

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

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TO: Budget and Finance Sub-Committee
FROM: Budget and Legislative Analyst
SUBJECT: June 5, 2013 Budget and Finance Sub-Committee Meeting

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Item 8 File 13-0473	Departments: Department of Public Works (DPW) Department of Public Health, Laguna Honda Hospital (LHH)
EXECUTIVE SUMMARY	
Legislative Objectives	
<ul style="list-style-type: none"> • The proposed resolution would approve a funding increase for an emergency public work contract under Administrative Code Section 6.60 to repair a kitchen cart wash leak and related mold abatement at Laguna Honda Hospital (LHH) for a not to exceed \$595,367. 	
Key Points	
<ul style="list-style-type: none"> • In September of 2011, LHH staff discovered a leak that had gone undetected for several months, causing extensive damage and mold in several rooms in LHH. • On June 6, 2012, the Director of DPW declared an emergency to allow immediate repair and mold abatement, in accordance with Administrative Code Section 6.60, without undergoing the City's regular competitive bidding procedures. On June 12, 2012, DPW awarded a not-to-exceed contract for \$80,000 to Belfor USA Group, Inc. to perform the demolition, related mold remediation and reconstruction work at LHH. • In June 2012, Belfor began demolition, water damage repair and mold clean-up work, which extended until November 2012. As the work progressed, significantly more water damage and mold were found. In January of 2013, Belfor submitted invoices totaling \$328,644 and estimates additional costs of \$266,723, or a total cost of \$595,367. 	
Fiscal Impacts	
<ul style="list-style-type: none"> • The total project costs of not-to-exceed \$595,367 are \$515,367 or 644% more than the original not-to-exceed \$80,000 contract with Belfor. To date, Belfor has incurred expenditures totaling \$328,644. DPW has not yet paid Belfor any funds. • All of the expenses would be funded from the LHH Replacement Program budget. 	
Policy Consideration	
<ul style="list-style-type: none"> • Although the emergency was discovered in September 2011, the emergency was not officially declared until June 6, 2012 and the work did not commence until late June 2012, over eight months after the emergency was discovered. In addition, DPW delayed for four months to submit the proposed resolution to the Board of Supervisors. Therefore, the Budget and Legislative Analyst questions whether the subject emergency request for not-to-exceed \$595,367 meets the definition of an emergency, thereby authorizing a sole source contract award without undergoing the City's regular competitive bidding process. 	
Recommendations	
<ul style="list-style-type: none"> • Amend the proposed resolution to reduce the requested emergency authorization from a not-to-exceed \$595,367 to \$328,644, the amount that has already been incurred. • Request DPW to seek competitive construction bids and to award a subsequent contract to the lowest responsive bidder for the remaining reconstruction work at LHH. 	

MANDATE STATEMENT/BACKGROUND**Mandate Statement**

In accordance with Administrative Code Section 6.60, an emergency contract awarded by a City department that exceeds \$250,000 requires approval by the Board of Supervisors. Administrative Code provisions also authorize department heads responsible for such emergency work to award and proceed with emergency contracts, which are not subject to the City's regular competitive bidding procedures. The Administrative Code defines an emergency as a sudden, unforeseeable and unexpected occurrence or a discovery of a condition involving a clear and imminent danger, demanding immediate action to prevent or mitigate loss or damage to, life, health, property or essential public services.

Background

The Laguna Honda Hospital (LHH) Replacement Program comprises demolition, construction, and renovation of LHH, which includes (a) construction of four new buildings, including a Pavilion Building, (b) renovations of existing facilities, and (c) demolition of existing older facilities, for a total cost of \$584,946,602. According to Mr. John Thomas, Project Manager for DPW, the new LHH buildings were completed and occupied in December 2010, renovations of the existing facilities will be completed by September, 2013, and the demolition of the older facilities is anticipated to be completed by the end of 2014.

In September of 2011, elevator maintenance staff working in the new Pavilion Building at LHH discovered water in the elevator machine room. LHH staff then traced the water to find that there was a leak in the hospital cart wash room¹ in the floor above, which resulted in water traveling down to damage several rooms on the floor below. Mr. Thomas estimates that this leak had gone undetected for several months, such that extensive damage had occurred and mold had grown in several rooms.

On June 6, 2012, the Director of DPW declared an emergency to allow immediate repair of the LHH kitchen cart wash room and mold abatement for an estimated cost of up to \$250,000, in accordance with Administrative Code Section 6.60, which authorizes department heads to award emergency contracts, without undergoing the City's regular competitive bidding procedures. Mr. Thomas advises that an independent assessment, provided by Cooper Pugaeda Management², estimated a cost of up to \$80,000, based on what DPW knew regarding the extent of the damage at LHH at that time. On June 12, 2012, DPW awarded a not-to-exceed sole source contract for \$80,000 to Belfor USA Group, Inc. to perform the demolition, related mold remediation and construction work at LHH. According to Mr. Thomas, Belfor USA Group (Belfor) is a private firm that specializes in disaster recovery and property restoration, which was recommended by the City's insurance representatives.

¹ The hospital cart wash room is where LHH staff washes the mobile carts that are used to transport food from the adjacent main kitchen to the 780 patients throughout the Hospital.

² Cooper Pugaeda Management is a private construction management firm that was retained to provide estimates for the overall Laguna Honda Hospital Replacement Program.

In late June 2012, Belfor began the demolition, water damage repair and mold clean-up work. Mr. Thomas advises that as the demolition, water damage repair and mold clean-up work progressed, more water damage and mold were found, necessitating additional demolition, repair and further clean-up and remediation. In January of 2013, Mr. Thomas advises that Belfor submitted invoices totaling \$328,644 for the initial demolition, water damage repair and mold remediation work, completed through November 2012. In addition, Mr. Thomas advises that Belfor estimates costs of up to an additional \$266,723 to reconstruct the facilities, for a total cost of not-to-exceed \$595,367. According to Mr. Thomas, DPW has not paid Belfor for any of the work completed through November 2012, at which time Belfor ceased working. Mr. Thomas advises that after Belfor is paid for their initial \$328,644, Belfor estimates they can complete the remaining work by September 2013.

DETAILS OF PROPOSED LEGISLATION

Since the emergency contract has exceeded the \$250,000 threshold, as required by Administrative Code Section 6.60, the proposed resolution would approve a funding increase for an emergency public work contract to repair a kitchen cart wash leak and related mold abatement at Laguna Honda Hospital in an amount not-to-exceed \$595,367.

As noted above, on June 6, 2012, the Director of DPW declared an emergency to allow immediate repair of the LHH kitchen cart wash room and mold abatement for an estimated cost of up to \$250,000. Under Administrative Code Section 6.60, an emergency contract awarded by a City department that exceeds \$250,000 requires approval by the Board of Supervisors. As discussed above, Belfor, the selected contractor, currently estimates a total cost of not-to-exceed \$595,367 to complete the necessary work.

FISCAL IMPACTS

As noted above and shown in the Table below, Belfor has submitted invoices to DPW totaling \$328,644. In addition, Belfor estimates additional expenditures of \$266,723 to complete the reconstruction work, as shown in the Table below, such that the total project costs are presently estimated at \$595,367.

Actual Expenditures to Date and Estimated Future Expenditures

Item	Actual invoices to date	Estimated additional Expenditures to be incurred	Total Estimated Expenditures
Labor	\$233,428	\$212,000	\$445,428
Equipment	83,643	w/Labor	83,643
Materials	11,573	54,723	66,296
Total	\$328,644	\$266,723	\$595,367

The total estimated project cost of \$595,367 is \$515,367 or 644% more than the originally estimated \$80,000 not-to-exceed contract with Belfor.

According to Mr. Thomas, all of the necessary demolition, water damage repair and mold remediation and restoration of the Pavilion Building will be funded from the Laguna Honda Hospital Replacement Program budget, from funds previously appropriated by the Board of Supervisors. As noted above, the total budget for the LHH Replacement Program is \$584,946,602. Mr. Thomas advises that as of April 30, 2013, the LHH Replacement Program has expended \$568,893,943, leaving a remaining balance of \$16,052,659.

POLICY CONSIDERATIONS

Recovery of Funds from Lawsuit or Insurance Policy

Ms. Louise Simpson of the City Attorney's Office advises that the City has sued Stantec, the architect for the LHH Replacement Project, for total estimated damages in excess of \$45 million. The City alleges that Stantec defectively designed the LHH Replacement Project, including the kitchen cart wash room, which is the subject of the proposed emergency resolution. In addition, Ms. Simpson advises that LHH has a separate property insurance policy which could cover some of the costs of the subject demolition and reconstruction. However, Ms. Simpson advises that the potential for recovery of funds from either the Stantec lawsuit or the LHH property insurance policy is unknown at this time.

Emergency Authorization Demands Immediate Action Without Undergoing the City's Competitive Bidding Requirements

Although the emergency was discovered in September 2011, the emergency was not officially declared until June 6, 2012 and the work did not commence until late June 2012, over eight months after the emergency was discovered. According to Mr. Thomas, the delay in declaring the emergency and commencing the work was due to (a) a lawsuit pending with Stantec Architects, the architects who designed the LHH Replacement facilities, (b) evaluation of whether Turner Construction, the prime construction contractor for the LHH Replacement Program should complete the emergency work, and (c) discussion with various insurance representatives whether the emergency work would be covered by one of several insurance policies and the requirements of each. However, Mr. Thomas advises that after the water damage and mold were discovered in September 2011, DPW working with LHH staff, immediately restricted access to the contaminated areas and installed temporary protection for LHH workers in order to continue LHH operations.

In addition, Belfor completed their initial demolition, water damage repair and remediation work in November 2012 and submitted invoices totaling \$328,644 to DPW for this work in January of 2013. Therefore, in January of 2013, DPW knew that their authorization for up to \$250,000 for this emergency work would not be sufficient and would require further Board of Supervisors approval. However, the proposed resolution for such Board of Supervisors approval was not submitted until May 2013, or over four months later.

As noted above, Belfor is now estimating it will cost up to an additional \$266,723 to reconstruct the LHH facilities, for a total cost not-to-exceed \$595,367. Belfor would complete this remaining reconstruction work by September 2013, or two years after the emergency leak was discovered.

The proposed resolution would authorize the Director of DPW to complete all work necessary to repair and abate the LHH cart wash room and area below for a not-to-exceed \$595,367 and ratify DPW actions to date to secure this emergency contract and resolve the emergency condition, without ever having undergone a competitive process for the awarded contract to Belfor.

However, in accordance with Administrative Code Section 6.60, an emergency is defined as a sudden, unforeseeable and unexpected occurrence or a discovery of a condition involving a clear and imminent danger, *demanding immediate action (emphasis added)* to prevent or mitigate loss or damage to life, health, property or essential public services. In accordance with Administrative Code Section 6.60, emergency contracts are not subject to the City's regular competitive bidding procedures. Given the significant delays of eight months prior to commencing the initial work and an additional four months prior to submitting this request to the Board of Supervisors, the Budget and Legislative Analyst questions whether the subject emergency request for not-to-exceed \$595,367 meets the definition of an emergency, thereby authorizing a sole source contract award without undergoing the City's regular competitive bidding process.

Therefore, the Budget and Legislative Analyst recommends amending the proposed resolution to reduce the requested authorization from a not-to-exceed \$595,367 to a not-to-exceed \$328,644, because those funds have already been incurred by the contractor Belfor. DPW should then be requested to seek competitive construction bids, and to award a subsequent contract to the lowest responsive bidder, for the remaining reconstruction work at LHH to be completed as soon as possible.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the requested emergency authorization by \$266,723 from a not-to-exceed \$595,367 to \$328,644, the amount that has already been incurred.
2. Request DPW to seek competitive construction bids and to award a subsequent contract to the lowest responsive bidder for the remaining needed reconstruction work at LHH.

Item 10
File 13-0471

Department(s):
Mayor's Office of Housing (MOH)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would authorize an expenditure of \$300,000 from the South of Market Area (SOMA) Community Stabilization Fund to fund the (1) Neighborhood and Business Coordination Program, and (2) School Site Coordinator Program.

Key Points

- Under the City's Planning Code, developers constructing new residential development in the Rincon Hill Downtown Residential District pay development impact fees (South of Market Community Stabilization Fee) of \$10.95 per square foot. Fee revenues are deposited into the SOMA Community Stabilization Fund to be used for housing and economic and workforce development. The MOH administers the SOMA Community Stabilization Fund, and the Community Stabilization Fund Community Advisory Committee advises on the use of fees allocated to the SOMA Community Stabilization Fund revenues, subject to Board of Supervisors approval.
- Based on a Requests for Proposal (RFP) process, the Community Stabilization Fund Community Advisory Committee and MOH are recommending allocation of SOMA Community Stabilization Fund revenues for the two-year period approximately from July 1, 2013 and ending June 30, 2015 as follows: (a) \$200,000 to the Renaissance Entrepreneurship Center, a non-profit agency, for the development, implementation, and administering of a program within the Neighborhood and Business Coordination Program, (b) \$100,000 to the South of Market Child Care, Inc. a non-profit agency, for the hiring and supervising of a school/community partnerships coordinator at the Bessie Carmichael School within the School Site Coordinator Program.

Fiscal Impact

- The SOMA Community Stabilization Fund currently has a net balance of \$4,120,617. If the proposed resolution is approved authorizing \$300,000 of expenditures from the SOMA Community Stabilization Fund, the SOMA Community Stabilization Fund balance would be reduced to \$3,820,617 (\$4,120,617 less \$300,000).

Recommendation

- Approve the proposed resolution.

BACKGROUND/MANDATE STATEMENT

Mandate Statement

In accordance with Planning Code Section 418.7, all monies in the South of Market Area (SOMA) Community Stabilization Fund are to be expended in order to address the effects of destabilization on residents and businesses in SOMA due to development in the Rincon Hill Area, subject to conditions specified in the Planning Code. In accordance with Section 418.7(c) of the Planning Code, the SOMA Community Stabilization Fund expenditures are administered by the Mayor's Office of Housing (MOH), subject to approval by resolution of the Board of Supervisors. In approving expenditures from the Fund, (a) MOH and the Board of Supervisors shall consider any comments from the SOMA Community Stabilization Fund Community Advisory Committee, the public, and any relevant City departments or offices, and (b) the Board of Supervisors shall determine the relative impact from the development in the Rincon Hill Plan Area and shall insure that the expenditures are consistent with mitigating the impacts from the development.

Background

On August 19, 2005, the Board of Supervisors approved a new Section 318 in the City's Planning Code, which among other provisions, (a) established the Rincon Hill Downtown Residential District¹, (b) created a Rincon Hill Community Improvement Fund, (c) imposed on developers a South of Market Area (SOMA) Community Stabilization Fee of \$14 per square foot (subsequently amended down to \$10.95 per square foot by the Board of Supervisors under Ordinance 270-10) on new residential development within the Rincon Hill Downtown Residential District, (d) created the SOMA Community Stabilization Fund, and (e) established a SOMA Community Stabilization Fund Community Advisory Committee (CAC) to advise the MOH and the Board of Supervisors on the uses of the SOMA Community Stabilization Fund (Ordinance 217-05).

In accordance with Section 418.7 of the Planning Code, monies in the SOMA Community Stabilization Fund are to be used to address the effects of destabilization on residents and businesses in SOMA due to new residential development in the Rincon Hill Area. Under the Planning Code, the SOMA Community Stabilization Fund is to be used for housing, and economic and workforce development.

On May 6, 2008, the Board of Supervisors approved a resolution (Resolution 0216-08) (a) approving the SOMA Community Stabilization Fund Strategic Plan, (b) authorizing MOH to administer the SOMA Community Stabilization Fund in accordance with this Strategic Plan, and (c) authorizing MOH to work with the SOMA Stabilization Fund Community Advisory Committee to issue Requests for Proposals (RFPs) to approve grants through a competitive process to non-profit agencies for addressing the effects of destabilization on residents and businesses in SOMA, consistent with the Community Stabilization Fund Strategic Plan among other provisions. In 2011, the SOMA Stabilization Fund Community Advisory Committee revised the Community Stabilization Fund Strategic Plan to focus future investments with the

¹ The Rincon Hill Downtown Residential District is considered to be the area bounded by Folsom Street, The Embarcadero, Bryant Street, and Essex Street.

consideration of the changing economic conditions and the rapid rate of development in the SOMA neighborhood.

The revised Community Stabilization Fund Strategic Plan identified three strategic directions for the SOMA Community Stabilization Fund, (1) Housing, (2) Jobs and Income, and (3) Community Cohesion and Neighborhood Communication.

On July 9, 2012 MOH issued a RFP that included the following program areas in the SOMA Community Stabilization Fund Area:

- 1) Development and Housing Coordination;
- 2) Neighborhood and Business Coordination;
- 3) Community Council; and
- 4) Community Action Grants Coordinator.

On December 11, 2012 the Board of Supervisors approved an expenditure of \$760,000 from the SOMA Community Stabilization Fund to fund grants for non-profit agencies for the (1) Development and Housing Coordination Program, \$160,000; (2) Community Council Program, \$100,000; (3) Community Action Grants Coordinator Program, \$100,000; and to also provide monies to the Mayor's Office of Housing (MOH) Funding Pool for future SOMA site acquisition, \$400,000 (File No. 12-1109). No funding was provided for the Neighborhood and Business Coordination program included in the July RFP.

According to Ms. Claudine Del Rosario of MOH, MOH received four proposals for the Neighborhood and Business Coordination program, but following a review of the proposals by the SOMA Community Advisory Committee and MOH, funding was not recommended because the proposals submitted by the non-profit agencies did not meet the criteria included in the RFP.

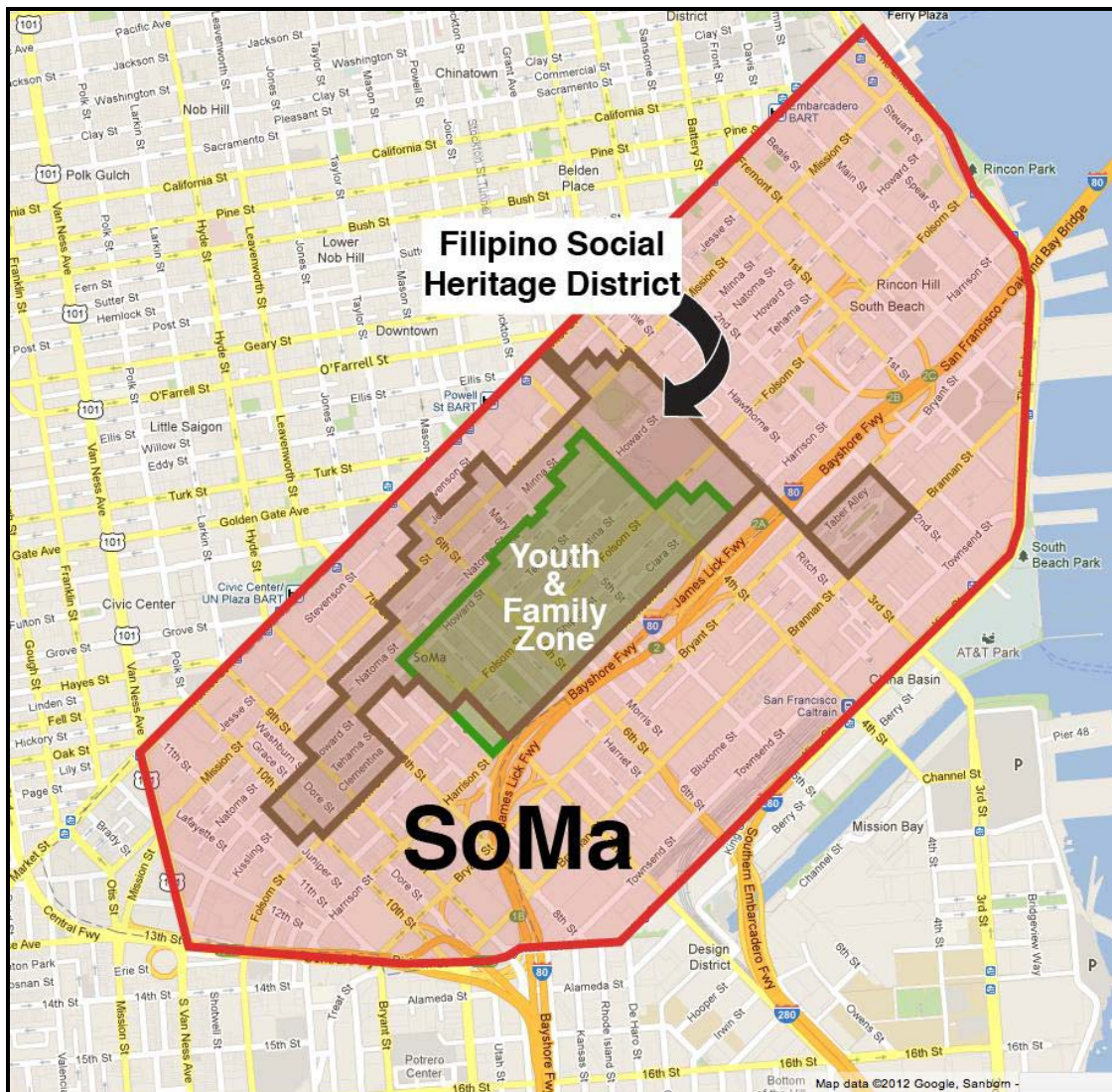
On March 1, 2013 MOH issued a subsequent RFP that included the following program areas in the SOMA Community Stabilization Fund Area:

- 1) Neighborhood and Business Coordination; and
- 2) School Site Coordinator.

Ms. Del Rosario states that the March 2013 RFP included the Neighborhood and Business Coordination and School Site Coordinator programs because (a) no SOMA Community Stabilization Fund monies were recommended for the Neighborhood and Business Coordination program in the prior RFP because MOH received no qualified proposals, and (b) the School Site Coordinator program is a new program.

According to the March 2013 RFP, priority would be given to programs serving low income residents and small community-serving businesses in South of Market and in the overlapping geographic areas identified as the Children and Families Zone and the Filipino Social Heritage District as shown in the map below (Figure 1). Ms. Del Rosario reports that MOH released the RFP on the MOH website and the MOH list serve, and published the RFP in local newspapers.

**Figure 1. Map of SOMA Community Stabilization Fund Area
With the RFP’s Designated Priority Geographic Areas**



Neighborhood and Business Coordination Program: \$200,000

According to the RFP, the Neighborhood and Business Coordination Program is to develop, implement and administer a program that connects SOMA residents, community-based non-profit organizations, and small for-profit businesses located in the neighborhood to create employment opportunities and other relationships to achieve neighborhood cohesion.

MOH received two proposals from two non-profit organizations for the Neighborhood and Business Coordination program: Renaissance Entrepreneurship Center and Urban Solutions. The SOMA Community Advisory Committee and MOH reviewed the two proposals and recommended awarding a grant of \$200,000 to fund the Renaissance Entrepreneurship Center agency.

School Site Coordinator Program: \$100,000

According to the RFP, the School Site Coordinator Program will provide a coordinator position responsible for facilitating the process of transforming Bessie Carmichael School, located at 375 7th Street, into a full service community school.

Only South of Market Child Care, Inc., a non-profit agency, responded to the RFP for the School Site Coordinator Program. The SOMA Community Advisory Committee and MOH reviewed the proposal and recommended \$100,000 to fund the South of Market Child Care agency.

DETAILS OF PROPOSED LEGISLATION

Based on a competitive RFP process, the proposed resolution would authorize \$300,000 of expenditures from the SOMA Community Stabilization Fund to fund (1) Renaissance Entrepreneurship Center, a non-profit agency, to develop the Neighborhood and Business Coordination Program (\$200,000), and (2) South of Market Child Care, Inc., a non-profit agency, to develop the School Site Coordinator Program (\$100,000).

According to Ms. Del Rosario, MOH does not yet have detailed budgets for the agreements with the recommended non-profit agencies because such budgets are still subject to MOH negotiations. The recommended funding, as seen in Table 1, would provide for:

1. Award of a \$200,000 grant for a two-year period from approximately July 1, 2013 through June 30, 2015 to the Renaissance Entrepreneurship Center, a non-profit agency, to develop, implement and administer the Neighborhood and Business Coordination Program that connects residents, community based organizations, and small businesses in SOMA, and create employment opportunities and other connections to facilitate neighborhood cohesion. The grant would partially fund a Program Coordinator and a Program Associate, as well as a subcontractor non-profit agency (United Playaz), and outreach and business consultants.
2. Award of a \$100,000 grant for a two-year period from approximately July 1, 2013 through June 30, 2015 to South of Market Child Care, Inc., a non-profit agency, for the School Site Coordinator Program for hiring and supervising a school/community partnerships coordinator for the Bessie Carmichael School. The grant would partially fund a School Site Coordinator. The RFP requires additional leveraging of resources by South of Market Child Care, Inc. to fund the program beyond the two-year term of the subject grant.

Ms. Del Rosario states that the grants allow for modifications, which include extensions that must be executed and approved by MOH, and the City Attorney. However, additional funding would require Board of Supervisor approval.

FISCAL IMPACT

As detailed in Table 1 below, the proposed resolution would authorize \$300,000 of expenditures from the SOMA Community Stabilization Fund.

Table 1. SOMA Community Stabilization Fund Proposed Funding	
Non-Profit Agencies	Awards by Program Area
Neighborhood and Business Coordination Program	\$200,000
Renaissance Entrepreneurship Center	
School Site Coordinator Program	<u>100,000</u>
South of Market Child Care, Inc.	
TOTAL	\$300,000

Based on information provided by Mr. Benjamin McCloskey, MOH, and as shown in Tables 2 and 3 below, from FY 2005-06 to FY 2012-13, the SOMA Community Stabilization Fund has generated \$9,391,705 in revenues from the \$10.95 fee per square foot for the SOMA Community Stabilization Fund paid by the developers of new residential development within the Rincon Hill Downtown Residential District, and expended \$5,271,088 paid to non-profit agencies and for MOH and City Attorney costs from the SOMA Community Stabilization Fund, resulting in a remaining Fund balance of \$4,120,617.

	Revenue from Fees	Transfers from Community Improvement Funds (Rincon Hill Community Improvement Fund and SOMA Community Stabilization Fund)	Total Revenue
FY 2005-2006	\$98,471	\$0	\$98,471
FY 2006-2007	0	203,292	203,292
FY 2007-2008	0	0	0
FY 2008-2009	67,324	0	67,324
FY 2009-2010	4,962,933	350,000	5,312,933
FY 2010-2011	2,807,128	589,626	3,396,754
FY 2011-2012	(81,761)*	0	(81,761)
FY 2012-2013	185,874	0	185,874
Subtotal	\$8,039,969	\$1,142,918	\$9,182,887
Interest Earnings			\$208,818
Total			\$9,391,705

* Return of fees collected erroneously in the prior fiscal year for 333 Harrison project.

Source: Mayor's Office of Housing

	Salaries and Benefits and Other Costs	Inclusionary Housing Study	Grant Expenditures	Total Expenditures
FY 2006-2007	\$45,614	\$40,000	\$0	\$85,614
FY 2007-2008	82,452	110,000	0	192,452
FY 2008-2009	185,596	0	0	185,596
FY 2009-2010	102,090*	0	0	102,090
FY 2010-2011	135,719*	0	3,613,462	3,749,181
FY 2011-2012	160,709*	0	404,411	565,120
FY 2012-2013	115,997*	0	275,038	391,035
Total	\$828,177	\$150,000	\$4,292,911	\$5,271,088

* Includes advertising for public hearing and City Attorney costs.

Source: Mayor's Office of Housing

If the proposed resolution authorizing \$300,000 of expenditures from the SOMA Community Stabilization Fund is approved, the remaining Fund balance would be \$3,820,617 (\$4,120,617 less \$300,000).

RECOMMENDATION

Approve the proposed resolution.

Item 11
File 13-0495

Departments:
Port of San Francisco

EXECUTIVE SUMMARY

Legislative Objective

Approval of the proposed resolution would (1) find that the proposed Waterfront Site project is fiscally feasible; and (2) endorse the proposed term sheet between the Port and Forest City Development California, Inc. (Forest City).

Key Points

- Administrative Code Chapter 29 requires that certain development projects be submitted to the Board of Supervisors for approval of the project's fiscal feasibility prior to submitting the project to the Planning Department for environmental review. Additionally, the Budget and Legislative Analyst recommended in the 2004 Management Audit of the Port that the Port should submit term sheets for projects with development costs greater than \$10 million to the Board of Supervisors for endorsement. The finding that the proposed Pier 70 Waterfront Site project is fiscally feasible and endorsement of the proposed term sheet between the Port and Forest City does not commit the Board of Supervisors to future approval of environmental findings under the California Environmental Quality Act (CEQA) or approval of the final lease between the Port and Forest City.
- Under the proposed term sheet, Forest City or an affiliate would construct a mixed-use development that would include (1) commercial office and retail, (2) innovation, retail and arts (placemaking), and (3) residential uses as well as seven acres of open space and three parking facilities on Pier 70's Waterfront Site.
- The Port Commission selected Forest City to develop the Waterfront Site project based on a competitive Request for Qualification (RFQ) process and authorized Port staff to execute an Exclusive Negotiating Agreement with Forest City in April 2011.

Term Sheet

- The overall approach to the proposed Waterfront Site project is a four-phase parcelization strategy, where parcels within the Waterfront Site would be developed in four phases. The Port would enter into separate 99-year leases with Forest City or an affiliate for each development parcel. The Port would release the parcels for development, through sale or lease, based on fair market value.
- Forest City would fund the initial entitlement costs, including planning, environmental review, and land use approvals for the Waterfront Site and any additional third-party parcels being included in the Waterfront Site project for re-zoning and California Environmental Quality Act (CEQA) processes, in the first phase of the Waterfront Site project as well as horizontal infrastructure development costs as needed. Forest City would be reimbursed for those entitlement and horizontal developments costs and receive a return on their equity investment, equal to 18 percent cumulative annual return on that equity. Sources of funds to reimburse Forest City include (a) land sale proceeds from a third-party parcel outside of the Waterfront Site project, (b) Port Infrastructure Financing District

(IFD) bond proceeds, (c) Port IFD tax increment revenues, and (d) revenues from prepaid ground leases.

- The total estimated costs of the entitlement and horizontal infrastructure development for all phases of the proposed Waterfront Site project are approximately \$216,930,285.
- Most of the vertical development would be paid for through private investment. The proposed term sheet allows for the Port to use IFD bond proceeds for vertical improvements to new buildings on two specific parcels to promote innovation for small local production and art and cultural uses (place-making parcels), historic improvements to two buildings, construction of parking facilities, and the installation of piles to Pier 70.

Fiscal Feasibility

- The proposed Waterfront Site project would (1) yield total annual estimated tax and fee revenues to the City of \$28,681,000 and total one-time taxes and fee revenues of \$91.154,000, (2) generate an estimated 18,020 permanent jobs and 14,320 temporary construction-related jobs, (3) provide an estimated \$1.85 billion in construction expenditures, (4) be financed by \$222,492,328 in Port funds from IFD bonds, tax increment from the establishment of a Port IFD, and land proceeds and \$1.65 billion in private investment, and (5) ongoing maintenance and operational expenses would be funded through the creation of a maintenance CFD.
- Financing for the three parking facilities, improvements to Buildings 12 and 21, as well as for new vertical construction on the placemaking parcels has not been finalized. This represents a feasibility gap of \$98,381,700, but could be higher depending on further evaluation by historic preservation architects on the cost of improvements to Buildings 12 and 21.
- The proposed Waterfront Site project is fiscally feasible under Chapter 29 of the City's Administrative Code. However, financing for the three parking facilities, improvements to Buildings 12 and 21, and vertical development on the placemaking parcels currently represents a feasibility gap of \$98,381,700.

Recommendations

- The Board of Supervisors should amend the proposed resolution to request the Port to include the following recommendations in Waterfront Site project transaction documents, including ground leases, the development and disposition agreement (DDA), and the financing plan, if submitted, and report back to the Board of Supervisors on the inclusion of these recommendations at time of the Board of Supervisors hearing on these documents, as follows:
 - a. The only third-party parcels which are eligible for inclusion in the Waterfront Site project are the 20th/Illinois parcel and the Hoe Down Yard;
 - b. The definition of net sale proceeds for condominiums is 1.5 percent of the total sales price of the condominium net costs of sale;
 - c. Forest City 's return on equity would be calculated only on outstanding capital;

- d. Project-generated public financing proceeds would only be used to fill the feasibility gap necessary to achieve a 10 percent profit on Buildings 12 and 21 and that Forest City would not be entitled to receive funds to fill the feasibility gap from other Port funding sources;
 - e. Project-generated public financing proceeds would only be used to reimburse Forest City for any new building construction will be contingent upon those new buildings containing placemaking or other public uses which meet the legal requirements for eligible use of IFD or CFD financing; and
 - f. Financing utilizing Pier 70 payroll tax and hotel tax increment for Waterfront Site horizontal and vertical development under Charter Section B7.310 would not be utilized to fund Waterfront Site project improvements.
- The Board of Supervisors should amend the proposed resolution to require the Port to report back to the Board of Supervisors on the financing plans for the parking facilities and the placemaking parcels and Buildings 12 and 21 as soon as Forest City and the Port have agreed on the financing approach.
 - Approve the proposed resolution as amended.

MANDATE STATEMENT

Chapter 29 of the City's Administrative Code requires Board of Supervisors' approval of certain projects to determine the project's fiscal feasibility¹ prior to submitting the project to the Planning Department for environmental review if (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA), (b) total project costs are estimated to exceed \$25,000,000, and (c) construction costs are estimated to exceed \$1,000,000.

Chapter 29 specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including the (1) direct and indirect financial benefits to the City, (2) construction costs, (3) available funding, (4) long term operating and maintenance costs, and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review and does not include a determination that the project should be approved.

BACKGROUND

Pier 70

Pier 70 encompasses approximately 69 acres on the Port's Central and Southern Waterfront, bounded by Mariposa, Illinois and 22nd Streets. The Pier 70 Master Plan, approved by the Port Commission in April 2010, sets as goals:

- Creation of a Pier 70 National Register Historic District;
- Preservation of the ship repair industry;
- Creation of new shoreline open space and enhanced public access to the Central Waterfront;
- Promotion of mixed-use infill development and economic activity;
- Development of sites for office, research, emerging technology, light industrial, cultural and recreational uses;
- Creation of pedestrian-oriented and alternative transportation practices; and
- Remediation of environmental contamination.

As shown in Figure 1 below, Pier 70 consists of:

- A ship repair facility currently operated by BAE San Francisco Ship Repair, Inc., under a lease with the Port from 1987 to 2017;
- Existing or planned open space projects, including Crane Cove Park, Slipways Park and the Irish Hill;
- Planned rehabilitation of the 20th Street Historic Buildings (Historic Core) by Orton Development, Inc. (Orton); and
- Planned new mixed-use development on the Pier 70 Waterfront Site by Forest City Development California, Inc.² (Forest City), which is the subject of this resolution.

¹ Chapter 29 excludes various types of projects from the fiscal feasibility requirement, including (a) any utilities improvement project by the Public Utilities Commission, (b) projects with more than 75 percent of funding from the San Francisco Transportation Authority, and (c) projects approved by the voters of San Francisco.

² Forest City Development California, Inc. is a subsidiary of Forest City Enterprises, a publicly traded real estate development company.

Figure 1: Existing and Proposed Pier 70 Projects



Proposed Waterfront Site Project

The proposed Waterfront Site project, which is the subject of the proposed resolution, comprises an approximately 28-acre site located in the southeast corner of Pier 70 (Waterfront Site). The Waterfront Site currently has a mix of heavy commercial and light industrial buildings, including warehousing, contractor and construction storage.

As shown in Table 1 below, the Port will receive \$2,681,176 in rent in FY 2012-13. The City's towed car impound facility is currently housed at the Waterfront site but will be relocated in June 2013, resulting in a \$1,759,573 decrease in rent for the Waterfront Site, equal to approximately 65.6 percent of current annual rent received.

Table 1: Rent Currently Received by Port in FY 2012-13

Lessee	Term	Square Feet	Monthly Rent	Annual Rent
Paul's Stores, Inc.	Month-to-Month	67,741	16,178	\$194,137
Affordable Self Storage, Inc.	Month-to-Month	20,000	5,800	69,600
Delancey Street Foundation, Inc.	Month-to-Month	37,354	4,410	52,925
Multicultural Radio Broadcasting, Inc.	2/1/10 - 1/31/15	71,459	10,166	121,990
SFCC Parking & Traffic (SFMTA) & TEGSCO, LLC	7/31/05 - 7/31/15	523,296	146,631	1,759,573
Sims Group USA Corporation	2/1/11 - 1/31/16	64,842	15,238	182,854
SomArts	Month-to-Month	5,384	1,664	19,964
Noonan Bldg. (Art Studio space)	Various	41,345	23,344	280,133
Total		831,421	223,431	\$ 2,681,176

Selection of Forest City for Waterfront Site Development

In August 2010, the Port initiated a Request for Qualification (RFQ) process. The Port received six submissions from:

1. Build, Inc.
2. Forest City Development California, Inc.
3. Mission Bay Development Group
4. San Francisco Waterfront Partners
5. TMG Partners/The Sobrato Organization
6. United States, Department of Veteran Affairs, San Francisco Medical Center

Port staff found four of the submittals to be most qualified to meet the requirements of the RFQ. The Department of Veterans Affairs and Build, Inc. were deemed to not be compatible with the Waterfront Site.

The RFQ submittals were evaluated on a 100 point scale based on the below criteria:

1. Approach (35 points)
2. Experience (30 points)
3. Capacity (35 points)

Port Staff, aided by consultants and an evaluation panel, evaluated the submittals. The members of the evaluation panel were:

- Steve Chamberlin, Chamberlin Associates, retired developer and real estate professor at Haas Business School;
- Bijal Patel, Deputy Director, Property Development & Management, Santa Clara Valley Transit Authority;
- Tracie Reynolds, Manager, Real Estate and Development Services, San Francisco Redevelopment Agency;
- Corrine Woods, Central Waterfront Advisory Group, Mission Bay resident;
- Jasper Rubin, Central Waterfront Advisory Group, Planning professor at San Francisco State.

The scores achieved for each submittal are summarized below in Table 2.

Table 2: Scoring of Project Proposals

	Maximum Points	Forest City	Mission Bay Development Group	San Francisco Waterfront Partners	TMG Partners/Sobrato Organization
Approach	35	29.4	29.4	21.6	17.7
Experience	<u>30</u>	<u>25.7</u>	<u>22.8</u>	<u>22.6</u>	<u>17.8</u>
Panel Subtotal	65	55.1	52.2	44.2	35.5
Staff Capacity ³	10	9	6	6	9
Financial Capacity ⁴	<u>25</u>	<u>25</u>	<u>18</u>	<u>20</u>	<u>20</u>
Port Staff Subtotal	35	34	24	26	29
Total Score	100	89.1	76.2	70.2	64.5

The Port Commission approved the execution of the Exclusive Negotiating Agreement (ENA) with Forest City in April 2011. The ENA committed the Port to negotiate exclusively with Forest City on the proposed Waterfront Site project. However, approval of the ENA does not constitute approval of final leases, a lease disposition and development agreement (DDA), or related documents. No such action is planned until the proposed Waterfront Site project has successfully gone through California Environmental Quality Act (CEQA) review.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) find that the proposed Waterfront Site project is fiscally feasible; and (2) endorse the proposed term sheet between the Port and Forest City. As noted above, under the Administrative Code, the Board of Supervisors must find the development to be fiscally feasible prior to the Port submitting the project to the Planning Department for environmental review. Additionally, the Budget and Legislative Analyst recommended in a 2004 Management Audit of the Port that the Port should submit term sheets, for projects with development costs greater than \$10 million, to the Board of Supervisors for endorsement. The

³ Evaluated by Port staff

⁴ Evaluated by Port Financial Analyst based on review of confidential financial materials

finding that the proposed Waterfront Site project is fiscally feasible and endorsement of the proposed term sheet between the Port and Forest City does not commit the Board of Supervisors to future approval of environmental findings under the California Environmental Quality Act (CEQA), approval of the Pier 70 land use and financing plan, or approval of ground leases of parcels included in the Waterfront Site project.

TERM SHEET

Waterfront Site Project Concept

The proposed Waterfront Site project is a mixed-use development that would include (1) commercial office and retail, (2) innovation, retail and arts (placemaking)⁵, and (3) residential uses. The project includes horizontal (infrastructure) development and vertical (building) development.

Horizontal Development

Forest City, as the master developer, would be responsible for entitlements and horizontal development, including:

- Preliminary planning, design, environmental review under CEQA, negotiating financial terms and transaction documents, and incremental costs of incorporating adjacent properties into a Special Use District (see below);
- Preparation of the sites for development; and
- Construction of streets, sidewalks, maritime facilities, parks and other public improvements.

Vertical Development

The overall approach to the proposed Waterfront Site project is a four-phase parcelization strategy, where parcels within the Waterfront Site would be developed in four phases. The Port would enter into separate 99-year leases with Forest City or an affiliate for each development parcel.

The Port would release the parcels for development, through sale or lease, based on fair market value, which would be determined by a third party consultant through an appraisal process. Forest City or an affiliate may acquire development rights⁶ to parcels by exercising Forest City's option within 90 days of the parcel's fair market value appraisal and entering into a separate ground lease with the Port. The Port would offer development rights for some parcels through a public, competitive disposition process if Forest City or an affiliate does not timely enter into a ground lease with the Port for an individual parcel at the appraised fair market value.

Under the proposed term sheet, Forest City or an affiliate would develop the Waterfront Site into 20 to 25 buildable parcels which would be developed as a mix of commercial/office, placemaking, retail, residential and parking uses. The Project is proposed to include up to 3.25 million gross square feet (gsf) of above-grade leasable development, comprised of newly

⁵ Innovation, retail and arts include a combination of small scale local production, arts and cultural uses, small business incubator uses, and other publicly-accessible uses, to be located primarily in the existing historic structures.

⁶ Development rights refer to vertical development only.

constructed buildings (vertical development) and historic rehabilitation of existing industrial buildings (historic improvements) consistent with the Secretary of the Interior's Standards for the Treatment of Historic Properties. The proposed Waterfront Site project is pictured below in Figure 2.

Figure 2: Proposed Waterfront Site Project



Vertical development would include:

- Residential uses including 950 units comprising approximately 800,000 gsf;
- Commercial uses including office and research and development space up to 2.25 million gsf adjusted according to the amount of residential and other commercial uses constructed at the Waterfront Site; and
- Retail, arts and cultural uses of up to 400,000 gsf.

The historic improvements would include:

- Buildings 12 and 21: Approximately 115,000 gsf of placemaking space and approximately 60,000 gsf of commercial office space; and
- Building 2: Approximately 110,000 gsf of residential development (about 120 units).

The Waterfront Site project would include approximately seven acres of open space connecting the Waterfront Site with surrounding neighborhoods and the waterfront. There would also be three parking facilities at the Waterfront Site located at Parcels C-1A, C-1B, and C-2, which the Port is anticipated to be responsible for building and managing. The three parking facilities are currently anticipated to be built in Phase 3 and 4.

Entitlement Costs

Forest City would fund the initial entitlement costs, including planning, environmental review, and land use approvals, in the first phase of the Waterfront Site project. Entitlement costs would be for the Waterfront Site and any additional third-party parcels⁷ being included in the Waterfront Site project for re-zoning and California Environmental Quality Act (CEQA) processes. Under the proposed term sheet, one third-party parcel, the 20th/Illinois parcel is currently included. In exchange, Forest City would receive an 18 percent developer return on equity in addition to the repayment of capital, as discussed further below. Land proceeds from the Port's sale of the 20th/Illinois parcel would be designated to pay Forest City's equity investment and Forest City's return on equity for entitlement costs incurred.

The Port may elect to allocate land proceeds from other third-party parcels to similarly pay for Waterfront Site projects. The term sheet includes five other third-party parcels of which two, known as the Hoe Down Yard, are currently owned by the Pacific Gas and Electric Company (PG&E). According to Mr. Brad Benson, Port Special Projects Manager, three of the third-party parcels, known as the Cove parcels, are no longer being considered to be part of the Waterfront Site project for re-zoning and CEQA purposes. Therefore, the proposed term sheet should be amended to remove discussion of the Cove parcels and specify that the only third-party parcels eligible for inclusion in the Waterfront Site project are the 20th/Illinois parcel and the Hoe Down Yard.

Creation of a Special Use District

The Waterfront Site is currently zoned M-2 (Industrial, Heavy), which would need to be re-zoned to permit the planned mixed uses under the proposed Waterfront Site project. The Port plans to seek rezoning of the Waterfront Site, as well as the third-party parcels, the 20th/Illinois and Hoe Down Yard parcels, as a special use district, which would allow for the planned mix uses by rezoning individual parcel uses for commercial, residential, or parking purposes. In addition, the special use district would establish height and bulk limits for the Waterfront Site and third-party parcels, the 20th/Illinois and Hoe Down Yard parcels. The rezoning would require both a Planning Code text amendment and a Zoning Map amendment, which would be subject to approval by the Board of Supervisor following Planning Commission approval. The rezoning would also necessitate an amendment to the Port's Waterfront Land Use Plan, subject to Port Commission approval.

⁷ The third-party parcels comprise the 20th/Illinois parcel and four other separate parcels outside of the Waterfront Site (third-party parcels) but within Pier 70 which the Port would sell through proprietary public offerings. Two of the third-party parcels, known collectively as the Hoe Down Yard, are currently owned by Pacific Gas & Electric (PG&E). The Port is in discussions with PG&E to acquire the Hoe Down Yard. If the Hoe Down Yard is sold by PG&E to the Port, the DDA may include an option for Forest City to swap one of the Waterfront Site project parcels for the Hoe Down Yard parcel.

Other Regulatory Approvals and Amendments

State Law Lifts Public Trust Use Restrictions at the Waterfront Site

Most Port land is subject to public trust use restrictions allowing use of Port property exclusively for the promotion of maritime commerce, navigation, fisheries, environmental and public recreation. Assembly Bill (AB) 418, signed into law on October 5, 2011, authorizes the State Lands Commission to effect a public trust exchange within the Pier 70 area to allow configuration of trust and nontrust property, subject to certain required State Lands Commission findings and conditions, including the Port Commission's and the Board of Supervisor's prior approval. Nontrust property along the water's edge and along streets accessing the water's edge would be impressed with the public trust to promote maritime uses and public access and the trust would be terminated on inland trust property not needed for trust purposes.

In order to develop the Waterfront Site and sell third-party parcels located at Pier 70 under AB 418, the Port would need to receive State Lands Commission approval of the trust exchange authorized by the act, which would release the Waterfront Site and the third-party parcels from the common law public trust and the restrictions of the Burton Act, including the 66 year limit on leasing of Port land.

Bay Area Conservation and Development Commission Permit is Required

The Bay Area Conservation and Development Commission (BCDC) requires that nontrust property within 100 feet of the shoreline promote maritime uses and public access. Therefore, Forest City and the Port would need to demonstrate that promotion in order for BCDC to issue a major permit for the portion of the Waterfront Site project located within 100 feet of the shoreline.

Charter Section B7.310 Allows for up to 75 Percent of Annual Payroll and Hotel Tax Increment to Be Used to Finance Waterfront Improvements at Pier 70

City Charter Section B7.310 provides for the City to fund waterfront improvements at Pier 70 through the provision of up to 75 percent of annual increases in payroll tax⁸ and the hotel tax above the base year tax revenue that will accrue to the General Fund for each year (Pier 70 annual payroll and hotel tax increment) for twenty years after the issuance of a certificate of occupancy related to a Port ground lease for all or a portion of the Pier 70 Waterfront District if ground lease revenue and available property tax increment are insufficient to fund those waterfront improvements.

In order to receive Pier 70 annual payroll and hotel tax increment:

1. The Board of Supervisors must approve a finance and land use plan for the waterfront improvements;
2. The Port Commission must approve a budget for the waterfront improvements and find, by resolution, that ground lease revenue and available property tax increment are insufficient;

⁸ Under Proposition E, passed by San Francisco voters on November 6, 2012, the City payroll tax will be phased out and replaced by a gross receipts tax that will be phased in over a 5-year period beginning in 2014.

3. The Controller and Tax Collector, in consultation with the Department of Real Estate and the Port Commission, must report to the Board of Supervisors the total annual payroll tax and hotel tax revenues received in the prior full fiscal year and projected increases in payroll tax and hotel tax revenues; and
4. The Board of Supervisors must find available funding to be insufficient and approve the financing of the waterfront improvements with up to 75 percent of Pier 70 annual payroll and hotel tax increment.

Pier 70 Land Use and Financing Plan

According to Mr. Benson, the Port is planning to include the Waterfront Site and the 20th/Illinois parcel in the Pier 70 land use plan, subject to Board of Supervisors approval. Port staff is currently evaluating whether to include the Hoe Down Yard as well as the Cove parcels in the Pier 70 land use plan.

If the Board of Supervisors approves the land use plan, then the Port Commission would be authorized to enter into ground leases for any areas included in the land use plan without seeking further Board of Supervisors approval. The Port proposes to submit the Pier 70 land use plan to the Board of Supervisors for approval at the same time that it submits the proposed DDA and other transaction documents for development of the Waterfront Site.

Additionally, while the proposed term sheet provides for Forest City to assist the Port to prepare a Pier 70 financing plan, the Port has not yet determined the need for a Pier 70 financing plan to pay for Pier 70 public improvements, such as rehabilitation of historic buildings and maritime facilities or public and open space improvements outside of the Waterfront Site.⁹ According to the proposed term sheet, the Port would determine the need for the Pier 70 financing plan prior to completion of the Pier 70 land use plan.

Proposed Development and Disposition Agreement and Pier 70 Financing and Land Use Plan

Under the proposed term sheet, the Port would enter into a DDA with the master developer, Forest City, to entitle the project and develop horizontal improvements, although the Port would not enter into a ground lease with Forest City as is the Port's practice in similar development projects. Rather, the Port would enter into separate ground leases for vertical development of specific parcels with Forest City, one of its affiliates, or another developer, as described above. If the Board of Supervisors approves the Pier 70 land use plan, which includes the Waterfront Site, the ground leases would not be subject to Board of Supervisors approval.

If the Port submits a Pier 70 financing plan and the Board of Supervisors approves that Pier 70 financing plan, the Board of Supervisors would also be approving (a) use of hotel tax and payroll tax increments to pay for historic preservation and public infrastructure within Pier 70, and (b) all future ground leases contained within the Pier 70 land use plan area.

⁹ The Port has identified unfunded needs in the broader Pier 70 area, including (a) improvements to the shipyard, including the Port's drydock, (b) rehabilitation of historic resources outside the Waterfront Site, (c) Phase 2 of Crane Cove Park at Pier 70, and (d) enhanced transit service to the site.

Public Financing Mechanisms under Consideration

Port Infrastructure Financing District

State law authorizes the establishment of a Port Infrastructure Financing District (IFD) to finance public improvement projects along the San Francisco waterfront. The Port IFD may finance the same types of improvement projects that are financed by non-Port IFDs (open space, parks, and street improvements), as well as projects specific to the Port, including removal of bay fill, storm water management facilities, shoreline restoration, and maritime facility improvements. Increased property tax revenues resulting from certain Port development projects (tax increment) may be redirected from the City's General Fund to the Port IFD in order to finance public improvements, subject to Board of Supervisors approval. The tax increment could be used to either fund the proposed Waterfront Site project on a pay-as-you-go basis or IFD bonds could be issued using the tax increment to pay debt service.

A Port IFD may be divided into individual project areas. Eight project areas are currently included in the proposed Port IFD, previously approved by the Board of Supervisors, including Pier 70. In addition to the redirection of tax increment from the City's General Fund to the Port IFD, the Port may also allocate Educational Revenue Augmentation Fund's¹⁰ (ERAF) share of tax increment from the Pier 70 project area to the Port IFD to fund public improvements at Pier 70.

A Pier 70 project area may not be formed prior to January 1, 2014. Under State law, the amount of ERAF's share of tax increment allocated to the Port IFD is proportional to the City's share of tax increment allocated to the Port IFD.¹¹ The Port may issue debt, secured by the ERAF share of tax increment from the Pier 70 project area for up to 20 fiscal years from the first Pier 70 debt issuance. Once any ERAF-secured debt issued within the Pier 70 project area has been paid, ERAF's share of tax increment will be paid into ERAF. Beginning in the 21st fiscal year, ERAF's share of tax increment may only be used to meet debt service obligations for previously issued debt secured by ERAF's allocation of tax increment. ERAF's share of tax increment exceeding debt service obligations must be paid into ERAF.

¹⁰ The Educational Revenue Augmentation Fund redirects one-fifth of total statewide property tax revenue from cities, counties and special districts to school and community college districts. The redirected property tax revenue is deposited into a countywide fund for schools and community colleges (ERAF). The property tax revenue is distributed to the county's non-basic aid schools and community colleges (i.e., school and community college districts that receive more than the minimum amount of state aid required by the State constitution). In 2004, the State approved a complex financing mechanism, known as the triple flip, in which one-quarter cent of the local sales tax is used to repay the Proposition 57 deficit financing bond; property taxes are redirected from ERAF to cities and counties to offset revenue losses from the one-quarter cent sales tax; and State aid offsets losses to school and community college districts from the redirected ERAF funds.

¹¹ For example, for every \$1.00 in Property Taxes (not including Property Taxes designated to pay General Obligation bonds), \$0.25 is allocated to ERAF, \$0.65 is allocated to the City's General Fund, and \$0.10 is allocated to the other taxing entities (SFUSD, Community College District, BART, and Bay Area Air Quality Management District). If the Board of Supervisors were to approve 50% of the City's General Fund share of tax increment (or \$0.325 of \$0.65), then the ERA share of tax increment is 50% (or \$0.125 of \$0.25).

Community Facilities District

A Community Facilities District (CFD) could be formed over the entire proposed Waterfront Site project site, which would allow special taxes to be levied against the leasehold and fee interests on taxable parcels. These special taxes could be used to finance the proposed Waterfront Site project or CFD bonds could be issued using the special taxes as security.

Maintenance Community Facilities District

The Port may establish a maintenance CFD over all of Pier 70 or over part of Pier 70, with areas annexed to the maintenance CFD as each phase is completed, or over all of Pier 70 with zones created corresponding to development phases in which special taxes are levied at each phase of development. Maintenance special taxes levied against each taxable parcel would provide pay-as-you-go funds for operating and maintenance costs of public facilities, which would be specified in the DDA when completed. If the proposed boundaries of the maintenance CFD are same as the proposed boundaries of the CFD, then a single CFD with two separate special taxes, one for facilities and one for maintenance may be formed.

Proposed Terms to be Included in the DDA

The Port and Forest City would begin negotiations of the DDA after the proposed term sheet, which is not contractually binding, is approved. The DDA is not subject to Board of Supervisors approval but would be submitted to the Board of Supervisors for review when the Port submits the Pier 70 land use plan for approval. While the ground leases would not be subject to Board of Supervisors approval if a Pier 70 land use plan is submitted, the form of ground lease that would be used for Waterfront Site project parcels is subject to Board of Supervisors approval. Table 3 below summarizes the proposed term sheet between the Port and Forest City.

Table 3: Summary of Proposed Term Sheet

Term Sheet Provision	Proposed Terms
Total Estimated Project Cost	<ul style="list-style-type: none"> • \$2,146,930,284
Project Description	<ul style="list-style-type: none"> • Horizontal and vertical development of the Waterfront Site at Pier 70 • Rehabilitation of three Historic Buildings located at Pier 70 (Buildings 2, 12, and 21)
Phasing	<ul style="list-style-type: none"> • Development would be completed in four phases, with public benefits (parks and parking facilities) distributed among phases
Project Debt	<ul style="list-style-type: none"> • Financing mechanisms have not been finalized but there are three which could be utilized: <ul style="list-style-type: none"> – Community Facilities District (CFD) Bonds – Infrastructure Financing District (IFD) Bonds – Bonds financed through Payroll and Hotel Tax Increment
Port's Capital	<ul style="list-style-type: none"> • Special Taxes from CFD formation • Tax Increment from the establishment of an IFD • Land Proceeds from lease or sale of third-party parcels
Forest City Development Equity	<ul style="list-style-type: none"> • Forest City's equity contribution is to procure all entitlements and pay related costs and pay for horizontal infrastructure development costs, as necessary, to be reimbursed by the City.
Terms of Ground Leases	<ul style="list-style-type: none"> • 99 years • No base rent would be included for fully prepaid leases • Leases would be pre-paid until Forest City's equity investment and return on equity investment are paid in full • After Forest City's equity investment and return on equity investment are paid in full, new ground leases would include annual ground rent obligations
Parking Structures	<ul style="list-style-type: none"> • Development would be financed by the Port • Once developed, would be owned/ managed by the Port
Vertical Improvements to Historic Buildings	<ul style="list-style-type: none"> • Financing has not been finalized but may be partially funded by the Port with IFD bond proceeds

The Attachment to this report contains further details of the proposed term sheet.

Entitlement and Horizontal Development Sources and Uses of Funds

The estimated sources of funds and total project costs for the proposed Waterfront Site project are shown in Table 4 below. The total estimated costs of the entitlement and horizontal infrastructure development for all phases of the proposed Waterfront Site project are \$216,930,284.

Table 4: Estimated Uses of Funds for Infrastructure

Uses of Funds	
Entitlement Costs	\$21,271,676
Horizontal Development	<u>195,658,608</u>
Subtotal Entitlement and Horizontal Development	\$216,930,285
Total Developer Return on Equity	<u>23,714,863</u>
Total Uses	\$240,645,147

The Port, in consultation with their financial advisor, Century Urban, prepared a pro-forma analysis based on estimates provided by Forest City of the Waterfront Site project's cash flow over 116 years, from 2011 through 2126 based on the final year of the 99-year term of the last ground lease entered into in 2027. Based on this pro-forma analysis, Forest City would invest an estimated \$28,084,806 in equity, which includes \$21,271,676 for entitlement costs and \$6,813,130 for horizontal development costs.

Forest City's return on equity would accrue at 18 percent per year on the cumulative balance of its equity investment with a total estimated return on equity of \$23,714,863. Developer's equity includes developer capital, loans and other financing secured by the developer.

The Port would reimburse Forest City for their equity investment and return on equity and pay the balance of horizontal development costs through (1) IFD bond proceeds, (2) IFD tax increment revenues, and (3) land proceeds from the lease or sale of parcels, as shown in Table 5 below¹². The goal of the overall funding structure is to minimize impacts on the Port's revenue stream from ground leases and land proceeds and maximize issuance of IFD bonds, whose debt service would be paid from the IFD tax increment received by the Port.

Table 5: Estimated Sources of Funds for Infrastructure

Sources of Funds	
IFD Bonds	\$168,566,664
IFD Tax Increment	53,925,425
Land Lease or Sale Proceeds from 20 th /Illinois Parcel	<u>\$18,153,058</u>
Total Sources	\$240,645,147

Land Sale Proceeds

Under the proposed term sheet, proceeds from the sale of land or pre-paid ground leases would be used to fund the project in the following order of priority:

¹² State law places restrictions in the use of IFD tax increment to pay Forest City's return on equity investment. The Port currently estimates that 4.5 percent of Forest City's return on equity investment may be paid through IFD tax increment. The percentage of interest payable from IFD tax increment is identified in the proposed term sheet as the cost of carry.

1. Directly pay horizontal development costs¹³;
2. Pay the return on Forest City's equity investment; and
3. Reimburse Forest City's equity investment.

Under the proposed term sheet, the Port would sell the Port-owned 20th/Illinois parcel within 12 months of project approval to pay for approximately \$18,153,058 of Forest City's return on equity investment not repaid with IFD bonds or IFD pay-as-you-go funds¹⁴, subject to Board of Supervisors approval¹⁵. The 20th/Illinois parcel would not be sold until fully entitled. According to the proposed term sheet, if Forest City has not received the funds from the sale of the 20th/Illinois parcel within 12 months from the date of the approval of the sale, then the Port must pay Forest City an amount equal to the appraised fair market value of the parcel or offer Forest City the right to purchase the parcel at the appraised fair market value within 60 days.

IFD Bond Proceeds

According to the proposed term sheet, the Port would have the right in its sole discretion to use any available source of public funds that would be less expensive to the Port than paying a return on Forest City's equity investment.

The Port currently anticipates issuing \$168,566,664 in IFD bonds to pay directly for horizontal development costs, and Forest City's equity and return on equity as allowed by law. In addition IFD bonds would be used to reimburse land proceeds used to pay for horizontal development costs and Forest City's equity investment and return on equity investment to the extent allowed by State law. Other forms of debt currently being considered are CFD bonds.

IFD Pay-As-You-Go

The Port currently anticipates utilizing \$53,925,425 in tax increment from the Port IFD as a funding source for the Waterfront Site project.

Federal Historic Preservation Tax Credits

The Waterfront Site project may be eligible for federal Historic Preservation Tax Credits, up to 20 percent of qualified historic rehabilitation expenses. To qualify, the historic buildings must (a) be listed in the National Register of Historic Places; (b) meet the substantial rehabilitation test in which the cost of the rehabilitation exceeds the pre-rehabilitation cost of the building; (c) meet the Secretary of the Interior's Standards for Rehabilitation; and (d) after rehabilitation, used for income-producing purposes for at least 5 years. Based on information provided by the Port, the three historic buildings (Buildings 2, 12, and 21) in the Waterfront Site project meet the minimum eligibility requirements. Under the proposed term sheet, the Port would require the rehabilitation of the historic buildings to meet the Secretary of the Interior's Standards for the

¹³ The proposed term sheet provides for the Port to reimburse the use of land sales or pre-paid ground lease proceeds to fund horizontal infrastructure development costs with IFD proceeds.

¹⁴ According to the pro forma, estimated pre-paid ground leases and land sales in 2017, the year in which the Waterfront Site project is expected to be fully entitled, are \$32,166,206, of which \$17,592,341 will directly pay phase I horizontal development costs and \$14,573,866 will pay the developer's return on equity.

¹⁵ The Port plans to seek Board of Supervisors approval for the sale of the 20th/Illinois parcel along with the land use and financial plan for the Waterfront Site project. The DDA would also be presented at that time, although not subject to Board of Supervisors approval.

Treatment of Historic Properties in order to preserve the planned Pier 70 historic district and to secure the tax credits.

Forest City's Return on Equity

As noted above, Forest City would invest an estimated \$28,084,806 in entitlement and horizontal development costs and receive a return on their equity investment, equal to 18 percent cumulative annual return on its equity. The Port would receive statements from Forest City after disposition of all the development parcels and the completion of all infrastructure and public facilities for each development phase, showing Forest City's return on their equity investment.

The term sheet does not specify that Forest City's return on equity would be calculated on outstanding capital. Therefore, the proposed resolution should be amended to specify that Forest City's return on equity would be calculated only on outstanding capital in order to minimize the cost to the Port of Forest City's equity investment.

Forest City would be reimbursed by the Port for its equity investment in entitlement and horizontal development costs as follows:

- Land proceeds from the sale of the 20th/Illinois parcel as noted above subject to reimbursement from IFD bond proceeds; and
- Public financing proceeds, such as IFD bonds, to pay Forest City's equity investment¹⁶.

No Cap on Horizontal Development Costs

According to the proposed term sheet, the DDA would not impose a hard cap on horizontal development costs but would give the Port the right to timely review of the horizontal development costs for each phase, and provide for the Port and master developer to meet and confer on the Port's right to value engineer the horizontal development for that phase if it would not delay the project. However, the Port and the Capital Planning Committee would review the infrastructure plan to be financed with IFD proceeds as part of the IFD establishment process and make recommendations to the Board of Supervisors regarding the adoption of the plan.

Under the DDA, after the IFD financing plan is approved by the Board of Supervisors, the Port would have the opportunity to provide input at the onset of each development phase to determine total costs to be included in each phase's budget as well as have the opportunity to review costs within each phase's budget once prepared. The Port would also have the right to audit costs for each phase and at the conclusion of the Waterfront Site project. In addition, City agencies including the San Francisco Public Utilities Commission (PUC) and the Department of Public Works (DPW) would have the right to determine the specifications for infrastructure constructed by Forest City¹⁷.

¹⁶ Due to legal restrictions on the use of public financing proceeds from IFD and CFD bonds to pay interest, the interest payable by public financing (cost of carry) would be calculated separately and would be deducted from the 18 percent cumulative annual return received on Forest City's equity investment.

¹⁷ PUC and DPW would purchase public infrastructure constructed by Forest City and have oversight through the permitting process for the related construction.

FISCAL IMPACT OF TERM SHEET**Fiscal Impact to the City****Vertical and Horizontal Development Costs**

The estimated costs of Waterfront Site project entitlements and horizontal development costs and the developer's return on equity are \$240,645,147, as shown in Table 4 above. Sources of funds to pay these costs are IFD bond proceeds, IFD tax increment, and proceeds from the lease or sale of the Illinois/20th Street parcel as shown in Table 5 above.

Most of the vertical development will be paid for through private investment. The proposed term sheet allows for the Port to use IFD for vertical improvements to new buildings on two specific parcels to promote innovation for small local production and art and cultural uses (place-making parcels), historic improvements to two buildings, construction of parking facilities, and the installation of piles to Pier 70, as discussed below. The extent to which IFD bond proceeds would fund these vertical improvements will be detailed in the DDA.

Ground Leases and Rent

The Port would receive rent revenues from ground leases between Forest City's affiliates or third party vertical developers and the Port.

Under the proposed term sheet, all ground leases would be fully prepaid by Forest City or an affiliate until (a) Forest City has completed all horizontal infrastructure development and public facilities, (b) the Port or the City has accepted all completed horizontal infrastructure and public facilities, (c) Forest City has received its return on equity investment, and (d) Forest City has been fully repaid for the original equity investment. Funds from those prepaid ground leases would be held in a project account and used to directly fund horizontal infrastructure development as well as to return Forest City's equity investment and return on equity investment. Once the Port has fulfilled its financial obligations to Forest City, new ground leases would include annual ground rent obligations.

Table 6 below shows the key provisions in the ground leases.

Table 6: Ground Lease Provisions

Term	99 years
Base Rent	<ul style="list-style-type: none"> • Fair market value • Consumer Price Index (CPI) Adjustments
Base Rent Payment	<ul style="list-style-type: none"> • Prepaid for a specified term or in full • Otherwise, annual payments
Percentage Rent for Commercial and Residential Parcels	<ul style="list-style-type: none"> • 1.5% of modified gross revenues (net of taxes, insurance, utilities, capital) beginning in lease year 30 • 2.5% of modified gross revenues beginning in lease year 60
Other	<ul style="list-style-type: none"> • Forest City or affiliate will pay all taxes, assessments, and expenses • Forest City or affiliate may choose to receive IFD financing for eligible vertical improvements with adjustments to the parcel's value

Forest City's Participation in Ground Lease Rent

Under the proposed term sheet, Forest City would receive 45 percent and the Port would receive 55 percent of ground lease rent which is not required to pay for horizontal development and other costs. Based on the pro-forma analysis, the Port would not receive positive cash flow from the project until year 18 (2028). The Port is expected to receive ground lease rent of \$76 million from prepaid ground leases in year 20 of the project (2030), when horizontal infrastructure development is expected to be completed. According to the May 23, 2013 Port staff memorandum to the Port Commission, since Port operations are funded with annual revenues, City staff would evaluate converting some prepaid ground leases into an annual payment stream to the Port during DDA negotiations. Table 7 shows net ground lease revenues to the Port under the proposed term sheet.

Table 7: Net Ground Lease Revenues to the Port from 2011 through 2126¹⁸

	Total
Annual Ground Rent	\$1,564,473,044
Proceeds from Prepaid Ground Lease Rent	94,654,872
Total Net Port Ground Lease Revenues	\$1,677,874,944

IFD Financing Would be Used to Finance Historic Improvements and Placemaking Uses

Under the proposed term sheet, Forest City would be obligated to improve two historic buildings (Buildings 12 and 21), with the Port financing those historic improvements with IFD financing. Separate ground leases would be entered into between the Port and Forest City for Buildings 12 and 21. According to Mr. Benson, the estimated net costs of the improvements to Buildings 12 and 21 after receiving the historic tax credits are \$23,760,254. However, that financing has not been included in the pro-forma analysis made available for this report.

¹⁸ The estimate is from 2011 through 2126 based on the 99-year term of the last lease entered into in 2027, which would expire in 2126.

Forest City would also have the option to enter into ground leases for the parcels E-1A and E-1B at no cost in order to establish placemaking uses. The proposed term sheet states that placemaking uses on these parcels are under consideration but other uses may be developed instead, which would be permitted under the re-zoning of the Waterfront Site. According to Mr. Benson, the total estimated cost of new construction for placemaking uses on parcels E-1A and E-1B is \$33,958,475. The May 23, 2013 Port staff memorandum states that Forest City expects that the placemaking uses would create higher demand for office uses at the Waterfront site.

Under the proposed term sheet, the Port would be expected to finance the improvements to Buildings 12 and 21 with land-secured financing sources, such as IFD bonds, CFD bonds or possibly bonds secured by Pier 70 annual payroll and hotel tax increment, if allowed by law. In addition, the Port would commit to investigating the potential use of land-secured financing sources to reimburse Forest City for any new construction on the placemaking parcels. If the issuance of bonds is not permitted under State law for new construction on the placemaking parcels, the Port would have no obligation to reimburse Forest City for any new building construction. In addition, Forest City would not be entitled to a return on their equity investment for costs incurred on the placemaking parcels after the effective date of the DDA. However, no such statement is included in the proposed term sheet for Buildings 12 and 21.

According to Mr. Benson, project-generated public financing proceeds would only be used to fill the feasibility gap allowing Forest City to achieve a 10 percent profit, on the rehabilitation of Building 12 and 21 as well as new building construction on the placemaking parcels. The feasibility gap is currently estimated to total \$12,353,000. However, the proposed term sheet states that the Port would be obligated to pay for all qualified costs of improvements to Buildings 12 and 21 and to finance new building construction on the placemaking parcels with public financing proceeds to the extent allowed by State law, regardless of final use decisions.

Therefore, the proposed term sheet should be amended to reflect that project-generated public financing proceeds would only be responsible for filling the feasibility gap necessary to achieve a 10 percent profit on the rehabilitation and reuse of Buildings 12 and 21 and that Forest City would not be entitled to reimbursement from other funding sources. In addition, given that the new buildings may or not house placemaking uses, the use of public financing proceeds to reimburse Forest City for any new building construction should be contingent upon those new buildings containing placemaking or public uses that would meet legal requirements for the use of project-generated IFD or CFD financing. If no placemaking or public uses are included, the Port should not be obligated to reimburse Forest City with project-generated public financing proceeds.

Port's Participation in Capital Events and Modified Gross Revenues

Under the proposed term sheet, the Port would participate in revenue from the transfer of leases as follows:

- The Port would receive 1.5 percent of net proceeds from the refinancing of ground leases and associated improvements;
- If Forest City or an affiliate sells a parcel to an unaffiliated third party before the earlier of (1) three years after transfer of the parcel to Forest City or an affiliate, (2) the date the Port

issues the first site permit for the transferred parcel, then all net proceeds of that transfer would be included as a source of funds for the Waterfront Site project. The net proceeds would exclude any entitlement costs associated with that parcel plus a 12 percent return;

- If a ground lease is transferred on or after the earlier of (1) three years after transfer of the parcel to Forest City or an affiliate or (2) the date the Port issues the first site permit for the transferred parcel,, the Port would be entitled to 1.5 percent of the net transfer proceeds to be described in detail in the DDA;
- The Port would receive 1.5 percent of net sale proceeds from the sale of all condominium units after, but not including, the first sale.

Net sale proceeds from the sale of condominiums are not defined in the term sheet. The proposed term sheet should be amended to include the definition of net sale proceeds as 1.5 percent of the total sales price of the condominium net costs of sale.

Also, as noted in Table 6 above, the Port will participate in modified gross revenues, net of taxes, utilities, insurance and capital costs. Table 8 shows these revenues to the Port over the 99-year term of the ground leases.

Table 8: Port’s Participation in Ground Lease Revenues in Year 1 through Year 99

1.5% Net Proceeds from Refinancing	\$262,468,047
1.5% Transfer Fee from Sales	n/a
1.5% of Modified Gross Revenues (Years 31 to 60) and 2.5% of Modified Gross Revenues (Years 61 to 99)	2,045,196,602
Total	\$2,307,664,649

The Port May Use Payroll Tax or Hotel Tax Increment for Pier 70 Projects

The proposed term sheet does not include any financing under Charter Section B7.310 allowing for use of Pier 70 payroll tax and hotel tax increment to finance development of the Waterfront Site and the Overview of the proposed term sheet expressly states that the Port and Forest City “do not intend” to use such financing for the Waterfront Site. However, financing for some aspects of the project has yet to be determined and the proposed term sheet does not definitively state that Pier 70 payroll tax and hotel tax increment would not be used for Waterfront Site project-related improvements. The City would already be redirecting property tax increment due to the IFD formation from the City’s General Fund to support the Waterfront Site project. In order to ensure that the City’s General Fund does not have additional tax increment redirected to the Waterfront Site project, the resolution approving the proposed term sheet should definitively state that financing utilizing Pier 70 payroll tax and hotel tax increment would not be utilized for Waterfront Site project improvements.

In addition, the Port may include Pier 70 payroll tax and hotel tax increment in a financing plan for public improvements outside of the Waterfront Site, including open space, historic renovation or transit. According to the proposed term sheet and as noted above, the Port has not yet determined if Pier 70 payroll tax and hotel tax increment will be needed to construct Pier 70 public benefits.

FISCAL FEASIBILITY ANALYSIS

As discussed in the Mandate Statement Section above, Chapter 29 of the City's Administrative Code requires that certain projects be submitted to the Board of Supervisors for approval of the project's fiscal feasibility prior to submitting the project to the Planning Department for environmental review if: (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA); (b) total project costs are estimated to exceed \$25,000,000; and, (c) construction costs are estimated to exceed \$1,000,000.

Chapter 29 of the City's Administrative Code specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including: (1) direct and indirect financial benefits to the City; (2) construction costs; (3) available funding; (4) long term operating and maintenance costs; and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review.

The Port's consultant, Economic & Planning Systems, Inc., prepared a fiscal feasibility study assessing the fiscal feasibility of the Waterfront Site, which is the subject of the proposed resolution, as well as the 20th/Illinois parcel, which is not part of the Waterfront Site project but would be considered to be so for CEQA and entitlement purposes only. Therefore, any fiscal or economic benefits of the 20th/Illinois parcel have not been included below.

1) Direct and Indirect Financial Benefits to the City

The proposed Waterfront Site project would provide: (1) direct financial benefits to the City through increased ongoing tax revenues and one-time fees; and (b) indirect financial benefits from creation of an estimated 18,050 new jobs.

Direct Benefits

The Port's consultant, Economic & Planning Systems, Inc., provided estimates of tax revenues to the City, which are reasonable. As shown in Table 9 below, the estimated annual revenues to the City resulting from the proposed Waterfront Site project are \$28,681,000.

Table 9: Estimated Annual Tax Revenues to the City

Annual Revenue to General Fund	
Property Taxes	\$1,735,000
Sales Tax	604,000
Gross Receipts Tax	10,096,000
Parking Tax (General Fund 20%)	489,000
Property Transfer Tax	2,423,000
Subtotal General Fund	\$15,347,000
Annual Dedicated and Restricted Revenue	
Parking Tax (MTA 80%)	\$1,954,000
Public Safety Sales Tax	302,000
Transportation Authority Sales Tax	302,000
Possessory Interest Taxes*	10,776,000
Subtotal Dedicated and Restricted Revenue	\$13,334,000
Total Revenues	\$28,681,000

* Until horizontal infrastructure development costs are fully paid, the full \$0.65 per possessory interest tax dollar generated from the Waterfront Site project site would be used to pay debt service and, on a pay-as-you-go basis, fund infrastructure costs through an IFD.

Economic & Planning Systems, Inc. also provided estimates of one-time tax and fee revenues to the City, which are reasonable. As shown in Table 10 below, the estimated annual revenues to the City resulting from the proposed Waterfront Site project are approximately \$91,154,000.

Table 10: Estimated One-Time Tax and Fee Revenues to the City

Development Impact Fees	
Jobs Housing Linkage	\$50,607,000
Affordable Housing	0
Child Care	2,423,000
Transit Impact Development Fees	28,074,000
Subtotal Development Impact Fees	\$81,104,000
One-Time Tax Revenues	
Sales Taxes During Construction	\$4,974,000
Gross Receipts Tax During Construction	5,076,000
Subtotal One-Time Tax Revenues	\$10,050,000
Total One-Time Fees and Tax Revenues	\$91,154,000

Indirect Benefits

Economic & Planning Systems, Inc. estimated an additional 14,320 temporary construction-related jobs to be created by the proposed Waterfront Site project, as shown in Table 11 below. This includes direct (jobs on site), indirect (jobs at San Francisco firms serving the construction industry), and induced (through expenditures in the City by households of companies benefiting from direct and indirect employment related to the Waterfront Site project) employment.

Table 11: Summary of Estimated Temporary Construction-Related Jobs

Employment Type	Job-Years
Direct	9,230
Indirect	1,980
Induced	3,110
Total Temporary Employment	14,320

Economic & Planning Systems, Inc. estimated an additional 18,020 new permanent jobs to be created by the proposed Waterfront Site project, as shown below in Table 12 below.

Table 12: Summary of Estimated Permanent Jobs

Employment Type	Annual Average
Direct	10,540
Indirect	2,230
Induced	5,250
Total Permanent Employment	18,020

2) Construction Costs

As shown in Table 13 below, the proposed Waterfront Site Project is estimated to cost approximately \$2.15 billion across all stages of development, with the Port's responsibility to fund entitlement and horizontal infrastructure development costs of an estimated \$216,930,284 and private developers to fund vertical building construction costs of an estimated \$1.93 billion.

Table 13: Summary of Estimated Construction Costs

Development Stage	Estimated Cost
Entitlement	\$21,271,676
Horizontal Infrastructure	195,658,608
Subtotal	\$216,930,284
Vertical/Building Construction	1,930,000,000
Total	\$2,146,930,284

Three Proposed Parking Facilities' Financing Not Yet Finalized

Public financing options currently being considered are (1) project-generated public financing of the parking facilities through the issuance of CFD bonds and the use of CFD special taxes, IFD proceeds, and (2) net operating income from the parking facilities to pay the debt service for the CFD bonds. The preliminary pro forma analysis reflects this public financing approach. Also under consideration would be for Forest City to fund the parking facilities to be repaid by the Port along with a 12 percent annual return on Forest City Development's investment in the parking facilities.

Financing for Rehabilitation of Buildings 12 and 21 as well as New Building Construction on Placemaking Parcels Not Yet Known

Under the proposed term sheet, Forest City would be obligated to improve two historic buildings, Buildings 12 and 21, with the Port expected to reimburse those historic improvements with project-generated IFD financing. However, financing for Buildings 12 and 21 has not been finalized to date.

3) Available Funding

All of the initial entitlement and horizontal infrastructure development costs would be borne by Forest City, except for when available public financing mechanisms and/or land proceeds subject to reimbursement from IFD proceeds could be used to decrease Port costs for the project. The Port would reimburse Forest City for these costs with land proceeds, prepaid ground leases, public financing measures and IFD tax increment available on a pay-as-you-go basis.

4) Ongoing Maintenance and Operating Costs

The size and magnitude of the proposed Waterfront Site project would result in the need for increased Police and Fire Department services as well as any required maintenance of the parks and open spaces. Economic & Planning Systems, Inc. estimates the increased Police services to be \$719,630¹⁹ annually and the increased Fire services to be \$2,400,000²⁰ annually.

In addition, the proposed Waterfront Site project would result in increased demand for transportation-related services, which would be provided by the San Francisco Municipal Transportation Agency (SFMTA) and other public transportation providers. SFMTA is in the process of preparing a comprehensive assessment of services and facilities in order to anticipate and assure the financial sustainability of the City's transportation network that is designed to accommodate future growth as a result of increased development in the vicinity.

Forest City would implement a transportation demand plan, a strategy intended to manage the transportation demands created by the proposed Waterfront Site project. The transportation strategy for the Waterfront Site project is to reduce vehicle miles traveled by fostering multiple modes of sustainable transportation, such as pedestrian, bicycle, and public transit options. A series of implementation strategies intended to effectively manage the transportation demands

¹⁹ This \$719,630 estimate is based on the estimated need for five full-time Police officers at an annual cost per officer of \$143,926.

²⁰ A new Fire station is currently planned to open north of the Waterfront project site, which would be sufficient to handle the increased need for Fire services. The Waterfront Site project's annual share of costs of that Fire station is approximately \$2,400,000.

created by the Waterfront Site project would be included in the transportation demand plan. The costs for implementation of the transportation demand plan would be funded through public tax revenues and fees. Additional funding sources would be further evaluated as part of a transportation assessment conducted by SFMTA and the CEQA process.

Economic & Planning Systems, Inc. states that funds related to the proposed Waterfront Site project would pay for street and sidewalk maintenance services, such as street sweeping and litter removal, typically the responsibility of the Department of Public Works. These services could be contracted-out to the Department of Public Works (DPW) or through a private entity and are estimated to cost approximately \$23,000 annually. Any additional costs, such as street resurfacing or other major infrastructure renewals would be funded through Port IFD funds as approved under the Port IFD financing plan.

Maintenance of the parks and open spaces would be funded through maintenance special taxes imposed on the ground lease tenants through the maintenance CFD.

5) Debt Load

The project-generated public financing mechanisms to fund the horizontal infrastructure development have not been finalized to date. However, there are two public financing mechanisms currently under consideration.

IFD Financing: The proposed Waterfront Site project would utilize property tax increment received by the Port from a currently proposed Port IFD, which would provide funding for the horizontal infrastructure development costs. As currently proposed, the Port would utilize these funds through the issuance of IFD bonds with some IFD funds utilized on a pay-as-you-go basis.

CFD Bonds: The Port may issue CFD bonds to reimburse horizontal infrastructure development, with debt service to be paid by IFD revenues. The CFD bonds would be secured by special taxes paid by Waterfront Site parcel lessees and would not obligate the City's General Fund or the Port's Harbor Fund.

CONCLUSION

Term Sheet Endorsement

The Budget and Legislative Analyst's 2004 Management Audit of the Port recommended that the Port submit development project negotiation term sheets to the Board of Supervisors for endorsement, allowing the Board of Supervisors to consider the financial goals of the project prior to the Board of Supervisors' approval of the development project's transactions documents. With endorsement of the proposed term sheet, the Pier 70 land use plan and financing plan, if submitted, for the Waterfront Site project would still be subject to future Board of Supervisors approval. If a Pier 70 land use or financing plan is submitted, approval of any ground leases entered into with Forest City would not be subject to further Board of Supervisors approval.

The proposed term sheet provides for Forest City to finance entitlement and horizontal infrastructure development at the Waterfront, which the Port does not have sufficient funds to finance at the onset of development. In exchange for initial financing of up to \$216,930,283 for

entitlement and horizontal infrastructure development at the Waterfront Site, Forest City would receive approximately \$23,714,863 from an 18 percent developer return on equity as well as 45 percent of proceeds from ground leases entered into at the Waterfront Site. The Port's contribution to the project is currently estimated to total \$240,645,147.

The Port's liability for Waterfront Site project costs could be reduced by including additional requirements in the proposed term sheet such as:

- Forest City 's return on equity being calculated only on outstanding capital;
- Clearly stating that project-generated public financing proceeds would only be responsible for filling the feasibility gap necessary to achieve a 10 percent profit on the rehabilitation and reuse of Buildings 12 and 21.
- Clearly stating that the use of project-generated public financing to reimburse Forest City for any new building construction should be contingent upon those new buildings containing placemaking or other public uses.

Based on the preliminary pro forma financial analysis prepared by the Port and Forest City and provisions in the proposed term sheet, the Port would receive estimated rents and other revenues totaling \$6,960,840,105 with a net present value of approximately \$153,000,000 over the 99-year terms of the ground leases.

Finding of Fiscal Feasibility

The proposed Waterfront Site project would (1) yield total annual estimated tax and fee revenues to the City of \$28,681,000 and total one-time taxes and fee revenues of \$91,154,000, (2) generate an estimated 18,020 permanent jobs and 14,320 temporary construction-related jobs, (3) provide an estimated \$2.15 billion in development and construction expenditures, (4) be financed by \$222,492,328 in Port funds from IFD bonds, tax increment from the establishment of a Port IFD, and land proceeds and \$1.93 billion in private investment, and (5) ongoing maintenance and operational expenses would be funded through the creation of a maintenance CFD.

Although the proposed term sheet includes a preferred public financing strategy for the parking garages, financing for the parking facilities has yet to be determined. This represents a feasibility gap of approximately \$86,028,700. Given the uncertainty, the Port should be required to report back to the Board of Supervisors on the financing secured for the parking facilities as soon as a financing plan for the placemaking parcels has been finalized.

Financing for the placemaking parcels and the historic buildings, Buildings 12 and 21, has also yet to be determined. This represents a feasibility gap of approximately \$12,353,000, but could be higher depending on further evaluation by historic preservation architects on the cost of improvements to Buildings 12 and 21. Therefore, the Port should be required to report back to the Board of Supervisors on the financing secured for the placemaking parcels and Buildings 12 and 21 as soon as the feasibility gap has been reconciled and prior to the financing plan or ground leases being finalized.

Based on these criteria, the proposed Waterfront Site project is fiscally feasible under Chapter 29 of the City's Administrative Code, with the exception of financing for the parking facilities and

the placemaking parcels and historic buildings, which represents feasibility gap of \$98,381,700. As noted above, in accordance with Administrative Code Chapter 29, the finding of “fiscal feasibility” means only that the project merits further evaluation and environmental review. If the proposed resolution is approved by the Board of Supervisors, the City will be authorized to commence environmental review of the project under CEQA.

RECOMMENDATIONS

- The Board of Supervisors should amend the proposed resolution to request the Port to include the following recommendations in Waterfront Site project transaction documents, including ground leases, the development and disposition agreement (DDA), and the financing plan, if submitted, and report back to the Board of Supervisors on the inclusion of these recommendations at time of the Board of Supervisors hearing on these documents, as follows:
 - a. The only third-party parcels which are eligible for inclusion in the Waterfront Site project are the 20th/Illinois parcel and the Hoe Down Yard;
 - b. The definition of net sale proceeds for condominiums is 1.5 percent of the total sale price of the condominium net costs of sale;
 - c. Forest City ’s return on equity would be calculated only on outstanding capital;
 - d. Project-generated public financing proceeds would only be used to fill the feasibility gap necessary to achieve a 10 percent profit on Buildings 12 and 21 and that Forest City would not be entitled to receive funds to fill the feasibility gap from other Port funding sources;
 - e. Project-generated public financing proceeds would only be used to reimburse Forest City for any new building construction, contingent upon those new buildings containing placemaking or other public uses which meet the legal requirements for eligible use of IFD or CFD financing; and
 - f. Financing utilizing Pier 70 payroll tax and hotel tax increment for Waterfront Site horizontal and vertical development under Charter Section B7.310 would not be utilized to fund Waterfront Site project improvements.
- The Board of Supervisors should amend the proposed resolution to require the Port to report back to the Board of Supervisors on the financing plans for the parking facilities, the placemaking parcels, and Buildings 12 and 21 as soon as Forest City and the Port have agreed on the financing approach.
- Approve the proposed resolution as amended.

Section and Title	Basic Terms and Conditions
1. Parties	The Port of San Francisco and Forest City Development California, Inc.
2. Site Description	The Pier 70 Waterfront Site is an approximately 28-acre parcel located east of Illinois Street in the Dogpatch/Central Waterfront, bordered generally by the San Francisco Bay on the east, 20 th Street on the north, 22 nd Street and the boundary of the former Potrero Power Plant on the south and the Illinois Street and 20 th Street parcels and the PG&E Hoe Down Yard to the west.
3. Project Description	The Pier 70 Waterfront Site Project will create a new mixed-use district at Pier 70 that leverages the Site's history, the waterfront setting, and the character and local experiences of the adjacent neighborhood, as described in the Land Use Summary section above.
4. Transaction Documents	<p>The parties anticipate the following primary Transaction Documents:</p> <ul style="list-style-type: none"> • <u>Disposition and Development Agreement</u> between the Port and Master Developer (the "DDA"). The DDA will set the terms and conditions for the disposition and development of parcels at the Waterfront Site. Under the DDA, the Port will enter into a ground lease with the applicable Vertical Developer (which may be Forest City or affiliates) for each development parcel or will enter into a purchase and sale agreement for development parcels to be sold in fee. • <u>Form of Ground Lease</u>: The form of ground lease to be used for development parcels at the Waterfront Site will be attached as an exhibit to the DDA. • <u>Development Agreement</u>. The Development Agreement will be a statutory development agreement between the City and Forest City, as authorized under Cal. Govt. Code Section 65864-65869.5 and the City's Administrative Code Chapter 56, and is intended to vest entitlements for the term through Project build-out and limit the applicability of new impact fees and exactions. • <u>Public Trust Exchange Agreement</u>. The Public Trust Exchange Agreement between the Port and the State Lands Commission will be the agreement implementing the public trust exchange pursuant to the authority of AB 418
5. Phasing	<p>The parties anticipate that the Project Site will be developed in up to four phases.</p> <ul style="list-style-type: none"> • Each phase will consist of one or more development parcels and associated areas for streets, infrastructure, and open spaces. • Public benefits, including development of parks, will be distributed among the phases, assuring that these benefits are completed in coordination-with the completion of vertical development and associated infrastructure of each phase. • The DDA will include a schedule of performance applicable to the Project, which shall set forth outside dates for the submittal of phase applications and the commencement and completion of Infrastructure within each phase. The DDA will set forth reasonable and customary provisions regarding adequate security for construction of improvements within the Waterfront Site, including completion

	<p>requirements.</p> <ul style="list-style-type: none"> The schedule of performance will be subject to delays for force majeure, as well as delays based on to-be-negotiated indicators of a down market.
6. Statutory, Regulatory, and Plan Amendments	The Project will require approvals by State bodies, including BCDC and the State Lands Commission. To the extent necessary and after consultation with staff of the State Lands Commission and Master Developer, the Port may seek technical amendments to the Burton Act and other state legislation.
7. Zoning	<ul style="list-style-type: none"> The Waterfront Site is currently zoned M-2. Master Developer will seek approval of a new Special Use District (“SUD”) for the Waterfront Site, the 20th/Illinois Parcel, and the Hoe Down Yard (subject to PG&E consent). The SUD will, among other things, establish new height and bulk limits. The Waterfront Land Use Plan will be amended to incorporate development controls for the Waterfront Site, the 20th/Illinois Parcel, and the Hoe Down Yard (subject to PG&E consent) and will incorporate SUD limitations and other development requirements.
8. Developer Return	The Master Developer will be repaid for the costs it reasonably incurs for infrastructure and public facilities and will receive a cumulative annual return of 18% (including costs of carry on Qualified Project Costs in an amount that the parties will negotiate and include in the DDA) (“Developer Return”).on invested risk capital (“Developer Capital”).
9. Proceeds from 20th/Illinois Parcel and Other Port Parcels	Master Developer will include the parcel of land in Pier 70 known as the 20 th /Illinois Parcel in the approved Project SUD, and the Port will auction the parcel within one year after Project approval. Revenues generated from the lease or sale of the 20 th /Illinois Parcel will be paid to Master Developer to be applied to the accrued and unpaid Developer Return (excluding the cost of carry) on Master Developer’s Project entitlement costs incurred before Project Approval. The Port, at its sole election and subject to reasonable financial protections negotiated in the DDA, may also sell other parcels within the Pier 70 area (outside of the Waterfront Site) and use the proceeds pay directly for horizontal development costs (subject to reimbursement with public financing proceeds), to pay the Developer Return, to repay Developer Capital (subject to reimbursement with public financing proceeds) and to pay any other unreimbursed Developer Capital and unpaid cost of carry after public financing proceeds have been exhausted.
10. Port Participation	<p>The financial deal structure affords the Port the following opportunities to receive one-time and on-going revenues from the value created on the Waterfront Site’s land with the buildings constructed on the Site:</p> <ul style="list-style-type: none"> Prepaid ground rent, land sales proceeds, and 50% of net new interim lease revenues that Forest City brings to the site (“New Interim Lease Revenues”) above amounts that the Port uses to pay Developer Return on Developer Capital or to repay Developer Capital will be distributed to the Parties as shared profit after Master Developer achieves an 18% Developer Return and is repaid Developer Capital in full, with the profits split 55% to the Port and 45% to Master Developer. <p>If Project account statements show that Master Developer has received the Developer Return the return of Developer Capital after all infrastructure and public facilities for the Project have been completed and accepted by the City and the Port, then all new Ground Leases that the Port conveys will include an annual ground rent obligation based on FMV (defined in Section 15), subject only to</p>

	<p>periodic escalation based on the Consumer Price Index (San Francisco-Oakland-San Jose, all urban consumers) with no market re-sets, and the Port will receive annual payments of 55% of the annual ground rent obligation, and Master Developer will receive or retain the remaining 45% (which may be pre-paid).</p> <p>Percentage Rent:</p> <ul style="list-style-type: none"> ○ Beginning in lease year 30, the Port will be entitled to annual payments of 1.5% of modified gross revenues from all buildings other than residential condominium buildings and Buildings 12, 21, Parcels E1A and E1B, and the district parking facilities. ○ Beginning in lease year 60, the Port will be entitled to annual payments of 2.5% of modified gross revenues on all buildings other than residential condominium buildings, Buildings 12, 21, Parcels E1A and E1B, and the district parking facilities. <ul style="list-style-type: none"> ● Refinancings: The Port will be entitled to 1.5% of net proceeds from the refinancing of buildings on Ground Leases. ● Participation in Transfer of Ground Leases and Fee Parcels: The Port will be entitled to 1.5% of net proceeds from the sale of ground leases or subsequent sale of fee parcels. ● Condominium Transfer Tax: The Port will receive a 1.5% transfer fee payment on re-sales of condominiums (after the first sale). ● Share of IFD Tax Increment: The Port will receive about 9% of the net available property tax increment (about \$0.08 per property tax dollars under FY 2012-2013 allocations) generated by development on the Waterfront Site and the 20th/Illinois Parcel for sitewide use at Pier 70.
<p>11. Horizontal Development Costs</p>	<p>Master Developer will be responsible for making horizontal improvements on the Waterfront Site. The Port and Master Developer anticipate using project-generated taxable or tax-exempt financing mechanisms to pay for qualified project costs of horizontal infrastructure, public facilities, and certain building costs if eligible (e.g., historic building rehabilitation, district parking facilities and placemaking uses for Parcels E1A and E1B). A Project financing plan that will be a part of the DDA will set forth all financing mechanisms that the parties anticipate using for the Project.</p>
<p>12. Public Financing Mechanisms</p>	<p>The primary financing mechanisms currently contemplated are:</p> <ul style="list-style-type: none"> ● <u>Community Facilities District (CFD)</u>: Subject to agreement of the parties, the City will form a CFD, with improved areas annexed to the CFD at each phase. Special taxes will be levied against leasehold and fee interests in taxable parcels. The Port will have an option at its sole election to form and bond against a CFD formed before any Development Parcels in a Phase are conveyed, with special taxes levied and collected at the maximum property tax rate. ● <u>Infrastructure Financing District (IFD) Project Areas</u>: The Project qualifies as a “Pier 70 district” for which a “Pier 70 enhanced financing plan” is authorized under applicable state laws enacted for the benefit of Pier 70. Consistent with Port IFD Guidelines, the City would form a single IFD consisting of all Port property (“waterfront district”). Following CEQA review, the City form a Pier 70 project area

	<p>and adopt an infrastructure financing plan for the Waterfront Site and the 20th/Illinois Parcel (“IFD financing plan”) allocating tax increment from the project area to the waterfront district to finance the costs of qualified Project costs. The parties will negotiate in detail eligible costs under the IFD financing plan with the goal of maximizing under the IFD law the eligibility for public financing of qualified Project costs.</p> <ul style="list-style-type: none"> • Bonds. CFD (or IFD) bonds will be issued consistent with the DDA and Project financing plan on a tax-exempt basis to the maximum extent permitted by law, and on a taxable basis in other cases. Any bonds issued will be consistent with the Port’s reimbursement obligations under the DDA, a phase budget, applicable federal tax law and regulations, other applicable law, and any acquisition agreement executed by the Port and Master Developer. <p>Maintenance Districts: The parties will create a maintenance CFD over the entire Site. Maintenance special taxes levied against applicable taxable development parcels will provide pay-as-you-go funds for maintenance costs of certain public facilities on the Waterfront Site to be specified in the DDA.</p>
<p>13. Open Spaces, Parks, and Recreation</p>	<p>The Master Developer will develop approximately 7 acres of major new open spaces to create a distinct urban waterfront that capitalizes on the history of the Waterfront Site and complements other open spaces at Pier 70 and in the Central Waterfront. The development of these parks and open spaces will be distributed among the phases. Parks and open spaces will be owned by the Port and managed and programmed by Developer or a third-party operating entity subject to Port approval, subject to Port approval and conditions of the BCDC major permit. Maintenance of the parks and open spaces will be funded by special taxes imposed on vertical developers through the maintenance CFD.</p>
<p>14. District Parking Structures</p>	<p>The Project is anticipated to deliver approximately half of the parking for commercial users within office buildings and the other half within district parking facilities built in the later phases of the Project. Over the course of the DDA negotiations, the parties will explore financing options, which may include public financing of the District Parking Facilities, use of net operating income from the facilities, use of Developer Capital (subject to a 12% annual return on and repayment of capital invested), and use of Port Project proceeds. If Developer Capital is used to fund District Parking Facilities, return of and on Developer Capital would be funded by, among other potential sources, the Port’s 55% share of the Project Surplus, if any. The preferred option for financing the district parking facilities involves a public financing strategy that would allow the Port to own the garages. Under the preferred option, the Port and City would pay for the district parking facilities with IFD, CFD or other public financing sources, and Port will own and manage them. If Master Developer constructs the district parking facilities on behalf of the Port, Master Developer would be entitled to a market-rate development fee based on the development costs. Except to the extent pledged and used to pay CFD or IFD bond debt service, the Port would retain all net operating revenues.</p> <p>Under any financing scenario, the Port would be required to make spaces available to Master Developer at market rates.</p> <p>The DDA may include parking spaces in the garages that would be available to the Port to serve other Pier 70 parking demand subject to agreed cost-sharing and easement agreements and other conditions. In addition, the flexible site zoning scheme will allow one or more of the parcels designated for the district parking facilities to be developed for residential or commercial use if not needed for parking.</p>
<p>15. Master</p>	<p>Master Developer will have the right to purchase or lease each of the development parcels</p>

Developer's Option Rights	within the Waterfront Site at its fair market value through an option process. Development parcels to be developed primarily as for-sale residential condominiums will be transferred in fee. The Port will transfer all other development parcels by 99-year ground leases. All development parcels will be transferred at fair market rental value for ground lease parcels or fair market value for fee parcels (in either case, "FMV"), to be determined by appraisal. The parcels containing the district parking structures, Buildings 12 and 21, and Parcels E1A and E1B will be handled outside of the option process, as described in Sections 14 and 17 of this summary.
16. Public Offerings	For each development parcel for which Master Developer fails to exercise its option and for the 20 th /Illinois Parcel, a public offering process will be used. Public offerings will be managed by a broker selected by the parties and the applicable development parcel will be made available to third-party bidders that meet bidder selection guidelines for residential and commercial parcels, to be set forth in the DDA. The Port will sell the parcel to the qualified bidder submitting the highest bid price that meets or exceeds the minimum bid price, set based on appraised fair market value, and the Port's receipt of the revenues will be applied to pay directly for horizontal development costs (subject to reimbursement with public financing proceeds), to pay the Developer Return, to repay Developer Capital (subject to reimbursement with public financing proceeds) and to pay any other unreimbursed Developer Capital and unpaid cost of carry after public financing proceeds have been exhausted.
17. Placemaking Parcels (Parcels 12, 21, E1A and E1B)	<p>The Port will convey historic Buildings 12 and 21 to Master Developer under separate 99-year ground leases for rehabilitation and reuse consistent with the Secretary of the Interior's Standards for the Treatment of Historic Properties at ground rents reflecting the impact of the rehabilitation costs on fair market value (which could mean without any ground rent obligation). The parties expect that the Port will pay for qualified historic rehabilitation costs with IFD financing, but will continue to investigate the impact of any allocation of historic tax credits on the anticipated use of IFD, required lease terms if Master Developer obtains allocations of historic tax credits, and other legal issues required to be resolved for incorporation into the DDA.</p> <p>Master Developer will have an option to ground lease Parcels E1A and E1B from the Port at no cost for the establishment of placemaking uses. The parties will continue to investigate the potential use of land-secured financing sources to reimburse Master Developer's qualified costs to the maximum extent permitted by law. If the parties conclude that legal impediments prevent the use of these sources to reimburse Master Developer for its Developer Capital investment in these buildings, the Port will have no obligation to reimburse Master Developer for those costs. In any case, Master Developer will not be entitled to Developer Return on its entitlement and development costs associated with these parcels after the effective date of the DDA. The DDA and SUD will include provisions that may allow for other uses of and disposition process for these parcels if Master Developer elects not to exercise its option on these parcels.</p>
18. Noonan Building Tenants	Forest City will offer each Noonan Building Tenant in good standing replacement space similar in size to the tenant's existing premises. Rent will be based on the current rent schedule for the building, escalated to the date of relocation by an index to be included in the DDA.

Source: The Port

Item13
File 13-0393

Department:
Airport Commission

EXECUTIVE SUMMARY

Legislative Objectives

File 13-0393 is a resolution approving the professional services agreement between the Airport and T1 Partners, a Joint Venture of Parsons Transportation Group, Inc., The Allen Group, LLC, and EPC Consultants, Inc., to provide program management support services to the Airport's Terminal 1/Boarding Area B Redevelopment Program (T1 Program). The Airport selected T1 Partners through a competitive process.

Key Points

- The T1 Program is a major renovation of the Airport's Terminal 1 and Boarding Area B, providing for (a) complete replacement of the architectural building envelope and building systems; (b) interior architectural renovation and facility upgrades, including consolidation of the passenger screening checkpoint, new airline ticket counters, and new concession space; (c) new consolidated baggage handling system and baggage screening system; and other improvements. The T1 Program budget is \$2.1 billion, divided into five phases over 10 years from 2013 to 2023. Program funding is Airport revenue bonds.
- Program management support services include terminal program planning and phasing, program-level costs and schedule controls, contractor solicitation and contract preparation, coordination of program management with construction management, cost estimating, and other program services.
- According to the proposed agreement, the Airport's objective is to pre-plan the T1 Program. To assist the Airport in meeting this objective, the agreement provides for the consultant to develop a detailed program plan, including program phasing and budgets, and oversee implementation of the program.
- The agreement provides specific tasks and timelines for the consultant to achieve each of the tasks. The Airport's program manager, in coordination with the Airport's Deputy Director of Capital Programs, will evaluate the consultant on achievement of specific tasks and timelines and whether the T1 Program is delivered on time and on budget.

Fiscal Impact

- The initial term of the proposed agreement one-year with nine one-year extensions, for a total term of 10 years. The first year payment is not-to-exceed \$4,453,178. The proposed resolution states that the total agreement amount over the 10 year term is not-to-exceed \$32,000,000.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118(b), City agreements with anticipated expenditures of \$10,000,000 or more, or a term of more than 10 years, are subject to approval by the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

File 13-0393 is a resolution approving the professional services agreement between the Airport and T1 Partners, a Joint Venture of Parsons Transportation Group, Inc., The Allen Group, LLC, and EPC Consultants, Inc., to provide program management support services to the Airport's Terminal 1/Boarding Area B Redevelopment Program (T1 Program).

The agreement provides for:

- An initial term of one-year with nine one-year extensions, for a total term of 10 years; and
- First year payment of not-to-exceed \$4,453,178.

The proposed resolution states that the total agreement amount over the 10 year term is not-to-exceed \$32,000,000.

T1 Program

The T1 Program is a major renovation of the Airport's Terminal 1 and Boarding Area B, providing for:

- Complete replacement of the architectural building envelope; replacement of electrical, HVAC (heating, ventilation and air conditioning) systems; and interior architectural renovation and facility upgrades, including consolidation of the passenger screening checkpoint, new airline ticket counters, and new concession space;
- New consolidated baggage handling system and baggage screening system, reducing the number of systems from six to one;
- Renovation of Boarding Area C to bring this facility up to Airport standards; and other improvements.

The program allows for future expansion of Boarding Area B gate capacity, increasing from 18 to 24 gates.

The T1 Program budget is \$2.1 billion, divided into five phases over 10 years from 2013 to 2023. Program funding is Airport revenue bonds.

Program Management Support Services to be Provided by T1 Partners

Program management support services include terminal program planning and phasing, program-level costs and schedule controls, contractor solicitation and contract preparation, coordination of program management with construction management, cost estimating, and other program services. T1 Partners will be responsible for program-level support, rather than construction project support, to the Airport.

Solicitation of Program Management Support Services Consultant

The Airport Commission authorized the request for qualifications and proposals (RFQ/RFP) in September 2012 for a consultant to provide program management support services for the T1 Program. The Airport received four qualified responses to the RFQ/RFP, and convened a five-member panel to review the responses.¹ As shown in Table 1 below, T1 Partners received the highest score from the panel.

Table 1: RFQ/RFP Score

	T1Partners	T1 AC Joint Venture	Faithful & Gould in association with HNTB	Hill International
Score	840.00	832.40	733.40	657.40

The Airport Commission approved award of the program management services agreement to T1 Partners in April 2013.

Scope of Work

According to the agreement, the Airport's objective is to pre-plan the T1 Program. To assist the Airport in meeting this objective, the agreement defines the consultant's scope of work as follows:

- Develop a detailed program management plan and work with the Airport's program manager to (a) phase the program, (b) develop schedules and implementation plans for each phase, (c) conduct a program-wide risk assessment, (d) develop cost estimates and budgets, and (e) assist in design and other plans; and
- During implementation of the T1 Program, oversee (a) project teams' conformance to budgets and schedules, (b) performance of design, construction management and construction administration teams, (c) quality assurance and controls, and (d) project management of baggage handling, passenger boarding and other systems; and other program-level oversight.

T1 Partners will be responsible for program schedules, budgets, quality controls, document controls, coordination of construction services, and collecting and reporting on T1 Program data. T1 Partners will also be responsible for the Airport's "quick response team" approach to the T1 Program, in which project teams meet to coordinate and collaborate on the program's implementation and progress.

The agreement provides specific tasks and timelines for the consultant to achieve each of the tasks. According to Mr. Reuben Halili, Airport Project Manager, an Airport program manager, in coordination with the Airport's Deputy Director of Capital Programs, the Airport's Chief Operating Officer, the Airport Director, and an Advisory Board consisting of aviation program professionals, will oversee the program management services agreement. The consultant will be evaluated by achievement of the tasks and timelines specified in the agreement and on whether the T1 Program is implemented to the Airport stakeholders' satisfaction and within schedule and budget. The Airport will formally evaluate the consultant on an annual basis and determine if the agreement will be renewed.

¹ The panel consisted of one retired Airport employee, one representative of the Airport Liaison Office, one active Airport employee, one Department of Public Works employee, and one representative from the Sacramento Airport.

FISCAL IMPACT

The first year budget of \$4,453,178 is shown in Table 2 below:

Table 2: First Year Agreement Budget

	Hours	Salary and Overhead Rate per Hour	Total
Deputy Program Manager	1,896	\$223.84	\$424,399
Program Planner	1,896	\$247.40	469,072
Program Quick Response Team Manager	1,896	\$198.38	376,125
Program Sustainability Manager	948	\$185.98	176,309
Program Special/Security Systems Manager	1,304	\$185.91	242,425
Program Baggage Handling System Manager	1,501	\$185.98	279,156
Program Controls Manager	1,896	\$176.72	335,052
Document Control/ Administration/Graphics	3,002	\$112.89	338,899
Contracts Coordination	1,422	\$145.53	206,944
Program Construction Coordinator	790	\$185.98	146,924
Quality Response Team	2,844	\$151.31	430,312
Computer Aided Design Technician	1,422	\$99.33	141,247
Aviation Planning/Liaison	1,517	\$146.98	222,970
Aviation Advisor	<u>379</u>	<u>\$262.64</u>	<u>99,540</u>
Total Consultant Staff	22,713		\$3,889,374
Mobilization			<u>120,000</u>
Subtotal Agreement Costs			\$4,009,374
Contingency (11%)			<u>443,804</u>
Total Agreement Costs			\$4,453,178

The average hourly salary and overhead rate is \$171.24, based on a year one budget of \$3,889,374 for 22,713 hours of consultant staff time.

Airport revenue bond funds to pay the agreement costs are included in the T1 Program capital budget, subject to Board of Supervisors approval.

RECOMMENDATION

Approve the proposed resolution.

Item 14
File 13-0362

Department:
Emergency Management
Assessor-Recorder

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize an amendment to the existing lease, between the City, as tenant, and SFOC LLC, as landlord, for the City to continue to occupy the approximately 9,800 square feet of office space and five parking spaces at 711 Van Ness for the Department of Emergency Management and the Assessor-Recorder's Office, by extending the existing lease for 14 ½ months to June 30, 2015.

Key Points

- On July 17, 2012 the Board of Supervisors approved a new lease (File 12-0675) between the City, as tenant and SFOC LLC, as landlord for approximately 9,800 square feet of office space at 711 Van Ness for the Department of Emergency Management and the Assessor-Recorder's Office for approximately 20 ½ months, beginning August 1, 2012 and ending on April 14, 2014.
- The existing lease provides for: (a) fixed rent of \$22 per square foot per year, or approximately \$215,600 per year for 9,800 square feet; (b) five parking spaces rented by the City at a rate of \$1,200 per month, or approximately \$14,400 per year; and (c) all utilities, insurance, taxes and custodial services to be paid by the landlord.
- Under the proposed amendment to the existing lease, the term of the lease is extended for 14 ½ months to June 30, 2015. Therefore, the total term of the amended lease is approximately two years and eleven months, beginning August 1, 2012 and ending on June 30, 2015. Except for the proposed lease term extension of 14½ months the other provisions of the lease remain the same.

Fiscal Impacts

- The total rent for the amended lease agreement, including parking, over the extended term of the lease is \$670,833. Of the \$670,833, \$491,167 or 73.2% would be paid by the Department of Emergency Management's Bay Area Urban Areas Security Initiative (BAUASI) grant funds and \$179,667 or 26.8% would be paid by General Fund monies.
- The BAUASI currently has been awarded Department of Homeland Security grant funds Federal through May 31, 2015 and possibly may be able to extend by one additional month through June 30, 2015.
- The Assessor-Recorder's Office has carried-forward unexpended General Fund monies, previously appropriated by the Board of Supervisors for rent, sufficient to pay the proposed rent in FY 2013-14. The rent in FY 2014-15 will be paid with General Fund monies and has been requested in the FY 2014-15 proposed budget of the Assessor-Recorder.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

In accordance with Sections 23.26 and 23.27 of the City's Administrative Code, leases of \$5,000 or more per month that extend for more than one year in which the City is the tenant are subject to Board of Supervisors approval by resolution.

Background

In late 2011 the Department of Emergency Management and the Assessor-Recorder's Office separately requested the Real Estate Division to find temporary office space for their respective departments. The Real Estate Division proposed a short-term lease for new temporary office space at 711 Van Ness Avenue, to be shared by the Assessor-Recorder's Office and Department of Emergency Management.

On July 17, 2012 the Board of Supervisors approved a new lease (File 12-0675) between the City, as tenant and SFOC LLC, as landlord for approximately 9,800 square feet of office space at 711 Van Ness for the Department of Emergency Management and the Assessor-Recorder's Office for approximately 20 ½ months, beginning August 1, 2012 and ending on April 14, 2014.

Department of Emergency Management

The Department of Emergency Management required new office space to house the Bay Area Urban Areas Security Initiative (BAUASI), which is funded by a federal Department of Homeland Security grant, because the Department's two lease agreements for Port-owned property at 10 Lombard Street expired on July 13, 2012 and July 14, 2012 respectively.

According to Mr. William Lee, Director of Finance and Administration for the Department of Emergency Management, the 711 Van Ness Avenue lease site is suitable due to the proximity to the Department of Emergency Management offices at 1011 Turk Street. According to Mr. Lee, the current federal Department of Homeland Security BAUASI grant for Federal Fiscal Year 2012 (October 1, 2011 through September 30, 2012) expires in May 31, 2014. The Department of Emergency Management was recently notified of new grant funding that will extend through May 2015, as noted below and therefore, will continue to need this office space for the BAUASI program.

Assessor-Recorder's Office

The Assessor-Recorder's Office's FY 2011-12 budget included funding for temporary and limited term staff to process the backlog in real property assessment appeals, as well as funding for office space rental and associated costs. These rental and other funds were not expended in FY 2011-12 and were carried forward to FY 2012-13.

According to Ms. Kimberlee Kimura, Assessor-Recorder's Office Director of Finance and Administration, the Assessor-Recorder's Office did not have sufficient space in the department's City Hall offices for the 13 temporary and limited term staff assigned to assessment appeals processing, and therefore, required the additional office space at 711 Van Ness Avenue. According to Ms. Kimura, the Assessor-Recorder's Office initially anticipated that processing of the backlog in assessment appeals would be completed by 2014; however, the Assessor-Recorder's Office renewed the project in response to the still very high appeals caseload at the Assessment Appeals Board. In July 2012, when the existing lease was initiated, the Assessor-

Recorder's Office had 7,729 outstanding appeals, and 4,943 additional appeals have been filed since July 2012, for a total of 12,672 appeals. According to Ms. Kimura, from FY 2000-01 through FY 2008-09, the average total number of appeals filed was 1,500 per year, as compared to 4,943 to date in FY 2012-13. Ms. Kimura reports that approximately 8,131 appeals are currently open, and therefore the Assessor-Recorder's Office will request funding for the project through FY 2014-15 and will continue to need the office space at 711 Van Ness Avenue.

The existing lease provides for: (a) fixed rent of \$22 per square foot per year, or approximately \$215,600 per year for 9,800 square feet; (b) five parking spaces rented by the City at a rate of \$1,200 per month, or approximately \$14,400 per year; and (c) all utilities, insurance, taxes and custodial services to be paid by the landlord.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize an amendment to the existing lease, between the City, as tenant, and SFOC LLC, as landlord, for the City to continue to occupy the approximately 9,800 square feet of office space and five parking spaces at 711 Van Ness for the Department of Emergency Management and the Assessor-Recorder's Office, by extending the existing lease for 14 ½ months to June 30, 2015. Therefore, the total term of the amended lease is approximately two years and eleven months, beginning August 1, 2012 and ending on June 30, 2015. Except for the proposed lease term extension of 14½ months the other provisions of the lease remain the same. A summary of the proposed amended lease is shown in Table 3 below:

Table 1: Summary of Proposed Lease Extension at 711 Van Ness	
Term	Two years and eleven months (August 1, 2012 through June 30, 2015)
Square feet (approximate)	9,800
Average rent per square foot per month	Approximately \$1.83 (or \$22 per year)
Total rent per month	\$17,967
Total annual rent for office space	<u>Approximately \$215,600</u>
Rent per month for five parking spaces	\$1,200
Total annual rent for parking space	<u>\$14,400</u>
Total Annual Rent including five parking spaces	Approximately \$230,000
Annual rent increases	None
Utilities and services	The lease is fully serviced and utilities, insurance, taxes and custodial service are paid by the landlord
Options to further extend	None

According to Mr. Andrico Penick, Assistant Director of Real Estate, the proposed rent of \$22 per square foot per year is below market rate for comparable office space, which is approximately \$40 per square foot per year, because the landlord desires to keep the option to repurpose or sell the building, depending on the economy. The proposed amended lease provides no additional opportunity to extend or hold-over past the June 30, 2015 expiration date. The proposed amended lease provides the option for the landlord to terminate prior to June 30, 2015, provided the landlord provides the City: (i) six months' notice and (ii) two months' rent credit if early termination notice is given prior to April 14, 2014 and one month rent credit if early termination notice is given after April 14, 2014.

Parking

In addition to the office space, the amended lease continues to provide for five parking spaces, to be used by the Department of Emergency Management. According to Mr. Lee, the BAUASI work involves regular meetings with local law enforcement and other partners throughout 12 counties in the greater Bay Area, including in areas without ready access to public transit, which necessitate the availability of vehicles for the use of BAUASI staff and the associated parking spaces.

FISCAL IMPACTS

The total rent for the amended lease agreement, including parking, is \$670,833 over the extended term of the lease, as shown in Table 2 below. Of the \$670,833, \$491,167 or 73.2% would be paid by the Department of Emergency Management's Bay Area Urban Areas Security Initiative (BAUASI) grant funds and \$179,667¹ or 26.8% would be paid by General Fund monies..

	FY 2012- 13	FY 2013- 14	FY 2014- 15	TOTAL	Percent of Total
Assessor-Recorder (General Fund)					
Rent (2,800 square feet @ \$22/sq. ft./ year)	\$56,467	61,600	61,600	\$179,667	
Assessor-Recorder subtotal	\$56,466	\$61,600	\$61,600	\$179,667	26.80%
Department of Emergency Management (BAUASI Grant Funds)					
Rent (7,000 square feet @ \$22/ sq. ft./ year)	\$141,167	154,000	154,000	\$449,167	
Parking	\$13,200	14,400	14,400	\$42,000	
Department of Emergency Management subtotal	\$154,366	\$168,400	\$168,400	\$491,167	73.20%
Total Lease Amount For 711 Van Ness					
Subtotal - Rent	\$197,633	\$215,600	\$215,600	\$628,833	
Subtotal - Parking	\$13,200	\$14,400	\$14,400	\$42,000	
Total	\$ 210,833	\$ 230,000	\$ 230,000	\$ 670,833	100.00%

¹ \$1 difference due to rounding

² \$1 difference due to rounding

The current Federal Department of Homeland Security grant for BAUASI expires in May 31, 2014. Mr. Tristan Levardo, Chief Financial Officer for the BAUASI Program, states that BAUASI received new grant funding during the week of May 23, 2013 for Federal Fiscal Year 2013 (October 1, 2012 through September 30, 2013), which extends grant funds through May 31, 2015 and possibly by one additional month through June 30, 2015. Additional Department of Homeland Security grant funds are expected for the Federal Fiscal Year 2014 (October 1, 2013 through September 30, 2014) and information about the next grant cycle will become available in September 2013, allowing BAUASI to adjust its space needs accordingly at the expiration of the lease.

According to Ms. Kimura, the Assessor-Recorder's Office has carried-forward unexpended General Fund monies, previously appropriated by the Board of Supervisors for rent, sufficient to pay the proposed rent in FY 2013-14. The rent in FY 2014-15 will be paid with General Fund monies and has been requested in the FY 2014-15 proposed budget of the Assessor-Recorder. Ms. Kimura states that currently the project to process the appeal backlogs is funded only through FY 2014-15, coinciding with the termination of the proposed amended lease. According to Ms. Kimura, if sufficient funding is not approved by the Board of Supervisors for future years, the temporary and limited term employees will be terminated; however, if funding is approved, then the Assessor-Recorder's Office will work with the Department of Real Estate to relocate the project team to another space.

RECOMMENDATION

Approve the proposed resolution.