

File No. 170471

Committee Item No. 14  
Board Item No. \_\_\_\_\_

**COMMITTEE/BOARD OF SUPERVISORS**  
AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Sub-Committee Date May 18, 2017

Board of Supervisors Meeting Date \_\_\_\_\_

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**OTHER (Use back side if additional space is needed)**

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Completed by: Linda Wong Date May 12, 2017  
Completed by: Linda Wong Date \_\_\_\_\_

1 [Conditional Purchase Agreement - City Office Project - 1500 Mission Street]

2  
3 **Resolution ratifying the Conditional Purchase Agreement for the City's Acquisition of**  
4 **an Office Project at 1500 Mission Street and authorizing the Director of Property and**  
5 **City staff to proceed with the Proposed Office Project; confirming the City's**  
6 **authorization to issue commercial paper and/or certificates of participation to pay for**  
7 **the land acquisition and complete the Proposed Office Project; adopting environmental**  
8 **findings under the California Environmental Quality Act; and making findings of**  
9 **consistency the General Plan, and with the eight priority policies of Planning Code,**  
10 **Section 101.1.**

11  
12 WHEREAS, On December 9, 2014, the Board of Supervisors adopted Ordinance  
13 No. 254-14 approving a conditional purchase agreement (the "Conditional Purchase  
14 Agreement") with Goodwill SF Urban Development, LLC, a Delaware limited liability company  
15 ("Developer") for the planning and potential purchase of real property at 1500 Mission Street,  
16 located at the corner of South Van Ness Avenue and Mission Street (Assessor's Block Parcel  
17 No. 3506, Lot Nos. 2 and 3) (the "Property") and, if purchased, the development of a City  
18 office building on the Property (the "Proposed Office Project"); and

19 WHEREAS, At the time the City approved the Conditional Purchase Agreement, the  
20 City had not yet completed environmental review under the California Environmental Quality  
21 Act ("CEQA") (California Public Resources, Code Sections 21000 et seq.), the CEQA  
22 Guidelines (California Code of Regulations, Title 14, Sections 15000 et seq.), and Chapter 31  
23 of the San Francisco Administrative Code (hereinafter referred to as "Environmental Review")  
24 for the Proposed Office Project; and

1           WHEREAS, Under the Conditional Purchase Agreement, City was required to  
2 complete Environmental Review of the Proposed Office Project and Developer was required  
3 to seek numerous project entitlements for the Proposed Office Project; and

4           WHEREAS, Nothing in the Conditional Purchase Agreement required the City's  
5 Planning Commission or Board of Supervisors to grant any entitlement or approve the  
6 Proposed Office Project, and the City would not consider any such entitlements until the City  
7 completed Environmental Review in accordance with applicable law; and

8           WHEREAS, As set forth in Ordinance No. 254-14, upon the City's completion of  
9 Environmental Review, the City's Director of Property and Developer committed to seek  
10 certification of the adequacy of the Environmental Review documents and approval of the  
11 proposed entitlements for the Proposed Office Project, and the Board of Supervisors, at the  
12 same meeting, were to take action, by resolution, to either (i) ratify the Conditional Purchase  
13 Agreement and proceed with the City's acquisition of the Office Parcel and Developer's  
14 completion of the Proposed Office Project for the City or (ii) reject the Conditional Purchase  
15 Agreement and not to proceed with the City's acquisition of the Office Parcel solely on the  
16 basis of the environmental impacts of the Proposed Office Project disclosed in the  
17 Environmental Review documents that have not been adequately avoided, mitigated, or  
18 overridden under CEQA; and

19           WHEREAS, As set forth in Ordinance No. 254-14 and in the Conditional Purchase  
20 Agreement, the Director of Property and Director of Public Finance were also required to  
21 seek, at the same meeting, Board of Supervisors' authorization for the City's issuance of  
22 certificates of participation or other debt in an amount needed to pay for the land acquisition  
23 and complete the Proposed Office Project; and

24           WHEREAS, On March 21, 2017, the Board of Supervisors approved the sale and  
25 leaseback of City-owned properties at 1660-1680 Mission Street (Resolution No. 94-17; Clerk

1 of the Board of Supervisors File No. 170213) and 30 Van Ness Avenue (Resolution No. 95-  
2 17; Clerk of the Board of Supervisors File No. 170214) (collectively, the "City Property Sales");  
3 and

4 WHEREAS, On or before the date of this Resolution, the Board is considering separate  
5 legislation (Clerk of the Board of Supervisors File No. 170408) to allocate the proceeds from  
6 the City Property Sales to pay part of the cost of the Proposed Office Project, and to authorize  
7 the issuance of commercial paper and/or certificates of participation to pay for the remainder  
8 of the cost (the "Appropriations Ordinance"); and

9 WHEREAS, The Planning Department prepared a Final Environmental Impact Report  
10 for the Proposed Office Building; and

11 WHEREAS, On March 23, 2017, the Planning Commission reviewed and considered  
12 the Final Environmental Impact Report and certified that the contents of said report and the  
13 procedures through which the report was prepared, publicized, and reviewed comply with the  
14 provisions of CEQA, the CEQA Guidelines, and Chapter 31 of the Administrative Code  
15 (Motion No. 19883); and

16 WHEREAS, This Resolution is related to companion legislation that amends two  
17 General Plan height maps for the Proposed Office Project at 1500 Mission Street (Assessor's  
18 Block Parcel No. 3506, Lot Nos. 006 and 007); and

19 WHEREAS, The companion legislation that amends the General Plan is on file with the  
20 Clerk of the Board of Supervisors in File No. 170408 and incorporated herein by reference;  
21 and

22 WHEREAS, The legislation that amends the General Plan provides a description of the  
23 Proposed Office Project and adopts CEQA findings and findings that the Proposed Office  
24 Project is consistent, on balance, with the General Plan, and the eight priority policies of  
25 Planning Code, Section 101.1; now, therefore, be it

1 RESOLVED, That the Board of Supervisors adopts the CEQA findings and the General  
2 Plan and Planning Code Section 101.1 findings from the General Plan amendment legislation  
3 and incorporates such findings in this Resolution; and, be it

4 RESOLVED, As set forth in Ordinance No. 254-14, the Board of Supervisors ratifies  
5 the Conditional Purchase Agreement and removes the CEQA Contingency on the basis that  
6 the environmental impacts of the Proposed Office Project disclosed in the Final Environmental  
7 Impact Report Review documents have been adequately avoided, mitigated, or overridden  
8 under CEQA and authorizes the Director of Property and City staff to proceed with the City's  
9 acquisition of 1500 Mission Street and completion of the Proposed Office Project in  
10 accordance with the terms of the Conditional Purchase Agreement; and, be it

11 FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of  
12 Property and other City staff to take such actions as are necessary to effectuate the purpose  
13 and intent of this Resolution and to perform the City's obligations under the Conditional  
14 Purchase Agreement to complete the Proposed Office Project, including the execution and  
15 delivery of the reciprocal easement agreement and other closing documents, and to grant or  
16 accept easements and accept permit conditions required to fulfill code-requirements; and, be  
17 it

18 FURTHER RESOLVED, As set forth in the Appropriations Ordinance, the Board of  
19 Supervisors confirms the City's authorization to issue commercial paper and/or certificates of  
20 participation to pay for the land acquisition and complete the Proposed Office Project.

21 RECOMMENDED:

22  
23   
24 Naomi Kelly, City Administrator

  
25 John Updike, Director of Property

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<p><b>Items 12, 13 and 14</b>  <b>Files 17-0468, 17-0464 and 17-0471</b></p>	<p><b>Departments:</b>                  Controller, Office of Public Finance                  Real Estate Division                  Public Works</p>
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**EXECUTIVE SUMMARY**

**Legislative Objectives**

- **File 17-0468:** The proposed ordinance would authorize the execution and delivery of Certificates of Participation (COPs) on a tax-exempt or taxable basis for a not to exceed \$321,765,000 to fund a portion of the development costs, including construction, improvement and related furniture, fixture and equipment (FF&E), technology and moving costs for the 1500 Mission Street office building; authorize issuance of commercial paper notes in advance of the delivery of the COPs; authorize selection of Trustee by Director of Public Finance; approve the form and execution of all required documents including the Trust Agreement, Property Lease, Lease Agreement, Purchase Contract, Official Notice of Sale and Notice of Intention to Sell COPs, Preliminary Official Statement, Official Statement and Continuing Disclosure Certificate; approve and ratify actions and modifications by City officials to sell the COPs; and declare City’s intent to reimburse expenditures.
- **File 17-0464:** Supplemental appropriation ordinance for \$321,765,000 of proceeds from COPs to fund the development costs of the 1500 Mission Street office building and related furniture, fixture or other equipment, technology and moving costs and placing the total \$321,765,000 of proceeds on Controller’s Reserve pending the sale of the COPs.
- **File 17-0471:** Resolution ratifying the Conditional Purchase Agreement for the City’s Acquisition of an office project at 1500 Mission Street and authorizing the Director of Property and City staff to proceed with the proposed office project; confirming the City’s authorization to issue commercial paper and/or certificates of participation to pay for the land acquisition and complete the proposed office project; adopting environmental findings under the California Environmental Quality Act (CEQA); and making findings of consistency with the General Plan and with the eight priority policies of Planning Code Section 101.1.

**Key Points**

- On December 9, 2014, the Board of Supervisors approved a Conditional Land Disposition and Acquisition Agreement with Related to develop a City-owned office building at 1500 Mission Street, subject to environmental approval. The City intended to sell three City-owned buildings and finance the balance of the costs to construct the new City office building with commercial paper and Certificates of Participation (COPs).
- On March 21, 2017, the Board of Supervisors approved the sale of three City-owned properties at (a) 1660 and 1680 Mission Street for \$52,000,000 and (b) 30 Van Ness for \$70,000,000 for total sales proceeds of \$122,000,000. Escrow has now closed on these properties. As the costs were lower than projected the City actually received net proceeds of \$97,069,836 from these sales, instead of \$93,935,000, an increase of \$3,134,836.

- On March 23, 2017, the Planning Commission approved actions, which are subject to Board of Supervisors final approval for a new City office building at 1500 Mission Street.

#### **Fiscal Impact**

- The City would pay Related, the developer, \$56,180,772 under the previously approved Conditional Purchase and Sale Agreement, for the land acquisition and predevelopment costs. The comparable current market value of this acquisition is \$74,000,000 based on an appraisal completed in April 2017 by R. Blum+ Associates for the Real Estate Division, such that the City's cost is 76% of the current market value. The Construction Management Agreement is estimated at \$270,510,181. The total maximum costs for land acquisition, design and construction of the new City office building is \$326,690,953.
- Office of Public Finance is requesting authorization to issue a total not to exceed \$321,765,000 of COPs, including an estimated par amount of \$314,131,000.

#### **Policy Consideration**

- The requested \$29,397,433 for FF&E, technology and moving expenses is \$17,099,033 or 139% more than previously estimated, with no details or bids provided.
- The proposed new office building will create an estimated net increase of 154,760 square feet of new space. With such significant increases in space, the amount of leased space and lease costs in the Civic Center should be reduced, resulting in the termination of existing City leases, as the Board of Supervisors were advised in 2014 when the 1500 Mission Street office building was approved.

#### **Recommendations**

- Amend the proposed ordinance (File 17-0464) to reflect the recommended savings shown in Table 3, based on the proceeds from the sale of the three City buildings resulting in an additional \$3,134,836 for the Project Fund.
- Amend the proposed ordinance (File 17-0464) to place \$28,397,433 of the requested \$29,397,433 on Budget and Finance Committee Reserve for FF&E, technology and moving to allow \$1,000,000 to be released now. The \$28,397,433 on reserve should not be released, pending a report that identifies (a) number of employees and amount of space currently used by each City department, (b) number of employees and amount of space proposed to be used by each City department in the new City building, and (c) existing City leases that will be terminated, existing City leases that will be backfilled or reused, including square footage of leases, rent savings and any additional costs. The City should maximize the leases terminated and City departments and employees relocated into the new City office building, as originally proposed to the Board of Supervisors when this project was approved. To request release of the \$28,397,433 being placed on reserve, Public Works should maximize the City's existing furniture for reuse and moved into the new building and minimize additional City expenses. Details should be provided and bids obtained prior to requesting the release of a reduced amount of funding for this purpose.
- Approve the proposed ordinance (File 17-0464), as amended.
- Approve the proposed ordinance (File 17-0468) and resolution (File 17-0471).

**MANDATE STATEMENT**

City Charter Section 9.118(b) states that any 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 of more than \$500,000 is subject to Board of Supervisors approval.

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding indebtedness does not exceed 3.25% of discretionary revenue as determined by the Controller and Director of Public Finance. Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

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

**BACKGROUND****Development of City Office Building at 1500 Mission Street**

On December 9, 2014, the Board of Supervisors approved a Conditional Land Disposition and Acquisition Agreement (Agreement) with Related California Urban Housing, LLC (Related)<sup>1</sup> to develop a new City-owned office building at 1500 Mission Street, subject to environmental review and approval based on total estimated project costs of \$338,989,353. Related plans to develop this site to include (a) an approximately 463,300 gross square foot 16-story City-owned office building along 11<sup>th</sup> Street and (b) a 39-story, 550 residential unit development with ground floor retail, at Mission Street and South Van Ness Avenue (Ordinance 254-14). To fund the City's new office building project, the City intends to use the proceeds from the sale of three other City-owned buildings and finance the balance with commercial paper and Certificates of Participation (COPs).

On March 21, 2017, the Board of Supervisors approved the sale of three City-owned properties at (a) 1660 and 1680 Mission Street for \$52,000,000 (File 17-0213) and (b) 30 Van Ness for \$70,000,000 (File 17-0214) for total sales proceeds of \$122,000,000. On May 2, 2017, the Board of Supervisors approved a supplemental appropriation of \$122,000,000 from the sale of these three City buildings, as summarized in Table 1 below (File 17-0201; Ordinance No. 094-17).

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<sup>1</sup> Related California Urban Housing LLC created a subsidiary, Goodwill SF Urban Development LLC, to acquire and develop this site.



**Table 1: Previously Approved Supplemental Appropriation**

Sources and Uses	Total
<b>Sources</b>	
Sales proceeds from 30 Van Ness and 1660 and 1680 Mission Street	\$122,000,000
<b>Total Sources</b>	<b>\$122,000,000</b>
<b>Uses</b>	
Sales Commissions and Expenses	1,000,000
Defeasance of Series 2001A and 2007A COPs	27,065,000
Balance to Controller’s Capital Project Fund Account for new Office Building	93,935,000
<b>Total Uses</b>	<b>\$122,000,000</b>

According to Mr. John Updike, Director of Real Estate, escrow closed on the two properties at 1660 and 1680 Mission Street on May 1, 2017 and on 30 Van Ness on May 5, 2017. As the sales commissions and defeasance costs were slightly lower than projected, the City actually received net proceeds of \$97,069,836 from these sales, instead of \$93,935,000, an increase of \$3,134,836.

As part of these sale transactions, the City entered into leases for these three properties which expire on April 30, 2020, with options to extend for two additional one-year terms. The initial termination date of these leases coincides with the anticipated completion of a new City office building at 1500 Mission Street, at which time the employees in these three buildings will relocate to the new City office building at 1500 Mission Street. If the Board of Supervisors does not approve the proposed resolution to develop a new City office building at 1500 Mission Street, the City employees located in these three office buildings will need to be relocated at the end of these leases.

Construction of the 1500 Mission Street City office building is anticipated to begin in October 2017 and extend for two years. The development is anticipated to be substantially complete by November 2019. City staff would then move into this building through the spring of 2020.

**Approval of Planning and Environmental Authorizations**

On March 23, 2017, the Planning Commission

(a) Certified the Final Environmental Impact Report (FEIR) and adopted California Environmental Quality Act (CEQA) findings for the 1500 Mission Street projects;

(b) Recommended a General Plan Amendment to revise the height and bulk limits, allow for additional office use parking and permit office uses above the fourth floor for non-City occupancy for this project;

(c) Recommended a Planning Code Amendment to create the 1500 Mission Street Special Use District to modify the height and bulk limits and related office enhancements while requiring the developer to provide 20% affordable housing units, instead of the required 13.5%;

(d) Adopted Shadow Findings that would not adversely affect public open space; and

(e) Approved a Downtown Project Authorization, which approves the office and residential development projects as proposed, subject to a lengthy list of conditions of approval and the

Board of Supervisors approval of the General Plan Amendment and the Planning Code Amendment.

On May 9, 2017, the Board of Supervisors approved the first reading on two ordinances (Files 17-0408 and 17-0348) to approve the above-noted General Plan Amendments and the Planning Code Amendments, incorporating the CEQA findings, as required for the 1500 Mission Street project.

### **Certificates of Participation**

Certificates of Participation (COPs) are a form of long-term debt which are sold to investors for a portion of the lease revenues from a specific City-owned property, such that the investors “participate” in receiving lease revenues in the form of debt service payments. Although COPs generally have higher interest rates and are therefore more expensive than general obligation bonds, general obligation bonds require San Francisco voters’ approval whereas COPs can be approved by the Board of Supervisors and Mayor. Under the COP structure, the City leases a City-owned property to a trustee in consideration for a one-time lease payment from the trustee to the City that is equal to the proceeds from the issuance of the COPs. The trustee subsequently subleases the same City-owned property back to the City in return for semi-annual rent payments equal to the debt service (including principal and interest) due on the COPs. This lease-sublease structure is known as an asset transfer model. Under this asset transfer model, the City-owned property leased to the trustee serves as collateral to the trustee on the issued COPs. After the COPs are fully repaid by the City, the City-owned property, previously leased to the trustee, reverts back to the City.

## **DETAILS OF PROPOSED LEGISLATION**

**File 17-0468:** The proposed ordinance would

- Authorize the execution and delivery of Certificates of Participation (COPs) on a tax-exempt or taxable basis for a not to exceed \$321,765,000 to fund a portion of the development costs, including construction, improvement and related furniture, fixture and equipment (FF&E), technology infrastructure and moving costs for the 1500 Mission Street office building;
- Authorize the issuance of commercial paper<sup>2</sup> notes in advance of the delivery of the COPs;
- Approve the form of Trust Agreement between the City and County of San Francisco (City) and the Trustee (including certain indemnities contained therein);
- Authorize the selection of the Trustee by Director of Public Finance;

<sup>2</sup> The City’s maximum authorization for commercial paper is \$250 million. Ms. Nadia Sesay, the Director of the Office of Public Finance advises that as of April 2017, \$218 million of the \$250 million is outstanding. However, the pending issuances of COPs for the Moscone Expansion and HopeSF will free up commercial paper capacity.

- Approve the respective forms of a Property Lease and a Lease Agreement, each between the City and the Trustee for the lease and lease back of 1500 Mission Street City property and facilities;
- Approve the forms of Purchase Contract, Official Notice of Sale and Notice of Intention to Sell COPs;
- Direct the publication of the Notice of Intention to Sell COPs;
- Approve the form of the Preliminary Official Statement and the form and execution of the Official Statement relating to the sale of the COPs;
- Approve the form of the Continuing Disclosure Certificate;
- Grant general authority to City officials to take necessary actions in connection with the authorization, execution, sale and delivery of the COPs;
- Approve modifications to documents and agreements;
- Declare the City's intent to reimburse certain expenditures; and
- Ratify previous actions taken in connection therewith.

**File 17-0464:** The proposed ordinance would appropriate \$321,765,000 of proceeds from COPs to fund the development costs of the 1500 Mission Street office building and related furniture, fixture and equipment, technology and moving costs and place the total \$321,765,000 on Controller's Reserve pending the sale of the COPs.

**File 17-0471:** The proposed resolution would

- Ratify the Conditional Purchase Agreement for the City's acquisition of an office project at 1500 Mission Street and authorize the Director of Property and City staff to proceed with the proposed office project.
- Confirm the City's authorization to issue commercial paper and/or Certificates of Participation to pay for the land acquisition and complete the proposed office project.
- Adopt environmental findings under the California Environmental Quality Act (CEQA).
- Make findings of consistency with the City's General Plan and the eight priority policies of Planning Code Section 101.1.

As noted above, on December 9, 2014, the Board of Supervisors approved a Conditional Land Disposition and Acquisition Agreement with Related to develop a new City-owned office building at 1500 Mission Street, subject to final environmental review and final approval by the Board of Supervisors. As discussed above, on May 9, 2017<sup>3</sup>, the Board of Supervisors approved the first readings on Files 17-0408 and 17-0348, related to the General Plan, Planning Code and environmental requirements for the subject project. As provided in the previous Conditional Land Disposition and Acquisition Agreement, the Board of Supervisors must now either

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<sup>3</sup> The second and final approval of these ordinances is scheduled for the May 16, 2017 Board of Supervisors meeting.

(a) Ratify the Conditional Purchase Agreement and proceed with the City’s acquisition of the office parcel and developer’s completion of the proposed office project for the City, or

(b) Reject the Conditional Purchase Agreement and not proceed with the City’s acquisition of the office parcel solely on the basis of the environmental impacts of the proposed office project disclosed in the environmental review documents that have not been adequately mitigated or overridden under CEQA.

The proposed resolution would ratify the Conditional Purchase Agreement and authorize the Director of Property and City staff to proceed with the City’s acquisition of 1500 Mission Street and complete the proposed office project in accordance with the terms of the Conditional Purchase Agreement.

Under the proposed Conditional Purchase Agreement, Related would sell the City the fully-entitled post-CEQA approved property at 1500 Mission Street at a cost of \$32,332,524, including real estate commissions and fees. If the proposed resolution is approved, it is anticipated that the City would acquire this property on approximately July 1, 2017. Concurrent with the acquisition of the property, the City would also be authorized to enter into a Construction Management Agreement with Related to manage and complete the construction of a new City office building on this site.

As shown in Table 2 below, the City would pay Related an estimated \$56,180,772 under the previously approved Conditional Purchase and Sale Agreement, for the land acquisition and predevelopment costs, including environmental documents and approvals. The comparable current market value of this acquisition is \$74,000,000 based on an appraisal completed in April 2017 by R. Blum+ Associates for the Real Estate Division, such that the City’s cost is 76% of the current market value. The estimated costs of the Construction Management Agreement is \$270,510,181, with total maximum costs for the land acquisition, design, development and construction of the new City office building at 1500 Mission Street of \$326,690,953.

**Table 2: Total Cost of 1500 Mission Street Project**

Conditional Purchase and Sale Agreement	\$56,180,772
Construction Management Agreement	<u>270,510,181</u>
<b>Total Project Cost</b>	<b>\$326,690,953</b>

When the City acquires the land and enters into the Construction Management Agreement for \$270,510,181 with Related, Related will enter into a general construction contract, which is structured as a Guaranteed Maximum Price (GMP). Related, as the developer and construction manager, has contracted with Skidmore, Owings and Merrill as the architect and will enter into a GMP with a general contractor when the City acquires the land. If at any point, Related believes the total project cost will exceed \$326,690,953, Related must notify the City to discuss alternatives to design, square footage, finishes or other changes to be made so as not to exceed the \$326,690,953. Under these agreements, Related has no authority to increase the budget beyond \$326,690,953. Construction is anticipated to commence in the fall of 2017 and extend for approximately 26 months or through the end of 2019.

The proposed resolution would also adopt the CEQA findings and General Plan and Planning Code Section 101.1 findings from the General Plan amendment legislation and incorporate such findings in this resolution.

**FISCAL IMPACT**

In 2014, the Board of Supervisors approved nonrefundable payments to Related of \$1,000,000 for land acquisition and \$250,000 for schematic design. If the proposed resolution is approved, the \$1,250,000 will be credited to the City’s development costs. If the proposed resolution is not approved, the \$1,250,000 will not be refunded by Related.

In 2014, the Board of Supervisors also appropriated \$8,072,300 which was set aside to potentially reimburse Related for architecture, engineering, environmental and professional fees and permits costs. In accordance with the agreements, if the Board of Supervisors does not authorize the issuance of the subject COPs or does not approve the Conditional Purchase Agreement with Related, the City would be responsible for up to \$7,072,300 of costs from the \$8,072,300 appropriated funds to Related for reimbursement of their predevelopment and entitlement costs incurred on this project.

**COPs and Supplemental Appropriation of Funds**

Table 3 below identifies the sources and uses for the current supplemental appropriation (File 17-0464) and the proceeds from the sale of the COPs and recommended amendments. These amendments are recommended because as shown beneath Table 1 above, the proceeds from the sale of the three City buildings resulted in an additional \$3,134,836 for the Project Fund. These additional proceeds reduce the required Project Fund Costs as detailed in Table 4 and shown in Table 3 below from \$231,505,953 to \$228,371,117, a savings of \$3,134,836.

**Table 3: Sources and Uses for COPs**

Sources and Uses	Current	Recommended
<b>Sources</b>		
COP Par Amount	\$317,265,000	\$314,131,000
COP Reserve for Market Uncertainty	4,500,000	7,634,000
<b>Total Sources</b>	<b>\$321,765,000</b>	<b>\$321,765,000</b>
<b>Uses</b>		
- Project Fund Costs	\$231,505,953	\$228,371,117
- FF&E, Technology Equipment and Moving Costs	29,397,433	29,397,433
- Controller’s Internal Audit Fund (0.2% of project costs)	<u>653,382</u>	<u>653,382</u>
<b>Total Project Fund Deposits</b>	<b>\$261,556,768</b>	<b>\$257,768,550</b>
- Bond Reserve	21,832,100	21,832,100
- Capitalized Interest and Fees	31,051,471	31,051,471
- Bond Issuance Costs	603,807	604,643
- Underwriter’s Discount Fee	<u>2,220,854</u>	<u>2,220,854</u>
<b>Total COP Delivery Expenses</b>	<b>\$55,708,232</b>	<b>\$55,709,068</b>
- Reserve for Market Uncertainty	4,500,000	7,634,000
<b>Total Uses</b>	<b>\$321,765,000</b>	<b>\$321,765,000</b>

The proposed supplemental appropriation ordinance (File 17-0464) should therefore be amended to reflect the recommended amounts shown in Table 3 above.

### **Sources of Funds**

#### **COP Par Amount**

As shown in Table 3 above, the Office of Public Finance is requesting authorization to issue a total not to exceed \$321,765,000 of COPs, including an estimated par amount of \$314,131,000. To date, the underwriter has not yet been selected. The ordinance (File 17-0468) authorizes the Office of Public Finance to conduct this transaction on a competitive or negotiated basis. The Office of Public Finance anticipates issuing this transaction on a competitive basis. However, Ms. Nadia Sesay, Director of the Office of Public Finance advises that a negotiated sale could occur, if the City's credit rating significantly deteriorates or future market disruptions occur.

According to Ms. Sesay, the City's plan is to finance the initial acquisition and development of the 1500 Mission Street building's expenses from the net sales proceeds from 30 Van Ness and 1660 and 1680 Mission Street, and then to issue commercial paper as interim funding for up to two years, while the project is being constructed, before issuing the COPs. The proposed ordinance (File 17-0468) also authorizes the Office of Public Finance to issue commercial paper to fund the development costs prior to the issuance of the COPs.

Ms. Jamie Querubin in the Controller's Office of Public Finance advises that one issuance of the COPs are anticipated to be sold no earlier than summer 2018 and no later than fall 2019, depending on available commercial paper capacity at a par amount of \$314,131,000. Assuming a 30-year term and an estimated interest rate of 5.5%, the total estimated debt service to the City will be \$660,705,075<sup>4</sup>, which includes \$314,131,000 principal and \$346,574,075 of interest expense. The estimated average annual debt service on the COPs is \$21,044,000, which would be repaid by the City over the 30-year term, subject to Board of Supervisors annual appropriation approval.

To pay the annual debt service, the tenants that occupy the new City office building would be charged commensurate rental fees. Ms. Querubin estimates the cost per square foot will be approximately \$64 in year one, increasing to \$78 per square foot in the last year of the 30-year term, which includes debt service costs plus operating expenses. Although the composition of all the City tenants to occupy the new 1500 Mission Street building has not been determined, most of the City departments that will occupy 1500 Mission Street do not currently receive General Fund support.

Mr. John Updike, Director of Real Estate advises that new Civic Center leases currently range from approximately \$60 to \$65 per year.<sup>5</sup> Mr. Updike further advises that if the City was to lease office space beginning in 2019, the rate would be at least \$60 per square foot per year

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<sup>4</sup> The \$660,705,075 reflects total gross debt service, including capitalized interest, reserve fund for the final debt service payment and ongoing annual costs of administration (i.e., insurance, trustee fees).

<sup>5</sup> Based on CRBE 2016 fourth quarter data reported by Mr. Updike.

and under a conservative annual escalation of 1% per year, the rate per square foot per year after 30 years would be \$80 per square foot. After 30 years, assuming no major tenant improvements, the cost per square foot for the City-owned 1500 Mission Street would decrease after completing all debt service payments.

### **COP Reserve for Market Uncertainty**

As noted above, the Office of Public Finance anticipates one issuance of the estimated par amount of \$314,131,000 of COPs no earlier than summer 2018 and no later than fall 2019, depending on available commercial paper capacity or in approximately 2.5 years. Given that the interest rates at the time of issuance are not currently known, the Office of Public Finance included \$7,634,000 as a COP Reserve due to market uncertainty. Ms. Sesay advises that the typical range for such a COP Reserve is between 1% and 3% of the par amount of the COPs. The \$7,634,000 represents 2.4% of the estimated par amount of \$314,131,000. If a portion of this COP Reserve for Market Uncertainty is not required, these funds will not be expended.

### **Uses of Funds**

#### **Project Fund Costs**

Based on Public Works' total project development costs of \$326,690,953 and Board of Supervisors previous approvals, as shown in Table 4 below, the net Project Fund cost is \$228,371,117 to be financed with the subject COPs.

**Table 4: Net Project Development Costs**

Land Acquisition Costs	\$32,332,524
Financing Costs during Predevelopment	8,904,313
Architectural and Engineering, Professional Fees and Insurance	15,906,196
Construction Costs/ Fees, Permits & Taxes/ Development Management Fees and Return on Equity	269,547,920
<b>Total Project Development Costs</b>	<b>\$326,690,953</b>
FY 2014-15 funds appropriated for land acquisition and design <sup>6</sup>	(\$1,250,000)
<b>Total Appropriation Funds for Project Development</b>	<b>\$325,440,953</b>
<b>Net proceeds from the recent sale of 3 properties</b>	<b>(\$97,069,836)</b>
<b>Net Project Development Costs</b>	<b>\$228,371,117</b>

Source: Samuel Chui, Public Works and Joshua Keene, Real Estate.

### **FF&E, Technology Equipment and Moving Costs**

In December 2014, when the Board of Supervisors approved the Conditional Land Disposition and Acquisition Agreement with Related to develop a new City office building at 1500 Mission Street, the total estimated cost for furniture, fixtures and equipment (FF&E), technology and moving expenses was \$12,298,400. However, as shown in Table 3 above, the requested

<sup>6</sup> In accordance with the original agreement between the City and Related in 2014, the City, through the Department of Building Inspection, paid Related non-reimbursable \$1,000,000 toward acquisition of the property at 1500 Mission Street and \$250,000 for schematic design.

supplemental appropriation would fund \$29,397,433 for FF&E, technology and moving costs, an increase of \$17,099,033 or 139%. Table 5 below compares the earlier \$12,298,400 estimate with the current \$29,397,433 request for FF&E, technology equipment and moving costs, an increase of \$17,099,033 or 139%.

**Table 5: Comparison of Costs for FF&E, Technology and Moving Expenses**

Description and Assumptions	2014 Costs	Current Estimated Costs	Increase/(Decrease) Over 2014 Costs
Workstation Furniture	\$4,500,000*	\$6,750,000**	\$2,250,000
Ancillary Furniture***	0	5,170,140	5,170,140
Moving	5,000,000	4,481,168	(518,832)
Department of Technology/IT Expenses	2,798,400	10,771,125	7,972,725
City staff and consultant services	0	2,225,000	2,225,000
<b>Total</b>	<b>\$12,298,400</b>	<b>\$29,397,433</b>	<b>\$17,099,033</b>

Source: Josh Keene of Real Estate Division and Samuel Chui of Public Works

\* Assumes \$3,000 per FTE @ 1,500 FTEs.

\*\* Assumes \$4,500 per FTE @ 1,500 FTEs.

\*\*\* Assumes \$12 per square feet of net rentable area of 430,845 square feet.

According to Mr. Samuel Chui, Project Manager at Public Works, Public Works began formally managing this project in 2016 and has incurred DPW staff and other costs associated with this project since then. Mr. Chui further advises that the Real Estate Division's earlier estimate is comparable to the costs of moving into an existing office building and does not reflect the realities of new construction, which requires furniture and equipment that is not part of tenant improvements, furniture and equipment for a new permit center, common areas and building support, building connection to the City's fiber infrastructure in the streets, application of Voice over Internet Protocol (VoIP) for the telephony system, network equipment and infrastructure for building systems and City business needs. In addition, the requested \$29,397,433 is not based on actual bids.

Based on DPW's cost proposal provided to the City Administrator in September 2016, DPW will incur approximately \$1,000,000 of expenses for consultant peer review, two DPW project managers and City Attorney legal fees through FY 2017-18. Therefore, \$1,000,000 should be released at this time and the remaining \$28,416,265 placed on reserve pending details and reductions provided.

#### **Controller's Internal Audit Fund**

The Controller's City Services Auditor would receive \$653,382 from the subject COPs to provide internal audit functions. In accordance with Appendix F of the City's Charter, this amount is based on 0.2% of City project development costs of \$326,690,953.

#### **Total COP Delivery Expenses**

The COP fees and expenses include the bond reserve, capitalized interest and fees, bond issuance costs, underwriter's discount, and a reserve for market uncertainty. According to Ms. Querubin, the bond reserve amount of \$21,832,100 (Table 3 above) is calculated at 100% of the maximum annual debt service for the COPs over the 30-year term and is required to be set



aside. The capitalized interest and fees amount of \$31,051,471 (Table 3 above) assumes estimated accrued interest and fees for the potential use of commercial paper for up to two years prior to the issuance of the COPs and the capitalized interest for up to one year from the date of bond issuance. Bond issuance costs of \$604,643 (Table 3 above) include legal fees, financial advisory fees, rating agency fees, printing, bond insurance and other issuance expenses. Underwriter's discount of \$2,220,855 (Table 3 above) is the fee paid to the underwriter of the COPs for dissemination of the bonds. The reserve for market uncertainty of \$7,634,000 (Table 3 above) represents the additional amount included in the supplemental to allow for fluctuations in market interest rates from the date of authorization by the Board of Supervisors until the time of the sale of the COPs.

## **POLICY CONSIDERATION**

### **Relocation of City Departments and Use of Space at 1500 Mission Street**

In July 2014, the Board of Supervisors approved Resolution No. 312-14 authorizing the City to enter into an Exclusive Negotiation Agreement and Letter of Intent with Related to develop a new City-owned office building. Resolution No. 312-14 also authorized the Director of Property to provide a report detailing City office space requirements, the specified projected uses and staffing for the new City office building and the overall plan for Civic Center office space. In response, working with Real Estate, the Controller's Office provided a report to the Board of Supervisors in the fall 2014 that projected potential City staff and square feet requirements for a new office building for FY 2018-19.

This 2014 report projected consolidating office space for five City departments, including (a) Public Works, (b) Department of Building Inspection, (c) City Planning, (d) Retirement and (e) Health Services System, currently in City-owned space or leasing office space in the Civic Center. At the time, the Board of Supervisors was advised that this new City office building was anticipated to add approximately 100,000 square feet of new City-owned office space and reduce the amount of leased space in the Civic Center. According to Mr. Updike, the net increase in square feet of City office space is now estimated at 154,760 square feet. With the information contained in the report, the Board of Supervisors on December 9, 2014 approved the Conditional Land Disposition and Development Agreement with Related for the City office building at 1500 Mission Street.

Table 6 below compares the square feet requirements specified in this 2014 report<sup>7</sup> projected to FY 2018-19 to what Public Works and Real Estate are now reporting are City department requirements for the new City office building.

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<sup>7</sup> The square footage amounts in the 2014 report were based on 463,300 gross square feet, which has been converted to rentable square feet in Table 6 below to provide a comparison with the rentable square feet for 2017.

**Table 6: Comparison of Square Footage Use of 1500 Mission Street**

Departments	2014 Rentable Square Feet	2017 Rentable Square Feet	Increase/(Decrease) Square Feet
Public Works	181,018	194,588	13,570
Building Inspection	63,086	56,819	(6,267)
Planning	49,574	59,910	10,336
Health Service System <sup>8</sup>	18,682	-	(18,682)
Retirement <sup>9</sup>	35,360	-	(35,360)
Other Tenants (TBD)	5,405	25,102	25,102
Permit Center <sup>10</sup>	28,791	38,960	10,169
Common Areas and Building Support	52,043	55,466	3,423
<b>TOTAL</b>	<b>433,959</b>	<b>430,845</b>	<b>(3,114)</b>

As shown in Table 6 above, the square feet allocated to Public Works, Planning and DBI are proposed to increase significantly. Regarding the differences in square footage for the various City departments, Mr. Chui advises that DBI's 6,267 square foot reduction in space is more than offset by the estimated 22,000 square feet of space that DBI will occupy in the new one-stop permit center, in which Building Inspection will be the anchor tenant, along with at least 11 other City departments. Mr. Chui also notes that the 10,336 square foot increase in Planning's space may enable another tenant to occupy a portion of this space. The Common Areas and Building Support include the lobby, conference center, childcare facilities, potential wellness center and other building support functions. According to Mr. Updike, the square footage requirements for the common areas and building support increased by 3,423 square feet because the entire first floor will now be common areas, with additional conference and training rooms and facilities.

However, the most notable change in the proposed plans is the elimination of Health Service System for 18,682 square feet and Retirement System for 35,360 square feet or a total of 54,042 square feet from the new City office building. Currently, both of these City departments rent space at 1145 Market Street at an annual rental cost of approximately \$2,314,000, with leases that expire in 2023 and 2024 respectively. In addition, the previous plan provided for an additional 5,405 square feet for other potential tenants or 59,447 square feet total for other City tenants. Instead, the current proposal only allows for 25,102 square feet for other City tenants.

<sup>8</sup> Health Service System currently occupies 19,500 square feet of leased office space at 1145 Market Street, a ten-year lease, which commenced in 2013 and terminates in 2023, at a current rental rate of approximately \$42 per square foot, or total annual costs of \$826,000 in FY 2017-18, with 3% annual rent increases.

<sup>9</sup> San Francisco Employees Retirement System currently occupies 35,579 square feet of leased office space at 1145 Market Street under a ten-year lease commencing in 2014 and terminating in 2024 at a current rent of approximately \$42 per square foot, or total annual rental costs of \$1,488,000 in FY 2017-18, with 3% annual rent increases.

<sup>10</sup> Of the 38,960 square feet proposed, approximately 22,000 square feet, or 56% will be used by DBI.

departments to potentially relocate to 1500 Mission Street, a reduction of 34,345 square feet of space or 58%.

Based on information provided by Real Estate, Table 7 below shows the number of rentable square feet currently occupied by the three main City departments (Public Works, Building Inspection (DBI) and Planning) that are proposed to occupy the new City office building at 1500 Mission Street. As shown in Table 7 below, all three City departments would increase their amount of rentable space in the new City office building by a combined total of 27,667 square feet. At the same time, two City departments, notably Health Service System and Retirement System, will not relocate into this new City office building.

**Table 7: Current and Proposed Square Footage for 3 City Departments**

Location	Public Works	DBI	Planning	Total
30 Van Ness	101,144			101,144
1650 Mission		4,280	48,704	52,984
1660 Mission	748	68,821	543	70,112
1680 Mission	36,753			36,753
City Hall	5,426			5,426
1155 Market	38,922			38,922
<b>Total</b>	<b>182,993</b>	<b>73,101</b>	<b>49,247</b>	<b>305,341</b>
<b>Proposed</b>	<b>194,279</b>	<b>78,819</b>	<b>59,910</b>	<b>333,008</b>
<b>Increased Space</b>	<b>11,286</b>	<b>5,718</b>	<b>10,663</b>	<b>27,667</b>

The current proposed square footage use and City departments that would occupy the new 1500 Mission Street office building is not consistent with the information the Real Estate Division and the Controller’s Office provided to the Board of Supervisors in 2014, when the Board of Supervisors approved this project. Most notably, the proposed use significantly expands the amount of space for three City departments, Public Works, Planning and Building Inspection and excludes Health Service System and Retirement System or significant space for other City departments. As previously noted, the proposed new office building will create an estimated net increase of 154,760 square feet of new space. With such significant increases in space, the amount of leased space and lease costs in the Civic Center should be reduced, resulting in the termination of existing City leases, as the Board of Supervisors were advised in 2014 when the 1500 Mission Street office building was approved.

In response, over the last several weeks, the Real Estate Division has identified seven leases containing a total of 93,970 square feet of space in the Civic Center that could potentially be terminated with the addition of the new 1500 Mission Street building and/or through backfilling space at 1650 Mission Street once the Planning Department vacates and moves into the new 1500 Mission Street building. Under these seven leases, the City currently spends approximately \$4.1 million annually. At this time, other than the approximately 25,000 square feet that is shown in Table 6 above in the current plan for Other Tenants to be determined (TBD), the Real Estate Division cannot commit to moving additional City employees into specific additional space in the new 1500 Mission Street building.

**Need for Reduction in City FF&E, Technology and Moving Expenses**

Given the requested increase of \$17,099,033 or 139% for furniture, fixtures, equipment, technology and moving expenses and the lack of any detailed information, the Board of Supervisors should approve the entire \$29,397,433, but only release \$1,000,000 at this time to fund City staff, legal and consultant expenses through FY 2017-18 and place the remaining \$28,397,433 on Budget and Finance Committee Reserve.

Before the Board of Supervisors approves the release of the remaining funds, Real Estate should provide a report to the Board of Supervisors that clearly identifies the (a) number of employees and amount of space that are currently used by each City department, (b) number of employees and amount of space that are proposed to be used by each City department in the new City building, and (c) existing City leases that will be terminated and the existing City leases that will be backfilled or otherwise reused, including the square footage of such leases, the amount of rent savings and any additional costs assumed. The City should maximize the number of leases being terminated and the number of City departments and employees relocated into the new City office building, as was originally proposed to the Board of Supervisors when this project was approved.

As part of the report identifying which City departments would be relocated to 1500 Mission Street, Public Works should rework the remaining \$28,397,433 for FF&E, technology and moving expenses request to maximize the amount of existing furniture that is reused and moved into the new building and minimize the additional City expenses. Details should be provided and bids obtained prior to requesting the release of a reduced amount of funding for this purpose.

**RECOMMENDATIONS**

1. Amend the proposed ordinance (File 17-0464) to reflect the recommended savings shown in Table 3 above, based on the proceeds from the sale of the three City buildings resulting in an additional \$3,134,836 for the Project Fund.
2. Amend the proposed ordinance (File 17-0464) to place \$28,397,433 of the requested \$29,397,433 on Budget and Finance Committee Reserve for FF&E, technology and moving to allow \$1,000,000 to be released now. The \$28,397,433 on reserve should not be released, pending a report that identifies (a) number of employees and amount of space currently used by each City department, (b) number of employees and amount of space proposed to be used by each City department in the new City building, and (c) existing City leases that will be terminated, existing City leases that will be backfilled or reused, including square footage of leases, rent savings and any additional costs. The City should maximize the leases terminated and City departments and employees relocated into the new City office building, as originally proposed to the Board of Supervisors when this project was approved. To request release of the \$28,397,433 being placed on reserve, Public Works should maximize the City's existing furniture for reuse and moved into the new building and minimize additional City expenses. Details should be provided and bids obtained prior to requesting the release of a reduced amount of funding for this purpose.

3. Approve the proposed ordinance (File 17-0464), as amended.
4. Approve the proposed ordinance (File 17-0468) and resolution (File 17-0471).



# OFFICE OF THE CITY ADMINISTRATOR



Edwin M. Lee, Mayor  
Naomi M. Kelly, City Administrator

April 25, 2017

Honorable Board of Supervisors  
City & County of San Francisco  
1 Dr. Carlton B. Goodlett Place  
City Hall, Room 224  
San Francisco, CA 94102

1500 Mission Street – New City Office Building and One-Stop Permit Center

Dear Board Members:

Attached for your consideration is a resolution ratifying the conditional purchase and sale agreement dated December 10, 2014 (conditional “PSA”) between the City, as purchaser, and Goodwill SF Urban Development, LLC (“Developer”) for the City’s acquisition of real property located at 1500 Mission Street (commonly known as the “Goodwill Site” or the “Property”). The Board of Supervisors unanimously approved Ordinance No. 0254-14 on December 9, 2014, conditionally authorizing the City’s purchase and subsequent development of the Property as an office building (the City’s “Office Project”) for a total amount not to exceed \$326,690,953.

Upon approval of this resolution and the City’s subsequent acquisition of the Property early this summer, Developer will construct the Office Project on behalf of the City; a 16-story building consisting of approximately 460,000 square feet. Construction is anticipated to begin this fall and continue through late 2019 or early 2020. Essential services departments such as Public Works, Planning, Building Inspection and others still to be determined will relocate to the building to support an expansive “One-Stop Permit Center” to not only support building services permits, but other permitting functions currently located throughout Civic Center and the City.

Please do not hesitate to contact me if you have any questions.


Sincerely,

Naomi M. Kelly  
City Administrator  
City and County of San Francisco

OFFICE OF THE MAYOR  
SAN FRANCISCO



EDWIN M. LEE

TO: Angela Calvillo, Clerk of the Board of Supervisors  
FROM: *EL* Mayor Edwin M. Lee   
RE: Conditional Purchase Agreement - 1500 Mission Street - City Office Project  
DATE: April 25, 2017

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Attached for introduction to the Board of Supervisors is a resolution ratifying the Conditional Purchase Agreement for the City's Acquisition of an Office Project at 1500 Mission Street and authorizing the Director of Property and City staff to proceed with the Proposed Office Project; confirming the City's authorization to issue commercial paper and/or certificates of participation to pay for the land acquisition and complete the Proposed Office Project; and adopting environmental findings under the California Environmental Quality Act; and making findings of consistency the General Plan, and with the eight priority policies of Planning Code, Section 101.1.

Should you have any questions, please contact Mawuli Tugbenyoh (415) 554-5168.

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