


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

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**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** January 16, 2013 Budget and Finance Committee Meeting

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**Item 1**  
**File 12-1184**

**Departments:**  
San Francisco Municipal Transportation Agency (SFMTA)

## **EXECUTIVE SUMMARY**

### **Legislative Objective**

- The proposed resolution would approve a new lease agreement between the City and County of San Francisco and Japan Center Garage Corporation, a non-profit corporation, for the Japan Center Public Parking Garage, with an initial term of ten years with two five-year options to extend.

### **Key Points**

- The San Francisco Municipal Transportation Agency (SFMTA) has an existing lease with the Japan Center Garage Corporation for the Japan Center Garage from July 1, 2002 through June 30, 2017. SFMTA proposes to terminate the existing lease and enter into a new lease in order to (a) incorporate provisions of the July 2012 SFMTA Parking Revenue Bonds, (b) standardize provisions of SFMTA's two leases with parking garage corporations (Japan Center Garage Corporation and Uptown Parking Corporation, File 12-1185), and (c) improve operational requirements.

### **Fiscal Impact**

- The FY 2013-14 Japan Center Garage budget includes expenditures of \$2,786,684 and revenues of \$4,250,415, resulting in estimated net revenues to SFMTA of \$1,463,731. The proposed lease contains the following changes as compared to the existing lease: (a) annual expenditures of \$12,215 for the Japan Center Garage share of debt service on \$5,000,000 of the \$43,050,000 SFMTA Parking Revenue Bonds, which are allocated for the capital assessment of SFMTA public parking facilities; (b) discontinuation of the annual set aside of 25 percent of net income for capital improvements that is replaced by an annual set aside of \$450,000 for capital improvements beginning in the fourth year of the proposed lease; and (c) transfer of the \$2,000,000 balance of the Japan Center Garage Corporation's Capital Improvement Account to the SFMTA to support SFMTA operating expenditures.

### **Policy Consideration**

- Although the Controller's June 9, 2011 finding that "leasing garages to nonprofit corporations is unnecessarily costly to the City", SFMTA is proposing to enter into new garage leases with two nonprofit corporations (Japan Center Garage Corporation and Uptown Parking Corporation, File 12-1185). According to SFMTA, the provisions in the proposed lease address specific recommendations that the Controller made in its report, including (a) the option to terminate the lease with a 90-day notice for convenience and (b) the incorporation of updated SFMTA parking facility operation and management regulations which govern all day-to-day garage operations administered by the SFMTA.
- Given that (a) the Controller's June 9, 2011 report found that "leasing garages to nonprofit corporations is unnecessarily costly to the City", (b) Japan Center Garage Corporation would be one of two remaining nonprofit corporations managing City-owned garages, and (c) SFMTA reports that the actual value of the corporation oversight is difficult to quantify, approval of the proposed resolution is a policy decision for the Board of Supervisors.

### **Recommendation**

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

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

In accordance with City Charter Section 9.118(c), any lease exceeding ten years and/or having anticipated revenue of \$1,000,000 or greater is subject to the Board of Supervisors approval.

**Background**

The Japan Center Garage is a City-owned off-street parking facility under the jurisdiction of the San Francisco Municipal Transportation Agency (SFMTA), located at 1610 Geary Street with a Japan Center Garage Annex at 1650 Fillmore Street. The Japan Center Garage has approximately 745 parking spaces and the Japan Center Garage Annex has approximately 175 parking spaces, or a combined total of 920 parking spaces.

The Japan Center Garage Corporation is a non-profit corporation, formed in 1998 to replace the Western Addition Parking Corporation (WAPC) which was dissolved after full payment of its bonds. WAPC was formed in 1961 for the sole purpose of assisting the City by financing the costs of the Japan Center Garage through the sale of bonds. The Japan Center Garage Corporation has managed the Garage since 1998, which primarily requires oversight of a day-to-day parking operator agreement, including ensuring that the operator is providing sufficient staffing and cleanliness levels, and that all equipment is in proper working order. The Japan Center Garage Corporation currently contracts with IMPCO Parking to provide day-to-day parking garage operations at both, the Japan Center Garage and the Japan Center Garage Annex.

In July 2012, the SFMTA issued \$43,050,000 in Parking Revenue Bonds for the SFMTA public parking facility portfolio to refinance the existing garage debt and to perform necessary garage capital improvements. According to Mr. Steven Lee, Manager, SFMTA Financial Services/SFpark, \$5,000,000 of the \$43,050,000 Parking Revenue Bonds were allocated for a capital assessment of the SFMTA public parking facilities. This assessment will be used to determine the size of the next bond issuance for the actual capital improvement work anticipated to begin in FY 2013-14.

At the time of the revenue bond issuance, the Japan Center Garage did not have any outstanding debt and the SFMTA Parking Revenue Bond issuance did not activate the termination of the existing lease with the Japan Center Garage Corporation. However, SFMTA is negotiating proposed new leases with the Uptown Parking Corporation for the Sutter Stockton Garage (see File 12-1185) and the Union Square Garage<sup>1</sup> and wanted to standardize the leases.

The existing lease between the City and the Japan Center Garage Corporation has an initial term of 15 years from July 1, 2002 through June 30, 2017 and includes one option to extend the lease for an additional 15-year term. The existing lease requires that the Japan Center Garage Corporation pay the SFMTA \$1 in annual rent and requires an annual set aside of 25 percent of the Garage's net income for capital improvements. The Japan Center Garage Corporation historically collected all garage revenues on behalf of SFMTA and then deducted the annual

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<sup>1</sup> The proposed lease between SFMTA and Uptown Parking Corporation for the Union Square Garage, which is located on Recreation and Park Department property, is expected to be heard by the Recreation and Park Commission, and subsequently sent to the Board of Supervisors if approved.

expenses of operating and managing the Japan Center Garage from those revenues. The remaining net income was remitted by the Japan Center Garage Corporation to SFMTA. As shown in Table 1 below, the Japan Center Garage Corporation paid the SFMTA \$1,291,555 which represents the net income (revenues less expenditures) from the Japan Center Garage in FY 2011-12.

**Table 1: Japan Center Garage Actual Expenditures & Revenues for FY 2011-12**

<b>Expenditures</b>	<b>Actual</b>
Operating Expense	\$1,559,418
Parking Tax	817,473
Corporation Expense	25,552
<b>Total Expenditures</b>	<b>\$2,402,443</b>
<b>Revenue</b>	
Parking Revenue	4,087,367
Non-Parking Revenue	37,150
<b>Total Revenues</b>	<b>\$4,124,517</b>
<b>Net Income</b>	<b>\$1,722,074</b>
<b>25% retained by corporation for capital improvements</b>	430,519
<b>Total Balance Paid to SFMTA</b>	<b>\$1,291,555</b>

Mr. Lee advises that the Japan Center Garage Corporation is reimbursed for its actual costs to manage the Japan Center Garage. As shown in Table 2 below, Japan Center Garage Corporation incurred management costs of \$276,782 in FY 2011-12, which are included in the \$1,559,418 in operating expenses (See Table 1).

**Table 2: Japan Center Garage Corporation's FY 2011-12 Management Costs**

<b>Corporation Expenditures</b>	<b>Estimated Amount</b>
Corporate Manager	\$126,000
Attorney Fees	17,000
Corporation Accounting Staff	125,000
Corporate Insurance	8,782
<b>TOTAL</b>	<b>\$276,782</b>

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease agreement between the City and County of San Francisco and Japan Center Garage Corporation to continue to manage the garage operations for the Japan Center Public Parking Garage, with an initial term of ten years with two five-year options to extend. The proposed lease requires that the Japan Center Garage Corporation pay the SFMTA \$1 in annual rent and requires an annual set aside of \$450,000 for capital improvements beginning in the fourth year of the initial ten-year term. The proposed lease incorporates updated SFMTA parking facility operation and management regulations which govern all day-to-day garage operations administered by the SFMTA. Additionally, under the proposed lease, both the City and the Japan Center Garage Corporation can terminate the lease with a 90-day notice.

Under the proposed lease, at the time of execution, the \$2,000,000 balance of the Japan Center Garage Corporation's Capital Improvement Account will be transferred to the SFMTA to support SFMTA operating expenditures.

Mr. Lee advises that although the existing lease does not expire until June 31, 2017, SFMTA determined that a new lease would benefit the SFMTA and the Japan Center Garage Corporation through the (a) standardization of leases with the non-profit garage corporations, (b) improvements of operational requirements, (c) inclusion in the SFMTA garage improvement plan, and (d) the transfer of capital funds to SFMTA.

## FISCAL IMPACTS

Currently, the Japan Center Garage Corporation pays \$1 in annual rent to SFMTA for the Japan Center Garage and would continue to be required to pay \$1 in annual rent to SFMTA under the proposed lease. In addition, as discussed above, the Japan Center Garage Corporation currently collects all garage revenues on behalf of SFMTA and then deducts the annual expenses of operating and managing the Japan Center Garage, with the remaining balance of net income being remitted to SFMTA.

As shown in Table 3 below, the FY 2013-14 Japan Center Garage budget, which is the first full-year budget under the proposed new lease, includes expenditures of \$2,786,684 and revenues of \$4,250,415, resulting in estimated net revenues to SFMTA of \$1,463,731.<sup>2</sup> The proposed new lease contains the following changes as compared to the existing lease:

- (a) Annual expenditures of \$12,215<sup>3</sup> for the Japan Center Garage share of debt service on \$5,000,000 of the \$43,050,000 in SFMTA Parking Revenue Bonds, which are allocated for the capital assessment of SFMTA's public parking facilities;

<sup>2</sup> The FY 2012-13 Japan Center Garage budget, which includes approximately 5 months of the proposed lease, includes expenditures of \$2,715,205 and revenues of \$4,174,555, resulting in net revenues to SFMTA of \$1,459,350.

<sup>3</sup> Annual debt service is expected to increase to \$15,626 in Fiscal Year 2022-23, the final year of the initial term of the proposed lease.

- (b) Discontinuation of the annual set aside of 25 percent of net income for capital improvements to be replaced by an annual set aside of \$450,000 for capital improvements beginning in the fourth year of the initial ten-year term of the proposed new lease; and
- (c) Transfer of the \$2,000,000 balance of the Japan Center Garage Corporation's Capital Improvement Account to the SFMTA to support SFMTA operating expenditures.

**Table 3: Budgeted Japan Center Garages Expenditures & Revenues for FY 2013-14**

<b>Expenditures</b>	<b>Budgeted</b>
Operating Expense	\$1,909,930
Parking Tax	843,239
Corporation Expense	21,300
Debt Service <sup>1</sup>	12,215
<b>Total Expenditures</b>	<b>\$2,786,684</b>
<b>Revenue</b>	
Parking Revenue	\$4,216,193
Non-Parking Revenue <sup>2</sup>	34,222
<b>Total Revenues</b>	<b>\$4,250,415</b>
<b>Total Balance Paid to SFMTA</b>	<b>\$1,463,731</b>

<sup>1</sup> The Japan Center Garage's share of debt service on \$5,000,000 of the \$43,050,000 SFMTA Parking Revenue Bond that was allocated for the capital assessment of SFMTA's public parking facilities.

<sup>2</sup> Non-parking revenues are from retail concessions and storage space leases located in the Japan Center Garage.

The Japan Center Garage Corporation's FY 2013-14 budgeted management costs are \$319,000, or 11.4 percent, of the expenditure budget of \$2,786,684. According to Mr. Lee, Uptown Parking Corporation's management costs allocated to the Japan Center Garage are 11.4 percent of operating expenses, compared to Uptown Parking Corporation's management costs allocated to the Sutter Stockton Garage, of 2.8 percent (File 12-1185), because the Uptown Parking Corporation's management costs are distributed between the Sutter Stockton and Union Square Garages, resulting in greater efficiencies. Also, according to Mr. Lee, the Japan Center Garage has an extensive validation program that requires higher than usual accounting oversight.

**POLICY CONSIDERATIONS****The Controller's June 9, 2011 report found that "leasing garages to nonprofit corporations is unnecessarily costly to the City"**

On June 9, 2011 the Controller's Office issued a report which found that "leasing garages to nonprofit corporations is unnecessarily costly to the City". This Controller's report found that the City's practice of leasing City-owned garages to special-purpose nonprofit corporations, such as the Japan Center Garage Corporation, added a total of approximately \$551,070 in additional annual costs to the City. Specifically, the Controller found that (a) based on the results of a survey, the City is the only municipality in California which leases City-owned parking garages to nonprofit corporations who then subcontract the day-to-day operations of those City-owned garages, (b) nonprofit parking corporations do not appear to offer tangible operational advantages, and (c) the City is unlikely to need nonprofit parking corporations to help construct or expand parking garages in the future.

Mr. Lee advises that the SFMTA has addressed specific recommendations which the Controller made, including (a) the option to terminate the lease with a 90-day notice for convenience and (b) the incorporation of updated SFMTA parking facility operation and management regulations which govern all day-to-day garage operations administered by the SFMTA.

The leases of two non-profit corporations, (a) Ellis O'Farrell Parking Corporation which manages the Ellis O'Farrell Garage, and (b) Downtown Parking Corporation, which manages the Fifth & Mission Garage, whose debt was redeemed in July 2012, have been terminated as their leases required. In contrast, the SFMTA is requesting that the Japan Center Garage Corporation and the Uptown Parking Corporation be the only two nonprofit corporations that would continue to manage City-owned garages, on behalf of the SFMTA, even though these two garages have no outstanding debt. According to Mr. Lee, when considering alternatives to day-to-day management by non-profit corporations, the actual value of the corporation board oversight is difficult to quantify.

Given (a) the Controller's June 9, 2011 report findings, (b) and that the Japan Center Garage Corporation would be one of two remaining nonprofit corporation to continue in its current role of managing City-owned garages on behalf of the SFMTA, and (c) that SFMTA reports that the actual value of the corporation board oversight is difficult to quantify, approval of the proposed resolution is a policy decision for the Board of Supervisors.

**RECOMMENDATION**

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