

File No. 091321

Committee Item No. 6

Board Item No. \_\_\_\_\_

### COMMITTEE/BOARD OF SUPERVISORS

#### AGENDA PACKET CONTENTS LIST

Committee BUDGET AND FINANCE

Date 12/9/09

Board of Supervisors Meeting

Date \_\_\_\_\_

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Completed by: Gail Johnson

Date 12/4/09

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File 091321

ECONOMIC AND WORKFORCE DEVELOPMENT  
MICHAEL COHEN, DIRECTOR



CITY AND COUNTY OF SAN FRANCISCO  
GAVIN NEWSOM, MAYOR

**MEMORANDUM**

TO: Angela Calvillo, Clerk, Board of Supervisors  
CC: Supervisor John Avalos, Chair, Budget & Finance Committee  
Supervisor Ross Mirkarimi, Budget & Finance Committee  
Supervisor Carmen Chu, Budget & Finance Committee  
  
FROM: Jack Sylvan, Director, Office of Economic and Workforce Development  
DATE: 11/10/09  
RE: Release of Reserved Funds- Muni Fillmore Substation

Background and Requested Action

On October 6, 2009, the Board of Supervisors adopted an amended resolution in connection with the Muni Fillmore Substation at 1190 Fillmore (File 090993). The amendment placed on Budget & Finance Committee reserve \$135,225 for predevelopment planning funds under the Office of Economic and Workforce development (OEWD).

Per Attachment I to the File (Memorandum from myself to Supervisor Ross Mirkarimi dated May 15, 2009), the \$135,225 is needed by OEWD to facilitate managing the reuse process. OEWD does not have other funds available in its FY 09-10 budget for the predevelopment planning. This predevelopment planning funds budget is based on OEWD's experience with comparable costs for other similar development projects and on consultations with the Redevelopment Agency on the ongoing costs and challenges of developing the Substation. OEWD proposed utilizing the \$135,225 currently on reserve at the Board for the following activities in support of reuse of the site:

RFP, Selection and Property Transfer with SFRA	\$70,000
Community Outreach/materials	\$15,000
Legal/Negotiation Costs	\$30,000
<u>Maintenance/CBD Payments/Insurance</u>	<u>\$20,225</u>
<b>TOTAL</b>	<b>\$135,225</b>

The Office of Economic and Workforce Development is herewith requesting that this subject be scheduled for the next available Budget and Finance Committee meeting and that the funds be transferred to OEWD following a discussion of the \$135,225 for predevelopment planning.

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**Department:** Office of Economic and Workforce Development (OEWD)

**Item:** Request for release of \$135,225 on reserve to fund the predevelopment planning process for the Municipal Railway Substation Building, which includes managing the competitive Request for Proposal process to select a developer for the reuse of the Municipal Railway Substation Building.

**Amount Requested:** \$135,225

**Source of Funds:** San Francisco Redevelopment Agency (SFRA) Tax Increment Bond proceeds

**Background:** The Municipal Railway Substation Building (Muni Substation), a City-owned facility, was constructed in 1902 at 1190 Fillmore Street. The Muni Substation was closed in 1978 and has remained closed since then. On April 23, 1979, the City's Landmarks Preservation Advisory Board designated the Muni Substation as a City historical landmark (Landmark No. 105), in accordance with Article 10 of the City's Planning Code.<sup>1</sup>

The Muni Substation was located within the SFRA's Redevelopment Project Area for the Western Addition, previously approved by the Board of Supervisors on October 13, 1964 (Ordinance 273-64). As part of the Western Addition Project Plan, in May of 2003, the Board of Supervisors approved a resolution (Resolution No. 254-03) for the City to sell the then City-owned 1190 Fillmore Street Muni Substation property to the SFRA, to be developed for affordable housing and other community and public purposes.

In October of 2007, the SFRA issued a Request for Proposals (RFP) to develop the Muni Substation property at 1190 Fillmore Street into a community facility. The SFRA received proposals from two firms. Both proposals were rejected by the SFRA due to the inadequate funding and experience of the two firms. When the SFRA's Western Addition Project Area expired on January 1, 2009, the SFRA had still not secured a firm to develop the Muni Substation.

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<sup>1</sup> In accordance with Article 10 of the Planning Code, demolition of the subject structure is prohibited and any physical alterations of the structure are subject to Planning Commission approval.

In March of 2009, the SFRA identified \$3,301,225 of unencumbered funds which were originally allocated to redevelop the Muni Substation as part of the Western Addition Project. On March 17, 2009, the Board of Supervisors approved a resolution amending the FY 2008-2009 SFRA budget to reprogram the \$3,301,225 in unencumbered SFRA funds from the Muni Substation project to (a) \$2,366,000 to the Fillmore Jazz Preservation District Revolving Loan Program, (b) \$400,000 for property management, and (c) \$535,225 to the OEWD for marketing and economic development planning within the Fillmore Jazz Preservation District and predevelopment planning for the Muni Substation, including the subject \$135,225, which was placed on reserve (File No. 08-1606).

Under File No. 08-1606, the Board of Supervisors approved the above-noted fund reprogramming in the SFRA budget, contingent on the following: (a) OEWD and the Real Estate Division preparing a plan to rehabilitate and reuse the Muni Substation, (b) SFRA using any future repayments of the \$2,366,000 reprogrammed loan funds under the Fillmore Jazz Preservation Revolving Loan Program for (i) rehabilitation and reuse of the Muni Substation or, (ii) if these funds are not needed for the Muni Substation, to invest in additional SFRA loans or other redevelopment programs, (c) SFRA urging businesses receiving loans under the Fillmore Jazz Preservation District to hire residents of the Fillmore Jazz Preservation District whenever possible for jobs, (d) the Board of Supervisors approving a separate resolution for the City to reacquire the Muni Substation from SFRA at no cost to the City<sup>2</sup>, and (e) OEWD providing a plan for use of the above-noted \$535,225 placed on reserve for marketing and economic development in the Fillmore

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<sup>2</sup> Based on studies conducted by the SFRA, there is at least \$4,000,000 of seismic retrofit upgrades and historic preservation work to be completed on the Muni Substation. However, based on a May 1, 2009 appraisal conducted by Mansbach Associates Inc. for the SFRA, the Muni Substation is only valued at approximately \$3,000,000. Therefore, the SFRA has determined that the Muni Substation has no real economic value because the cost to rehabilitate the property exceeds the fair market value. Because the Muni Substation was previously purchased by the SFRA from the City using Tax Increment funds, Section 33433 of the California Health and Safety Code requires the SFRA to sell the Muni Substation at fair market value. Since the cost to seismically retrofit and historically preserve the property exceeds the value of the property, the transfer of the Muni Substation to the City, at no cost to the City, complies with State Code provisions for fair market value.

Jazz Preservation District and predevelopment planning activities for the Muni Substation.

On June 17, 2009, OEWD requested the release of \$535,225, which included \$400,000 for marketing and economic development in the Fillmore Jazz Preservation District and \$135,225 to be transferred from the SFRA to the OEWD for predevelopment planning activities for the Muni Substation as shown on pages 4 of 5 of the attached May 15, 2009 memorandum (Attachment I) provided by Mr. Jack Sylvan, Director of the OEWD. However, the Budget and Finance Committee only approved the release of \$150,225, which included (a) the subject requested release of \$135,225 for the Muni Substation predevelopment planning, and (b) \$15,000 for marketing and economic development in the Fillmore Jazz Preservation District<sup>3</sup> (File 09-0739). The remaining \$385,000 (\$535,225 less \$150,225) for marketing and economic development in the Fillmore Jazz Preservation District remained on reserve pending (a) additional future funding that OEWD might receive from the SFRA and (b) a potential change to the marketing and economic development portion of the plan due to the additional future funding.

Mr. Sylvan advises that although the Budget and Finance Committee approved the release of \$135,225 on reserve for the Muni Substation predevelopment plan on June 17, 2009, the SFRA did not transfer the subject \$135,225 to OEWD because SFRA wanted the transfer of the \$135,225 to be a required provision in the pending Agreement for the City to reacquire the Muni Substation from the SFRA.

On October 6, 2009, the Board of Supervisors approved the Agreement between City and the SFRA for the City to reacquire the Muni Substation from SFRA, at no cost, and included a provision to transfer the subject \$135,225 from the SFRA to OEWD. However, during the October 6, 2009 Board of Supervisors meeting, the Board of Supervisors requested the OEWD to conduct community meetings in

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<sup>3</sup> The Budget and Finance Committee released \$15,000 to allow OEWD to recover monies that was already spent for an organization development consultant for the Fillmore Community Benefit District as part of the marketing and economic development scope.

Memo to Budget and Finance Committee  
December 9, 2009 Budget and Finance Committee Meeting

the Fillmore Jazz Preservation District to gather feedback on how the Muni Substation should be rehabilitated and reused, before the Budget and Finance Committee releases the subject \$135,225 for the Muni Substation predevelopment planning services, which is the subject of the proposed hearing.

According to Mr. Jon Yolles, Project Manager of the OEWD, the OEWD conducted two community meetings in the Fillmore Jazz Preservation District, on October 15, 2009 and November 17, 2009, to gather feedback on how the Muni Substation should be rehabilitated and reused. Mr. Yolles advises that the OEWD plans to schedule a third community meeting in January, 2010. According to Mr. Yolles, the OEWD may conduct additional community meetings once the OEWD selects a developer to rehabilitate the Muni Substation.

Mr. Sylvan advises that although the Board of Supervisors previously approved the agreement on October 6, 2009, between City and the SFRA, for the SFRA to transfer back the Muni Substation to the City, at no cost to the City, the City has not yet acquired the Muni Substation from the SFRA. Mr. Sylvan advises that the City will fully execute the Muni Substation transfer agreement between the City and the SFRA once the proposed release of reserved funds of \$135,225 is approved.

**Description:**

The OEWD is again requesting the release of \$135,225 placed on reserve by the Board of Supervisors, to fund predevelopment planning for the Muni Substation.

**Budget:**

A proposed \$135,225 budget for predevelopment planning, as detailed on page 2 of Attachment II, provided by Mr. Sylvan, includes (a) \$15,000 for community outreach, (b) \$70,000 for property transfer fees, City Attorney costs to complete the transfer agreement, and to conduct the Request for Qualifications (RFQ)/ Request for Proposals (RFP) process to select the developer(s), (c) \$30,000 for City Attorney costs to conduct negotiations with the selected developer(s), and (d) \$20,225 to pay an estimated \$7,669 in Community Benefit District fees and an estimated \$12,556 in as-needed maintenance and

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property insurance payments once the City reacquires the Muni Substation from SFRA. According to Mr. Sylvan, the City will be responsible for the costs of the Community Benefit District payments, as-needed maintenance and property insurance until the building is acquired by qualified developers<sup>4</sup>. The selected qualified development partner will pay such future costs once they acquire the Muni Substation from the City.

**Comment:**

Given that OEWD has met the two conditions for releasing the subject funds on reserve, including (a) providing a detailed budget for the \$135,225 in expenditures to be incurred from the \$135,225 on reserve and (b) conducting two community meetings regarding how the Muni Substation should be rehabilitated and reused, the Budget Analyst recommends releasing the requested \$135,225 on reserve.

**Recommendation:**

Approve the requested release of reserved funds in the amount of \$135,225.

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<sup>4</sup> Depending on the negotiated terms between the City and the selected developers, Mr. Yolles advises that ownership of the Muni Substation would be transferred from the City to the selected developers.

ECONOMIC AND WORKFORCE DEVELOPMENT  
MICHAEL COHEN, DIRECTOR



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CITY AND COUNTY OF SAN FRANCISCO  
GAVIN NEWSOM, MAYOR

## MEMORANDUM

To: Supervisor Ross Mirkirimi  
From: Jack Sylvan, Office of Economic & Workforce Development  
Amy Cohen, Office of Economic & Workforce Development  
Re: Muni Fillmore Substation Development: Release of Reserves  
Date: May 15, 2009

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### Background

On March 27, the San Francisco Board of Supervisors approved an amendment to the Redevelopment Agency budget that included a funding reallocation to the Office of Economic and Workforce Development (OEWD) in order to assume responsibility for the redevelopment of the historic 1902 Municipal Railway Substation at Fillmore and Turk Streets. The \$535,225 placed on reserve at that time was set aside to pay for predevelopment costs related to the Muni Substation and for promotion and marketing of the Fillmore Jazz District as well as business attraction and retention in the neighborhood. This memo is to outline the spending plan regarding these two uses of the reserved funding.

### **1. Jazz District Marketing, Promotions and Business District Improvements: \$400,000**

OEWD proposes a three-year plan to develop and implement a marketing and promotions program in the Western Addition, as part of the San Francisco Neighborhood Marketplace Initiative, currently administered our staff and the Bay Area Local Initiatives Support Corporation ("LISC"). OEWD will work with the Fillmore Jazz District businesses, residents and the CBD, in coordination with a consultant to assist with the creation of a Retail Plan. OEWD will also provide technical assistance to the Fillmore Jazz Community Benefit District (CBD) with their RFP process to select a firm to develop a comprehensive marketing plan designed to raise awareness of the Fillmore Jazz District. Recommendations from the CBD's Marketing Plan will be incorporated into the Retail Plan as appropriate.

During the Planning Phase of the program OEWD will conduct community/merchant outreach to incorporate community input regarding the development of this marketing and promotions program for the Fillmore Jazz District in the Western Addition. Furthermore, OEWD will implement organizational capacity-building training to insure the CBD develops the organizational capacity to provide leadership and a process for community participation in creation and implementation of the marketing and promotions program.

Following the completion of the planning phase, OEWD will allocate funding on an annual basis for direct implementation of priorities highlighted in the Retail Plan (which includes recommendations from the CBD's Marketing plan but funding will only be allocated for those



activities not already funded with CBD marketing implementation funds). The exact mix of activities will be determined through the planning phase.

The proposed Retail Plan will include the following:

1. **Streetscape amenities and commercial storefront amenities.** The Retail Plan will detail streetscape amenities including signage, banners, and historical markers. The plan will also identify priority façade and tenant improvements; awning and sign upgrade projects and will create design guidelines to assist the existing small businesses. In addition, these storefront amenities will help new small businesses compete and promote their services productively within the Fillmore Jazz District.
2. **Business attraction efforts.** The Retail Plan will provide recommendations for business attraction and retention programs that would support and promote an appropriate business mix to meet the daily needs of the neighborhood residents as well as compliment the Fillmore Jazz District theme and bring new visitors to the area.
3. **Advertising and media outreach.** Based on recommendations in the CBD's Marketing Plan, the Retail Plan for the Fillmore Jazz District will include specific priority programs within its advertising plan including themed press releases with timelines, tourism industry outreach plans, and recommended print and on-line materials including maps, directories, brochures. Only activities not funded by the CBD will be implemented by OEWD.
4. **Promotional and Special Events.** Based on recommendations in the CBD's Marketing Plan, the Retail Plan for the Fillmore Jazz District will include an implementation plan, budget and timeline for specific priority events, including festivals, street fairs, "night out" events, and other promotional activities. Only activities not funded by the CBD will be implemented by OEWD.

**Proposed 3 Year Budget**

	Year 1	Year 2	Year 3	Total
Organizational Capacity Building	25,000			25,000
Plan Development	50,000			50,000
Projects	50,000	100,000	100,000	250,000
Administration	25,000	25,000	25,000	75,000
<b>Total</b>				<b>400,000</b>

As mentioned above, the development and implementation of a marketing and promotions program in the Western Addition will be facilitated in coordination with the San Francisco Neighborhood Marketplace Initiative, currently administered by OEWD and the Bay Area Local Initiatives Support Corporation ("LISC"). The San Francisco Neighborhood Marketplace Initiative ("Neighborhood Marketplace Initiative") works to stabilize and revitalize San Francisco's low and

moderate income neighborhood commercial districts. Each neighborhood develops a plan which identifies specific improvements for a vibrant and attractive commercial district, and lays out implementation steps to guide the community. The Neighborhood Marketplace Initiative builds partnerships between residents, merchants, property owners, and community groups to sustain these districts over the long-term. In addition, the Neighborhood Marketplace Initiative enables existing businesses to grow and expand and new businesses to locate.

Key activities of the San Francisco Neighborhood Marketplace Initiative include:

- (a) Support business retention and attraction of locally-owned businesses
- (b) Promote community activities and cultural events to establish a positive identity and promote the district
- (c) Coordinate beautification projects including public art, storefront and streetscape improvements
- (d) Facilitate cleanliness and safety projects in local neighborhoods
- (e) Work with real estate and development projects that contribute to the revitalization of the neighborhood
- (f) Community building and youth initiatives to increase local participation and working together toward common goals

## **2. Predevelopment Planning for the Fillmore Municipal Railway Substation - \$135,225**

The Fillmore Substation, constructed in 1902, is an approximately 6,335-square-foot unreinforced masonry building with local Landmark status. The building was closed in 1978 and has lain dormant since that time. Although some minor seismic retrofitting has been undertaken on the building, significant investments will likely be needed to bring the building to current codes and convert it to a modern, active use that benefits the surrounding Fillmore/Western Addition community.

In 2003, the City transferred to the Redevelopment Agency both the Muni Substation and an adjacent vacant parcel along Turk Street. While the Redevelopment Agency has been successful in pursuing a non-profit housing developer for 32 affordable townhomes and flats on the vacant parcel on Turk Street, the historic Muni Substation remains abandoned and inactive. The San Francisco Redevelopment Agency (SFRA) conducted prior research regarding the historic integrity, potential uses and the challenges to developing the building through a series of consulting studies. Those studies found that the building will need at least \$2-3 million in seismic retrofit upgrades and that any potential development must contend with the costly requirements around preservation of the historic nature of the building. In 2008, the SFRA issued an RFP for the redevelopment of the building with a preference expressed for arts and community uses and/or other publicly beneficial uses. The RFP garnered only two bids, both of which were rejected by the SFRA as unresponsive to the RFP.

Due to the sunset of the Western Addition Redevelopment Project Area, the building is being conveyed from the SFRA back to the City at no cost. The City's Office of Economic & Workforce

Development has been tasked with managing a process to identify a user/developer of the property that will perform the necessary building retrofit, consistent with the historic nature of the property, and occupy the site with active uses. Successful reuse of the site can be enabled via the following opportunities.

Financing Opportunities. The OEWD will explore creative financing and funding opportunities, in partnership with a competitively-selected project developer, that will support economic feasibility of the reuse of the property. Based on San Francisco Redevelopment Agency Resolution No. 18-2009 and Board of Supervisors Resolution 092-09, the Muni Substation will have access to 171,308 square feet of Transferable Development Rights. The value of the TDR Certificate will not be fixed until it is offered for sale by the City, but could range from \$2.5 to \$5.1 million. OEWD will also explore the availability and applicability of New Markets Tax Credits, and federal funding sources such as Historic Tax Credits and Saving America's Treasures grants.

Use Opportunities. In transferring both sites to the SFRA in 2003, uses were restricted to development of affordable housing, arts and community uses, and other public beneficial uses. Affordable housing will be constructed on the Turk parcel, but is an infeasible use for the MUNI Substation. It is possible that a 100 percent arts or community use does not exist or is not available that enables the reuse to be feasible given its constraints. In such a case, flexibility in the use of the building may be essential to its reuse, while still ensuring an active use that benefits the community.

Site Opportunities. The building occupies the entire footprint of the 6,335 square foot lot. Due to the limitations on viable uses, historic building restrictions and the useable area of the building and the costs associated with retrofitting the structure, it is highly likely that the existing site and structure do not provide sufficient programmable/useable area to support an economically feasible reuse. Coupling the historic MUNI Substation structure with the adjacent 9,925 square foot vacant parcel owned by the San Francisco Public Utilities Commission may be a necessary means to support reuse of the Substation building and generate an active, community-oriented use.

Next Steps. OEWD, upon release of the funds at the Board, plans to complete negotiations with the Redevelopment agency over the transfer of the Muni Substation to the City and embark on a new competitive process to reuse the building. Staff will bring to the Board in the summer the property transfer documents with the Redevelopment Agency. OEWD will develop a revised and updated RFQ/P, including the assumptions outlined above to be issued by early summer. Staff will work with Supervisor Mirkarimi's office to incorporate community input in the development of the reuse proposals for the site. If the RFQ/P successfully generates interest and qualified bidders, selection of a winning developer/operator and reuse plan could be completed by late summer 2009. Staff will then begin work on a term sheet for the reuse of the property to bring to the Board.

Predevelopment Budget. Based on OEWD's experience with comparable costs for other similar development projects as well as consultation with the Redevelopment Agency on the ongoing costs and challenges of developing the Substation, OEWD proposes utilizing the \$135,225 currently on reserve at the Board for the following activities in support of reuse of the site:

RFP, Selection and Property Transfer with SFRA	70,000
Community Outreach/materials	15,000
Legal/Negotiation Costs	30,000
<u>Maintenance/CBD Payments/Insurance</u>	<u>20,225</u>
<b>TOTAL</b>	<b>135,225</b>

ECONOMIC AND WORKFORCE DEVELOPMENT  
MICHAEL COHEN, DIRECTOR



CITY AND COUNTY OF SAN FRANCISCO  
GAVIN NEWSOM, MAYOR

## MEMORANDUM

TO: Harvey Rose, Budget Analyst  
FROM: Jack Sylvan, Office of Economic and Workforce Development  
DATE: 12/24/09  
RE: Request for Release of Reserved Funds- Muni Fillmore Substation

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Further to your office's request for additional detail concerning \$135,225 for predevelopment planning funds on Budget & Finance Committee reserve under the Office of Economic and Workforce development (OEWD) for the Muni Fillmore substation, please find below a more detailed budget.

This memo further details the budget provided in my May 15, 2009 Memo to Supervisor Mirkarimi and is consistent with an understanding of the likely process and timeframes involved in managing the reuse of the MUNI Fillmore Substation based on our activities and discussions to date with the community, the Real Estate Department, SFRA and the City Attorney's office.

Originally, \$3,301,225 was allocated to the Muni Fillmore Substation reuse project. Of those funds, the Board of Supervisors reallocated this entire amount, except the \$135,225 for other uses. Transferrable Development Rights have been allocated to this project to replace the reallocated funds, however, their value will be assigned to the private partner that is selected, and is therefore not a source of funds available to cover expenses associated with managing the reuse planning process. Unlike the San Francisco Redevelopment Agency, which previously controlled this project, the Office of Economic and Workforce Development does not have an ongoing source of revenue generation that would supply additional funds necessary for the reuse facilitation and does not have funds in its budget other than the subject funds on reserve to pay for the costs associated with the City owning the property in the interim period and facilitating the planning process to cause reuse of the property. In addition, the \$135,225 is likely to be an insufficient amount of funds to facilitate managing the reuse process.

The budget below outlines the various tasks involved with the predevelopment planning process, largely sequentially, and provides estimates for the corresponding amount of time and cost for each

task. It is important to note that this budget is tentative and assumes the timeframes estimated herein. A longer interim ownership of the property has associated with it commensurate increases in the cost of property maintenance costs. Additionally, an extended timeframe for the competitive RFP solicitation and selection and subsequent negotiation of a development agreement would also require additional expense.

<u>Task</u>	<u>Time</u>	<u>Amount</u>
Community Outreach/Materials/Meeting Space	3-4 mos.	\$15,000
Property Transfer, RFQ/P Process, Partner Selection		
Transfer Agreement Legal/Negotiation Fees	10 mos.	\$19,500
Title & Escrow Fees		\$8,000
RFQ/RFP- Specialized Professional Services	3 mos.	\$27,500
RFQ/RFP Drafting-Legal	2 mos.	\$10,000
Partner Selection- Legal Counsel	1 mo.	\$2,500
Partner Selection- Technical/Financial Analysis	1 mo.	<u>\$5,000</u>
		\$70,000
Legal/Negotiation Costs for Development Agreement		
Drafting & Negotiation of Exclusive Negotiation Agreement	3 mos.	\$10,000
Drafting and Negotiation of Development Agreement & Entitlements	5 mos.	\$15,000
General Legal Counsel	Entire Project	<u>\$5,000</u>
		\$30,000
Ongoing Costs/Maintenance		
Community Benefit District Fees	3 years	\$7,669
Maintenance/Property Insurance	3 years	<u>\$12,556</u>
		\$20,225
<b>Total</b>		<b>\$135,225</b>