,332,890**

RECOMMENDATION

Approve the proposed resolution

[6] Estimated annual utility costs include $14,200 for PUC power and gas, $1,464 for water, and $4,560 for waste management; Estimate is based on projections using actual spending to date and prior years. Utilities costs are expected to increase annually with inflation.

Items 7, 8, and 9 Files 18-0823, 18-0824, 18-0825	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions approve leases between the Airport as landlord and three tenants: (1) New Zoom, LLC, as tenant, as an automated retail across for a term of five years and an initial Minimum Annual Guaranteed (MAG) of $150,000 (File 18-0823); (2) XpresSpa SF International, LLC, as a wellness center concession for a term of seven years and an initial MAG of $145,000 (File 18-0824); and (3) Alclear, LCC, as an expedited traveler service for a term of five years and an initial MAG of $1,500,000 (File 18-0825).

Key Points

- In January and March 2018, the Airport Commission authorized San Francisco International Airport (Airport) staff to issue Requests for Proposals (RFPs) for the following three specialized leases: (i) automated retail (specialized vending machines) to be located at 12 to 14 locations in the Airport terminals; (ii) wellness center to be located in Terminal 2, Boarding Area D; and (iii) expedited traveler services to facilitate express access to security checkpoints.
- Between late April and early May, the Airport received five proposals for the three leases. Separate three-member panels reviewed the proposals for each RFP and determined the highest ranking responsive and responsible proposer for each lease. The Airport only received one proposal for expedited traveler services, because Alcear, LLC is the only company that provides passengers expedited access through security checkpoints.
- The proposed leases with New Zoom and Alclear are for initial five-year terms with two one-year options to extend each lease for total lease terms of seven years. The proposed lease for XpresSpa has an initial term of seven years in order for XpresSpa to amortize investments in tenant improvements, with no options to extend.

Fiscal Impact

- Under the proposed leases, the Airport would receive the greater of the MAG or percentage rent based on gross revenues.
- Between the three leases, the Airport would receive $1,795,000 in MAG rent the first year, and at least $9,265,000 in MAG rent over the initial terms of the leases. If the two one-year options are exercised for the New Zoom, LLC and Alclear, LLC leases, the Airport would receive at least $3,300,000 in additional MAG rent, for a total of $12,565,000.
- The Airport expects to receive percentage rent, which would exceed the MAG.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of City property with anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In January and March 2018, the Airport Commission authorized San Francisco International Airport (Airport) staff to issue Requests for Proposals (RFPs) for the following three specialized leases: (i) 12 initial locations[1] across all terminals for automated retail[2]; (ii) approximately 1,009 square feet of space in Terminal 2 Boarding Area D for a wellness center; and (iii) a total of approximately 2,263 square feet of space in Terminals 1-3 and International Terminal A, G for expedited traveler services to facilitate express access to security checkpoints. According to Mr. John Reeb, Senior Principal Property Manager, the Airport proposed the specialized leases to meet diverse passenger demand. Between late April and early May, the Airport received five proposals for the three leases. Separate three-member panels reviewed the proposals for each RFP and determined the highest ranking responsive and responsible proposer for each lease. The proposals and scores are shown on Table 1 below.

Table 1: Proposals and Scores for RFPs

Proposer	Concept Name	Score
Automated Retail Lease (File 18-0823)		
New Zoom, LLC	Best Buy Express, Benefit, Uniqlo, Skyroam, Sugarfina and CVS	93.75
Prepango	Shop All: SIM, Shop All: Sound & Mobility, Pharmabox	89.33
Wellness Center Concession Lease (File 18-0824)		
XpresSpa SF International, LLC	XpresSpa	80.20
SPA Bar SFO, LLC	Be Relax	77.53
Expedited Traveler Service Lease (File 18-0825)		
Alclear, LLC	Clear	NA

According to Mr. Reeb, the Airport only received one proposal for expedited traveler services, because Alcear, LLC is the only company that provides passengers expedited access through security checkpoints[3]. The Airport did not directly negotiate the lease terms with AlClear, LLC, but rather published the request for proposals with previously established terms. AlClear, LLC has had a lease with the Airport to provide expedited traveler services since 2012.

[1] Following the opening of Terminal 1, the premises will be expanded to include two additional locations.
[2] Automated retail are specialty vending machines that offer products such as apparel, electronics, cosmetics, and other non-consumable retail products.
[3] Alclear, LLC owns and operates CLEAR, a biometric secure identify platform that stores individuals' personal information and inks it to biometric data, allowing them to bypass the travel document checker at security checkpoints by using fingerprint and/or iris identification.

In May and June 2018, the Airport Commission approved leases with (1) New Zoom, LLC, (New Zoom) (2) XpresSpa SF International, LLC, (XpresSpa) and (3) Alclear, LLC (Alclear).

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions approve leases between the Airport as landlord and:

(i) New Zoom, LLC, as tenant, as an automated retail across all terminals for a term of five years and an initial Minimum Annual Guaranteed (MAG) of $150,000 (File 18-0823); and

(ii) XpresSpa SF International, LLC, as a wellness center concession in Terminal 2 Boarding Area D for a term of seven years and an initial MAG of $145,000 (File 18-0824); and

(iii) Alclear, LCC, as an expedited traveler service in Terminals 1-3 and International Terminal A, G for a term of five years and an initial MAG of $1,500,000 (File 18-0825) as tenants.

The Airport would have two (2) one-year options to extend the New Zoom and Alclear lease, allowing for a maximum time for all three leases of seven years total. XpresSpa has an initial lease of seven years with no options to extend. According to Mr. Reeb, XpresSpa has a longer initial lease as the location will require sizeable investment by the tenant.

The tenants would each pay the greater of the MAG or percentage rent based on total revenues. The MAG would be adjusted annually based on the Consumer Price Index (CPI), but would not be less than the prior year MAG amount.

All of the terms and rents will commence after the completion of the development term, which commences on the date the Airport Director gives notice to the tenant that the first facility is ready and ends after the last facility is delivered to the tenant by the Airport.

Table 2: Key Provisions of Proposed Leases

Tenant	New Zoom, LLC (File 18-0823)	XpresSpa (File 18-0824)	Alclear, LLC (File 18-0825)
Term	Five years	Seven years	Five years
Options to Extend	Two one-year options for Airport to extend	None	Two one-year options for Airport to extend
MAG Rent	$150,000*	$145,000	$1,500,000
MAG Adjustment	Annually based on CPI	Annually based on CPI	Annually based on CPI
Percentage Rent of Gross Revenues	12% up to $500,000 14% above $500,000	12% for service 14% for retail merchandise	12.5% gross revenues
Interim Rent During Construction	None	16% of gross revenues	None
Pest Control Service Fee	None	None	$75 per month
Square Footage	Between 96 and 140 square feet**	Approximately 1,009 square feet of space Terminal 2 Boarding Area D	Approximately 2,263 square feet of space in Terminals 1-3 and International Terminal A, G
Promotional Fee	None	$1 per square foot per year	$1 per square foot per year
Utilities	Tenant must pay all costs	Tenant must pay all costs	Tenant must pay all costs
Deposit Amount	Equal to ½ of the initial MAG (subject to mid-term adjustment)	Equal to ½ of the initial MAG (subject to mid-term adjustment)	Equal to ½ of the initial MAG (subject to mid-term adjustment)
Minimum Investment Amount	At tenant's sole cost, shall purchase and install appropriate automated retail units, subject to review and approval of the Airport.	$700 per square foot ($706,300 total)	Amount sufficient to conform to Airport's design, subject to review and approval of the Airport.

*Following completion of Terminal 1, the MAG will increase by 1/12, or 8.3%

** Each unit takes up approximately 8-10 square feet of space. New Zoom will start with 12 units and increase to 14.

FISCAL IMPACT

Under the proposed leases, the Airport would receive the greater of the MAG or percentage rent based on gross revenues. The MAG would be adjusted annually based on the CPI, but it would never decrease from the previous year. Between the three leases, the Airport would receive $1,795,000 in MAG rent the first year, and at least $9,265,000 in MAG rent over the initial terms of the leases. If the two one-year options are exercised for the New Zoom, LLC and Alclear, LLC leases, the Airport would receive at least $3,300,000 in additional MAG rent, for a total of $12,565,000. According to Mr. Reeb, the Airport expects to receive percentage rent, which would exceed the MAG. The breakdown of MAG rent received by the Airport, without CPI adjustment, is shown in Table 3 below.

Table 3: MAG Rent Collected Under Proposed Leases, Without CPI Adjustment

File Number	Tenant	Initial MAG	MAG over Initial Term	MAG over Option Years	Total
18-0823	New Zoom, LLC	$150,000	$750,000	$300,000	$1,050,000
18-0824	XpresSpa	145,000	1,015,000	-	1,015,000
18-0825	Alclear, LLC	1,500,000	7,500,000	3,000,000	10,500,000
Total		**$1,795,000**	**$9,265,000**	**$3,300,000**	**$12,565,000**

RECOMMENDATION

Approve the proposed resolutions.