CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: September 5, 2012 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item 1 **File 12-0689**	**Department:** Airport

EXECUTIVE SUMMARY

Legislative Objective

- The proposed ordinance would amend the Administrative Code to add language to allow Airport leases for aviation support services to be exempt from competitive bidding for any lease not exceeding 10 years (Administrative Code Section 2A.173).

Key Points

- Airlines select firms to provide aviation support services to the respective airlines. As written in the proposed ordinance, "Such (aviation support) services include but are not limited to (a) servicing, cleaning, and provisioning of aircraft, (b) handling, transfer, and temporary storage of cargo and mail, inspection, maintenance, and repair of aircraft and ground service equipment, (c) handling of passengers and baggage, (d) operations support and crew administration, (e) loading and unloading of passengers, baggage, and cargo, (f) fueling of aircraft and other ramp support services, and (g) checkpoint screening and perimeter control." Currently, airlines either (1) sublease space to the aviation support services providers under their existing lease and use agreements with the Airport, or (2) have the Airport issue temporary permits to the aviation support services providers for use of Airport space. Rental rates for aviation support service providers are either (1) negotiated as part of the existing lease and use agreements between the Airport and the respective airlines; or (2) set by the *Summary of Airport Charges*, approved each year by the Airport Commission.

- The proposed ordinance would allow the Airport to directly enter into lease agreements for up to 10 years with aviation support services providers without undergoing a competitive bid process. According to the Airport, the Airport should not be required to competitively bid aviation support services leases because the aviation support services providers are selected by the respective airlines for whom they provide services. Rental rates for any leases between the Airport and the aviation support services providers would be set by the Airport's approved annual *Summary of Airport Charges.*

Fiscal Impact

- According to Ms. Cathy Widener, Governmental Affairs Manager for the Airport, because existing rental rates charged to aviation support services providers, either under temporary permits or existing lease and use agreements with airlines, are generally the same as the rates contained in the Airport's approved *Summary of Airport Charges,* the Airport does not anticipate that approval of the proposed ordinance, in which the Airport would directly enter into leases with aviation support services providers without undergoing a competitive bidding process, will result in a decrease in rental revenues to the Airport. The Airport estimates $13,461,740 in aviation support services providers sublease and permit revenues in FY 2012-13.

- According to Ms. Widener, the proposed ordinance would also result in more stable aviation support services lease revenues and more efficient use of cargo, warehouse, and other space by allowing the Airport to execute leases with aviation support service providers for up to ten years, rather than award temporary permits. Ms. Wideners states that the ability to enter into leases directly with aviation support services providers would allow for greater predictability in revenues and better management for the use and occupancy of these spaces.

Policy Consideration

- The proposed ordinance states that aviation support services include, *but are not limited to*, the specific types of services defined in the ordinance. Because the proposed ordinance waives competitive bidding for leases for specific types of aviation support services, the types of aviation support services for which competitive bidding for leases is waived should be specifically defined.

Recommendations

- Amend the proposed ordinance to delete "but are not limited to".
- Because the proposed ordinance would waive competitive bidding procedures for aviation support services leases, approval of the proposed ordinance as amended is a policy decision for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with Section 2.105 of the City's Charter, any amendments to the Administrative Code must be approved by ordinance of the Board of Supervisors.

Background

The Administrative Code currently requires that all leases that are expected to generate more than $2,500 a month in revenue be awarded in accordance with competitive procedures[1], with certain exceptions (Administrative Code Section 23.33). One such exception is for certain leases and concessions on Airport property. The Administrative Code allows the Airport to negotiate and execute leases without a competitive bidding process of Airport airfield[2] and building space with any person, firm, or corporation engaged in air transportation or the provision of utility services to the public (including but not limited to telecommunications, water, gas, or sewerage), or government agency, provided that the original lease term and any lease extension not exceed 50 years (Administrative Code Section 2A.173).

Aviation support service providers are not currently exempt from competitive bidding procedures for Airport leases.

[1] Competitive procedures include a request for proposals, request for qualifications, or other publicly noticed competitive solicitation with specified criteria for selection.
[2] An airfield is an area of land set aside for the takeoff, landing, and maintenance of aircraft at the Airport.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would revise the Administrative Code to add language to allow Airport leases for aviation support services to be exempt from competitive bidding for any lease not exceeding 10 years (Administrative Code Section 2A.173).

Under the proposed ordinance, Administrative Code Section 2A.173 would be amended and expanded to include any person, firm, or corporation engaged in aviation support services to be exempt from the competitive bidding requirement for leases of Airport airfield space and space in Airport buildings. Any lease executed for aviation support services could not exceed 10 years. The exemption would only be granted with the Airport Commission's approval and determination that the aviation support services provided are necessary.

As written in the proposed ordinance, "Such (aviation support) services include but 'are not limited to':

- Servicing, cleaning, and provisioning of aircraft.
- Handling, transfer, and temporary storage of cargo and mail.
- Inspection, maintenance, and repair of aircraft and ground service equipment.
- Handling of passengers and baggage.
- Operations support and crew administration.
- Loading and unloading of passengers, baggage, and cargo.
- Fueling of aircraft and other ramp support services.
- Checkpoint screening and perimeter control."

Specifically excluded from the aviation support services definition is construction, demolition, or development of structures on Airport property.

Ms. Cathy Widener, Governmental Affairs Manager for the Airport, advises that, historically, airlines, who are not subject to competitive bidding requirements for leases at the Airport, request cargo or warehouse space from the Airport's Aviation Management Division (Admin. Code 2A.173) for aviation support services purposes. The Airport typically works with airlines and their aviation support services providers to provide needed warehouse/cargo and other space, usually on a temporary permit basis, to the aviation support services provider, and sometimes under a direct lease to the airline, which then subleases the space to the aviation support services provider. The terms of the temporary permits vary, depending on the purpose for the permit, and can be terminated on 30-days' notice by either party.

Ms. Widener advises that, recently, airlines have increasingly expressed a preference to the Airport that their third-party aviation support services providers lease space directly from the Airport. However, under existing Administrative Code provisions, the Airport would be required to go through a competitive bidding process in order to do so (Administrative Code Section 23.33). According to Ms. Widener, the Airport should not be required to competitively bid aviation support services leases because the aviation support services providers are selected by the respective airlines for whom they provide services under contract to the airlines. In addition, replacing the current informal, temporary permit process with leases lasting up to 10 years would provide more stable lease revenues and allow the Airport to renovate existing cargo and warehouse facilities and develop new facilities.

FISCAL IMPACT

Fiscal Impact of the Proposed Ordinance is Likely to be Insignificant

The Airport Commission approves the *Summary of Airport Charges*, each fiscal year, for use of Airport property. The FY 2012-13 *Summary of Airport Charges* has the following rates for warehouse/cargo space:

Facility	FY 2012-13 Rate per Square Foot per Year
Warehouse Rate I (Buildings 648 and 900)	$22.05
Warehouse Rate II (All other buildings)	$20.45

For space occupied by aviation support services providers, the Airport currently charges (1) the rates contained in the *Summary of Airport Charges* to temporary permits, and (2) negotiated rates to the airlines that sublease space to their aviation support services providers under their respective lease and use agreements.

Under the proposed ordinance, the Airport will directly enter into longer-term leases for up to 10 years, rather than award temporary permits, with all aviation support services providers. The Airport will charge the aviation support services providers the rates established each year by the Airport Commission in the Airport's approved *Summary of Airport Charges*[3]. Existing lease and use agreements between the Airport and airlines, in which the airlines sublease space to aviation support services providers, will remain in effect until their expiration date.[4]

According to Ms. Widener, the Airport plans to increase warehouse rental rates in FY 2013-14 and FY 2014-15, resulting in a single rate charged for all warehouse space, as follows:

Rate per square foot per year	FY 2012-13	FY 2013-14	FY 2014-15
Warehouse Rate I (Buildings 648 and 900)	$22.05	$22.60	$23.00
Warehouse Rate II (All other buildings)	$20.45	$21.70	$23.00

According to Ms. Widener, because existing rates charged to aviation support services providers, either under temporary permits or existing lease and use agreements with airlines, are generally the same as the rates contained in the Airport's approved *Summary of Airport Charges*, the Airport does not anticipate that approval of the proposed ordinance, in which the Airport would directly enter into leases with aviation support services providers without

[3] The Airport Commission approved warehouse rate-setting procedures in May 2012, in which the Airport sets rental rates for warehouse space based on total warehouse revenues that the Airport needs to receive in order to pay operating, maintenance, and capital improvement expenses for the warehouse space.

[4] The Airport has five lease and use agreements with airlines, in which the airlines sublease space to their respective aviation service providers: (1) Asiana Airlines, with an expiration date of May 4, 2016; (2) China Airlines, with an expiration date of April 8, 2016; (3) Federal Express, with an expiration date of May 31, 2014; (4) Singapore Airlines, with an expiration date of February 28, 2015; and (5) United Airlines, with an expiration date of June 20, 2021.

undergoing a competitive bidding process, will result in a decrease in rental revenues to the Airport. The Airport estimates $13,461,740 in aviation support services providers lease and permit revenues in FY 2012-13, as shown in the table below.

Table: FY 2012-13 Airport Lease and Permit Revenues for Aviation Support Services

Lease or Permit	FY 2012-13 Rent
Asiana Airlines	$874,503
China Airlines	839,327
Federal Express	3,552,273
Singapore Airlines	1,435,738
United Airlines	1,811,442
Subtotal Lease Revenues	8,513,283
22 Temporary Permits (Estimated)	4,948,457
Total Aviation Support Services Permit or Lease Revenues	**$13,461,740**

Source: The Airport

According to Ms. Widener, the proposed ordinance would also result in more stable aviation support services lease revenues and more efficient use of cargo and warehouse space, as well as other locations typically occupied by aviation support service providers, by allowing the Airport to execute leases with aviation support service providers for up to ten years, rather than temporary permits.. Ms. Wideners states that the ability to enter into leases directly with aviation support services providers would allow for greater predictability in revenues and better management for the use and occupancy of these spaces.

POLICY CONSIDERATION

According to Ms. Widener, in order to ensure that the Airport does not lose revenues because the aviation support services leases are not competitively bid, the Airport has included three specific limitations for aviation support services leases:

1. Aviation support services leases would be granted only to those entities performing a service which the Airport Commission determines is necessary to provide direct aviation support to one or more air transportation providers.
2. Aviation support services are a specific type of service, which are limited in nature.
3. The lease terms are limited to 10 years to facilitate turnover of the leases.

However, the proposed ordinance states that aviation support services include, *but are not limited to*, the specific types of services defined in the ordinance. Because the proposed ordinance waives competitive bidding for leases for specific types of aviation support services, the types of aviation support services for which competitive bidding is waived should be specifically defined. Therefore, the Budget and Legislative Analyst recommends that the words “but are not limited to” be deleted from the proposed ordinance and the amendment to Section 2A.173 of the Administrative Code to allow for aviation support services, as specifically defined, to be included and excepted from competitive bidding requirements.

RECOMMENDATIONS

1. Amend the proposed ordinance by deleting "but are not limited to" from the proposed ordinance.
2. Because the proposed ordinance would waive competitive bidding procedures for aviation support services leases, approval of the proposed ordinance as amended is a policy decision for the Board of Supervisors.

Item 2 **File 12-0820**	**Department:** Controller

EXECUTIVE SUMMARY

Legislative Objectives

- Ordinance providing revenue and levying Property Taxes in FY 2012-13 for (a) the City and County of San Francisco, including establishment of the pass-through rate for residential tenants pursuant to Chapter 37 of the City's Administrative Code, (b) the San Francisco Unified School District, (c) the San Francisco Community College District, (d) the Bay Area Rapid Transit District, and (e) the Bay Area Air Quality Management District.

Key Points

- The FY 2012-13 proposed combined total Property Tax rate of $1.1691 per $100 of assessed home value is a reduction of $0.0027 or 0.23% from the existing FY 2011-12 Property Tax rate of $1.1718. Decreases in debt service for the City and County of San Francisco and the San Francisco Community College District General Obligation Bonds were partially offset by increases in debt service for the San Francisco Unified School District and the Bay Area Rapid Transit District General Obligation Bonds.
- In accordance with Article 13A, Sec.2(b) of the California Constitution, individual property assessments increase only by a State authorized inflation factor, unless the property is sold, transferred, or improved. For FY 2012-13, the State has authorized the maximum allowable adjustment of 2.0%. Therefore, a single family residence with an assessed value in FY 2011-12 of $500,000 would have a FY 2012-13 assessed value of $510,000.
- The proposed FY 2012-13 Property Tax rate would result in a $103.60 increase in Property Taxes, from $5,776.97 in FY 2011-12 for a single family residence with an assessed value of $500,000 to $5,880.57 in FY 2012-13 for a single family residence with an assessed value of $510,000. The Property Tax increase includes (a) the decrease in the Property Tax rate in the proposed ordinance, (b) a cost of living adjustment in assessed values of 2.0%, and (c) a homeowner's exemption of $7,000.
- Compared with the FY 2011-12 Property Tax pass-through rate for residential tenants of $0.060, the proposed FY 2012-13 Property Tax pass-through rate of $0.081 would result in a total increase in Property Taxes of $113.10 that could be passed through to tenants living in a residence assessed at $510,000, after the 2.0% cost of living increase.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

Property Tax Rate

Section 2151 of the California Revenue and Taxation Code states that the Board of Supervisors shall establish county and district tax rates. Section 37.3(a)(6) of the City's Administrative Code (the Residential Rent Stabilization and Arbitration Ordinance) allows landlords to pass through to tenants a portion of Property Taxes. The proposed ordinance would establish the Property Tax rates and pass-through rates for FY 2012-13.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would establish the combined Property Tax rate for FY 2012-13 at $1.1691 per $100 of assessed value. Such rates are apportioned to the "taxing entities" within the City and County of San Francisco that are allocated Property Tax revenues, including (a) the City and County of San Francisco, (b) the San Francisco Unified School District, (c) the San Francisco Community College District, (d) the Bay Area Rapid Transit District, and (e) the Bay Area Air Quality Management District. As shown in Table 1 below, the combined total FY 2012-13 Property Tax rate, as calculated by the Controller, is $1.1691 per $100 of assessed value.

Table 1. FY 2011-12 Property Tax Rates and Proposed FY 2012-13 Property Tax Rates

	Property Tax Rates, per $100 of Assessed Value		
Jurisdiction	**FY 2011-12**	**FY 2012-13 Proposed**	**Increase (Decrease)**
General City Operations*	$0.8192	$0.8192	$0
Library Preservation Fund	0.0250	0.0250	0
SF Children's Fund	0.0300	0.0300	0
Open Space Acquisition Fund	0.0250	0.0250	0
County Superintendent of School	0.0010	0.0010	0
General Obligation Bond Fund	0.1147	0.1083	(0.0064)
Subtotal: City and County of San Francisco	**1.0149**	**1.0085**	**(0.0064)**
General Operations	0.0770	0.0770	0
General Obligation Bond Debt Service	0.0334	0.0375	0.0041
Subtotal: SF Unified School District (SFUSD)	**0.1104**	**0.1145**	**0.0041**
General Operations	0.0144	0.0144	0
General Obligation Bond Debt Service	0.0196	0.0190	(0.0006)
Subtotal: SF Community College District (SFCCD)	**0.0340**	**0.0334**	**(0.0006)**
General Operations	0.0063	0.0063	0
General Obligation Bond Debt Service	0.0041	0.0043	0.0002
Subtotal: Bay Area Rapid Transit District	**0.0104**	**0.0106**	**0.0002**
Bay Area Air Quality Management District Operations	**0.0021**	**0.0021**	**0.0000**
Total Property Tax Rate	**$1.1718**	**$1.1691**	**$(0.0027)**

* Includes $0.2533 for the Educational Revenue Augmentation Fund (ERAF) for the benefit of SFUSD and SFCCD.

The proposed Property Tax rate for the City and County of San Francisco, shown in Table 1 above, includes a 0.25% administrative allowance charged on the City's voter-approved General Obligation bonds to reimburse the City for the costs of Property Tax collection. This 0.25% administrative allowance is charged to the total Property Tax collection, rather than to the property's assessed value.

The proposed ordinance would also allow landlords to pass through $0.081 per $100 of assessed value to tenants for a portion of the Property Taxes pursuant to Section 37.3 (a)(6) of the City's Administrative Code (the Residential Rent Stabilization and Arbitration Ordinance). The previous pass-through rate for FY 2011-12 was $0.060 per $100 of assessed value. This increase is due to increases in the debt service that may be passed on to tenants: (a) 100% of City and County of San Francisco General Obligation Bonds issued between November 1, 1996 and November 30, 1998; (b) 50% of City and County of San Francisco General Obligation Bonds issued after November 14, 2002, and (c) 50% of San Francisco Unified School District and San Francisco Community College District General Obligation Bonds issued after November 1, 2006.

FISCAL IMPACTS

The FY 2012-13 proposed combined total Property Tax rate of $1.1691, as calculated by the Controller, is a decrease of $0.0027 or 0.23% from the existing FY 2011-12 Property Tax rate of $1.1718. As is shown in Table 1 above, decreases in debt service for the City and County of San Francisco and the San Francisco Community College District General Obligation Bonds were partially offset by increases in debt service for the San Francisco Unified School District and the Bay Area Rapid Transit District General Obligation Bonds.

In accordance with Article 13A, Sec.2(b) of the California Constitution, individual property assessments increase only by a State authorized inflation factor adjustment, unless the property is sold, transferred, or improved. For FY 2012-13, the State has authorized the maximum allowable inflation factor adjustment of 2.0%. Therefore, a single family residence with an assessed value in FY 2011-12 of $500,000 would have a FY 2012-13 assessed value of $510,000.

In addition, homeowners who live in their residences are eligible for a $7,000 homeowners' exemption, which reduces the assessed value for taxation purposes. Table 2 below shows that, compared with the FY 2011-12 Property Tax rate of $1.1718, the proposed FY 2012-13 Property Tax rate of $1.1691 would result in an increase in Property Taxes of $103.60 for a homeowner living in a single family residence assessed at $510,000 in FY 2012-13, after the 2.0% cost of living increase.

As also shown in Table 2 below, compared with the FY 2011-12 Property Tax pass-through rate of $0.060, the proposed FY 2012-13 Property Tax pass-through rate of $0.081 would result in a total increase in Property Taxes of $113.10 that could be passed through to tenants living in a rental unit assessed at $510,000, after the 2.0% cost of living increase.

Table 2: Impact on Property Tax Payments

Fiscal Year 2011-12	Single Family Residence	Allowable Tenant Pass-Through
Assessed Value	$500,000	$500,000
Less Homeowners Exemption	(7,000)	0
Total Taxable Assessed Value	**493,000**	**500,000**
Tax Rate per $100 of assessed value	1.1718	0.0600
Property Taxes Payable in 2011-12	**$5,776.97**	**$300.00**
Fiscal Year 2012-13 (proposed)		
Prior Year Assessed Value	$500,000	$500,000
Plus Cost of Living Increase (2.000%)	10,000	10,000
Subtotal	510,000	510,000
Less Homeowners Exemption	(7,000)	0
Total Taxable Assessed Value	**503,000**	**510,000**
Tax Rate per $100 of assessed value	1.1691	0.0810
Property Taxes Payable in FY 2010-11	**$5,880.57**	**$413.10**
Total Increase in Property Taxes Payable in FY 2012-13, as Compared to FY 2011-12, for a Single Family Home with a Prior Year Assessed Value of $500,000	**$103.60**	**$113.10**

RECOMMENDATION

Approve the proposed ordinance.

Item 3 File 12-0776	Department: Port of San Francisco (Port)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve a new lease at 10 Lombard Street, Roundhouse Two between the Port of San Francisco (Port), as landlord, and Ammunition, LLC (Ammunition), as tenant.

Key Points

- The Port owns the office building at 10 Lombard Street, Roundhouse Two in the Northern Waterfront and leases the office space to multiple tenants. Under the proposed lease, Ammunition would lease 9,652 square feet of space on the third and fourth floors for approximately 52 months from the date of Board of Supervisors approval of the lease in September 2012, through January 29, 2017, with one five-year option to renew.

Fiscal Impact

- Under the proposed lease, Ammunition will pay the Port an average base rent of $2.31 per square foot per month in the first year of the lease. Ammunition will also be required to complete a minimum of $289,560 of initial tenant improvements at Ammunition's sole cost, by no later than 150 days from the commencement of the lease or by approximately January 29, 2013. To offset Ammunition's tenant improvement costs, the proposed lease waives rent payments of approximately $111,304 for the first 150 days of the lease.
- Ammunition's net effective rent in the first year of the lease is $2.67 per square foot per month[1], which exceeds the minimum net effective rental rate set by the Port's Minimum Monthly Rental Rate Schedule for 10 Lombard Street office space, ranging from $2.00 per square foot per month to $2.50 per square foot per month. The Minimum Monthly Rental Rate Schedule is determined by the Port to be fair market value for comparable office space.
- Total rent to be paid by Ammunition to the Port over the 52-month term of the proposed lease would be $1,099,132.

Policy Considerations

- The Port awarded the proposed lease to Ammunition on a sole source basis. According to the Port's retail leasing policy, although competitive bidding is required for Port leases, the Port usually enters into non-retail leases for office space without competitive bidding, based on the Port Commission's approved parameter rental rate policy. The Port Commission approved the proposed lease as a sole source lease on July 10, 2012.

Recommendation

- Because the proposed lease has not been subject to a competitive bidding process, approval of the proposed resolution is a policy matter for the Board of Supervisors.

[1] The net effective rental rate consists of (1) average base rent per square foot per month of $2.31; plus (2) $0.36 per square foot per month, which is the amount of tenant improvements (a minimum of $289,560), less the waiver of rent for the first 5 months of the lease ($111,304), amortized over 52 months.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Charter Section 9.118 states that leases for City-owned property that have terms of ten or more years, including options to renew, or anticipated revenues to the City of $1,000,000 or more require the approval of the Board of Supervisors by resolution.

Administrative Code Section 23.33 states that leases of City-owned properties submitted to the Board of Supervisors for approval, except when the Board of Supervisors finds that the bidding procedures are "impractical" or "impossible," must have been awarded to the highest responsible bidder in accordance with competitive bidding procedures. The terms impractical and impossible are not defined in the Administrative Code.

Background

The Port of San Francisco (Port) owns the office building at 10 Lombard Street, Roundhouse Two, located in the Northern Waterfront at the corner of Lombard Street and the Embarcadero, and leases the office space to multiple tenants. The Port is requesting approval of a new lease with Ammunition, LLC (Ammunition), a San Francisco-based product design company, for the third and fourth floors of 10 Lombard Street, as discussed in more detail below.

The third floor was previously leased by Jones and Stokes Associates, Inc. from February 1, 2008 through January 31, 2012. According to Mr. Jeffrey Bauer, the Port's Senior Commercial Leasing Manager, the lease between the Port and Jones and Stokes Associates was not renewed because John and Stokes Associates decided to consolidate to another location. Jones and Stokes Associates moved out of 10 Lombard Street on termination of the lease.

The fourth floor was previously leased by the City's Department of Emergency Management (Emergency Management) from February 1, 2011 through July 14, 2012. According to Mr. William Lee, Emergency Management Deputy Director, the lease between the Port and Emergency Management was not renewed because Emergency Management wanted to move closer to their own offices on Turk Street. [2]

Ammunition LLC has subleased Port-owned office space at 1500 Sansome Street from MK Think since 2007. In June 2012, Ammunition and the Port engaged in discussions for additional office space at 10 Lombard Street, Roundhouse Two.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease at 10 Lombard Street, Roundhouse Two between the Port, as landlord, and Ammunition, as tenant, as follows:

[2] The Board of Supervisors subsequently approved a new temporary lease for 711 Van Ness Avenue for the Department of Emergency Management and the Assessor-Recorder's Office (File 12-0675).

Table 1: Summary of Lease Terms

Term	Approximately 4 years and 4 months (52 months) From Board of Supervisors approval of the proposed lease in September 2012 through January 29, 2017
Option to Renew	One five-year option
Square Feet	7,477 Third Floor 2,175 Fourth Floor 9,652 Total
Rent per Square Foot per Month in Year One	\$2.25 Third Floor \$2.50 Fourth Floor \$2.31 Average
Total Rent per Month in Year One	\$16,823.25 Third Floor \$5,437.50 Fourth Floor \$22,260.75 Total
Annual Rent Increases (Per Square Foot Per Month)	\$0.06 or approximately 2.7% (Third Floor) \$0.07 or approximately 2.8% (Fourth Floor)
Security Deposit[1]	\$49,238
Utilities and Services	Utilities, janitorial, garbage, and pest extermination to be paid by the City

[1] The Basic Lease Information form incorrectly lists the security deposit as $37,235. According to Mr. Bauer, the Port will revise the Basic Lease Information form to list the correct security deposit as $49,238.

Conformance of Proposed Rent to the Port's Monthly Rental Rate Schedule

According to the Port's Minimum Monthly Rental Rate Schedule, the minimum net effective rental rate for 10 Lombard Street ranges from $2.00 to $2.50 per square foot per month, which the Port Commission has determined to be fair market value. The net effective rental rate includes monthly base rent and the costs of tenant improvements, offset by the waiver of rent payments during construction of tenant improvements.

The proposed lease requires Ammunition to complete a minimum of $289,560 in tenant improvements, at Ammunition's sole cost, by no later than 150 days from the commencement of the lease, or approximately January 29, 2013. To offset Ammunition's tenant improvement costs, the proposed lease waives rent payments of $111,304 for the first 150 days of the lease.

Ammunition will pay an initial net effective rental rate of $2.67 per square foot per month which exceeds the minimum net effective rental rate set by the Port's Minimum Monthly Rental Rate Schedule. The net effective rent includes:

- $2.31 per square foot per month in base rent (see Table 1 above); plus

- $0.36 per square foot per month, which is the amount of tenant improvements ($289,560), less the waiver of rent for the first 5 months of the lease ($111,304), amortized over the 52-month term of the lease.

Use of Common Space

Ammunition will share the fourth floor's common space with the other tenants in the building. Mr. Bauer, states that Ammunition will pay a prorated share of an estimated $4,459 per month or $53,508 annually for common area maintenance costs including rent, utilities, security services, and janitorial services.

FISCAL IMPACT

As shown in Table 2 below, the Port would receive rent of $1,099,132 over the initial 52-month term of the proposed lease.

Table 2: Total Rent Payments to the Port under the Proposed Lease

Lease Months	Monthly Rent	Annual Rent
1 to 5 (150 day waiver of rent)	$0	$0
6 to 12	22,261	155,825
13 to 24	22,862	274,339
25 to 36	23,462	281,550
36 to 48	24,063	288,760
49 to 52	24,664	98,657
Total Rent		**$1,099,132**

The Port pays utilities, janitorial, garbage and pest extermination with an estimated cost of $5,791 per month or $69,492 per year. The Port would pay an estimated total of $301,132 for these costs over the 52-month term of the proposed lease.

Ammunition would also pay a prorated share of maintenance and other costs for the fourth floor common area with an estimated cost of $4,459 per month or $53,508 per year. Since Ammunition is not required to pay for common area maintenance during the initial 150 day rent-abatement period, Ammunition would pay an estimated $209,573 for the remaining 47 months.

Estimated net rent to the Port over the 52-month term of the proposed lease is $1,007,573, as follows:

Rent to be paid to the Port by Ammunition	$1,099,132
Fourth floor common area costs paid by Ammunition	209,573
Utilities and janitorial and other services paid by the Port	(301,132)
Net payments by Ammunition to the Port	$1,007,573

POLICY CONSIDERATION

The Port awarded the proposed lease to Ammunition on a sole source basis without utilizing a competitive bid process, because, according to Mr. Bauer, the Port finds the competitive bidding process for office space leases impractical since few bidders would compete for Port office spaces. According to the Port's retail leasing policy, although competitive bidding is required for Port leases, the Port usually enters into non-retail leases for office space without competitive bidding, based on the Port Commission's approved parameter rental rate policy. The Port Commission approved the proposed lease as a sole source lease on July 10, 2012.

Although the proposed lease between the Port and Ammunition conforms to the FY 2012-13 Minimum Monthly Rental Rate Schedule, as approved by the Port Commission, we consider approval of the proposed resolution to be a policy matter for the Board of Supervisors because the Port did not competitively bid the lease.

RECOMMENDATIONS

Because the proposed lease has not been subject to a competitive bidding process, approval of the proposed resolution is a policy matter for the Board of Supervisors.

Item 4 File 12-0790	Departments: Department of Public Health (DPH) and Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve the exercise of the first of two ten-year options to extend the master lease between the Department of Public Health (DPH), as tenant, and 124 Turk Street, LP, as landlord, for the Camelot Hotel from August 1, 2012 through July 31, 2022.

Key Points

- The Camelot Hotel provides 55 single-room occupancy (SRO) residential units for adults participating in DPH's Direct Access to Housing Program, a permanent supportive housing program for formerly homeless adults. The Board of Supervisors approved the original master lease for the Camelot Hotel, located at 124 Turk Street, for ten years, from August 1, 2002 through July 31, 2012, with two ten-year options to extend the lease. The Camelot Hotel master lease consists of 14,700 square feet, including laundry, storage, office space and 55 SRO residential units.

Fiscal Impacts

- The proposed monthly rent from August 1, 2012 through July 31, 2013 would be $34,665 (approximately $2.36 per square foot per month), which is $813 or 2.4% more than the prior monthly rent of $33,852 (approximately $2.30 per square foot per month) from August 1, 2011 through July 31, 2012. Under the master lease, rent would be increased each year by the Consumer Price Index (CPI), ranging from a minimum of 1.5% to a maximum of 5.0%. Annual rent in FY 2012-13 is $415,980.

- In addition to annual rent, DPH incurs annual (1) property management costs of $563,840 for utilities, maintenance, janitorial services, and 24-hour front desk coverage, and (2) DPH staff costs of $311,004 for supportive services. Annual costs for rent, property management, and supportive services, which total $1,290,824 in FY 2012-13, are partially offset by an estimated $180,000 in tenant rent, resulting in FY 2012-13 net costs to DPH of approximately $1,110,824.

Recommendations

- Amend the proposed resolution for a retroactive start date of August 1, 2012.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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

Background

In 2002, the Board of Supervisors approved a new master lease between the Department of Public Health (DPH), as tenant, and 124 Turk Street, LP, as landlord, for the Camelot Hotel, located at 124 Turk Street. Under the master lease, the Camelot Hotel provides 55 single-room occupancy (SRO) residential units to individuals participating in DPH's Direct Access to Housing Program, a permanent supportive housing program for formerly homeless adults and adults with mental and medical conditions, including HIV/AIDS and substance abuse.

The original lease was for 10 years, from August 1, 2002 through July 31, 2012, with two 10-year options to extend.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first of two 10-year options to extend the master lease, as follows:

Table 1: Summary of Proposed Extended Lease Terms

Term	10 years (August 1, 2012 through July 31, 2022)
Square feet	1,876 (basement floor for laundry facilities and storage) 2,431 (first floor for office space) <u>10,393 </u>(Floors two through six for 55 SRO units) 14,700
Rent per square foot per month (year one)	$2.36
Total rent per month (year one)	$34,665
Total annual rent (year one)	$415,890
Annual increase in rent per square foot per month	Annual CPI adjustments to the base rent on August 1 of each subsequent year, which would increase at no less than 1.5% and no more than 5%
Utilities and services	Utilities and janitorial services paid by the City

The master lease would continue to provide 55 SRO residential units to formerly homeless adults in DPH's Direct Access to Housing Program. DPH will continue to contract property management, under a separate agreement, with Delivering Innovations in Supportive Housing

(DISH), a project of the non-profit Tides Center.[1] Support services are provided by DPH's Housing and Urban Health Program.

FISCAL IMPACTS

Under the proposed master lease extension, and shown in Table 2 below, the monthly base rent of $34,665 would increase by approximately $813 or 2.4% from the current monthly rent of $33,852 under the existing master lease. According to Ms. Claudine Venegas, Real Estate Division Senior Real Property Officer, the proposed monthly rent is based on the Consumer Price Index (CPI) adjustment for the period from July 2011 through June 2012.

Table 2: Comparison of Rent under the Prior Master Lease and the Proposed Master Lease Extension

Rent	Rent per square foot per month	Total rent per month
August 1, 2012 through July 31, 2013	$2.36	$34,665
August 1, 2011 through July 31, 2012	$2.30	$33,852
Increase	$0.06	$813
Percent	2.4%	2.4%

FY 2012-13 annual rent of $415,980 (see Table 3) is General Fund monies, previously appropriated by the Board of Supervisors in the FY 2012-13 DPH budget.

Property Management and Supportive Service Costs

In addition to rent, DPH incurs costs for (1) property management and (2) supportive services.

DPH has a three year contract with the nonprofit Tides Center's Delivering Innovations in Supportive Housing (DISH) program, from July 1, 2010 to June 30, 2013, selected through a competitive request for proposals, to provide property management services at the Camelot. These services include 24 hour per day front desk coverage, maintenance, janitorial, utilities, and other property management costs, for an annual contract amount of $563,840, of which $177,638 (31.5%) are General Fund and $386,202 (68.5%) are Federal Mental Health Services Act (MHSA) funds.

In addition, DPH staff, including one Licensed Clinical Social Work and two Case Managers, provide supportive services to Camelot Hotel tenants, at an annual cost of $311,004. Approximately 38% of DPH's eligible supportive services costs are reimbursable by MediCal.

DPH's total annual costs for the Camelot Hotel master lease, property management, and supportive services are $1,290,824, as shown in Table 3 below.

[1] According to DPH staff, DPH and DISH are in the third year of a three-year agreement, and would need Board of Supervisors approval to extend the term of the agreement.

Tenant Rent
DPH charges Direct Access to Housing tenants, including Camelot Hotel tenants, 50% of their income for housing and supportive services[2]. DPH estimates that Camelot Hotel tenants pay rent of approximately $180,000 per year, which DPH uses to offset property management costs.

Table 3: Total Estimated Camelot Hotel Costs from August 1, 2012 through July 31, 2013

Cost Category	Monthly Amount	Annual Amount
Master Lease Rent	$34,665	$415,980
Property Management	46,987	563,840
Supportive Services	25,917	311,004
Subtotal	107,569	1,290,824
Tenant Rent Payments	(15,000)	(180,000)
Total	**$92,569**	**$1,110,824**
Average Cost per Tenant (for 55 Tenants)	$1,683	$20,197

As shown in Table 3 above, the average cost per tenant per month is $1,683. Total costs of $1,110,824 are included in DPH's FY 2012-13 budget.

Retroactive Approval
According to Ms. Claudine Venegas, Senior Real Property Officer of the Real Estate Division (RED), the effective date of this first option period is August 1, 2012. Therefore, the Budget and Legislative Analyst recommends that the proposed resolution be amended to provide for retroactive approval to August 1, 2012.

RECOMMENDATIONS

1. Amend the proposed resolution for a retroactive start date of August 1, 2012.
2. Approve the proposed resolution, as amended.

[2] Camelot Hotel tenants generally have incomes of less than 20% of the 2012 area median income of $72,000, or approximately $14,400 per year.

Item 6 **File 12-0863**	**Department:** Risk Management

EXECUTIVE SUMMARY

Legislative Objectives

- Resolution authorizing the Risk Management Division to amend the existing agreement between the Risk Management Division and Alliant Insurance Services, Inc. to increase the not-to-exceed amount by $7,500,000, from $9,500,000 to $17,000,000.

Key Points

- The City's Risk Management Division purchases insurance for City departments, including property, liability, and other forms of third-party insurance. The Risk Management Division entered into an agreement with Alliant Insurance Services, Inc. (Alliant) in July 2011, as the result of a Request for Qualifications (RFQ), to provide insurance brokerage services.
- The original agreement was for an approximately two-year period from July 28, 2011 through July 21, 2013, with two additional two-year options to extend through July 21, 2017, for a total agreement term of 6 years. The original not-to-exceed amount was $9,500,000, which did not require Board of Supervisors approval because the amount was less than $10,000,000.
- The Risk Management Division is now requesting a $7,500,000 increase in the agreement not-to-exceed amount, from $9,500,000 to $17,000,000 to pay for FY 2012-13 insurance premiums and other risk management services for City departments.

Fiscal Impact

- Insurance premiums and other risk management costs under the agreement with Alliant were $6,660,930 in FY 2011-12, $7,211,732 in FY 2012-13, and an estimated $653,347 for July 2013. Therefore, total insurance premiums for the initial two-year term of the agreement between the Risk Management Division and Alliant from July 28, 2011 through July 21, 2013 are $14,526,009.
- City departments include funds in their respective budgets to pay the costs of the insurance premiums each year. City departments have included $7,211,732 in their respective FY 2012-13 budgets to pay for insurance premiums through a work order with the Risk Management Division.
- The estimated budget for the agreement between the Risk Management Division and Alliant from July 28, 2011 through July 21, 2013 is approximately $15,026,009, which includes budgeted expenditures of $14,526,009, plus a $500,000 contingency for unanticipated insurance needs for art exhibits, construction projects, and other events that are not yet known. Therefore, the Budget and Legislative Analyst recommends reducing the proposed not-to-exceed amount by $1,900,000, from $17,000,000 to $15,100,000.

Recommendations

- Amend the proposed resolution to reduce the not-to-exceed amount by $1,900,000, from $17,000,000 to $15,100,000.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT/ BACKGROUND

Charter Section 9.118 requires Board of Supervisors approval for agreements that have a term of more than ten years or anticipated expenditures of $10,000,000 or more.

Agreement between the City's Risk Management Division and Alliant

The City's Risk Management Division purchases insurance for City departments, including property, liability, and other forms of third-party insurance. The Risk Management Division entered into an agreement with Alliant Insurance Services, Inc. (Alliant) in July 2011, as the result of a Request for Qualifications (RFQ), to provide insurance brokerage services. Under the existing agreement, Alliant is responsible for evaluating City departments' insurance needs and assuring that City departments' have the appropriate level of insurance coverage. In accordance with the existing agreement, Alliant obtains and maintains insurance policies on behalf of City departments with qualified insurance providers.

The original agreement was for an approximately two-year period from July 28, 2011 through July 21, 2013, with two additional two-year options to extend through July 21, 2017, for a total agreement term of 6 years. The original not-to-exceed amount was $9,500,000, which did not require Board of Supervisors approval because the amount was less than $10,000,000.

DETAILS OF PROPOSED LEGISLATION

The Risk Management Division is now requesting an increase in the agreement not-to-exceed amount of $7,500,000, from $9,500,000 to $17,000,000 for the initial two-year term of the agreement from July 28, 2011 through July 21, 2013.

FISCAL IMPACTS

Total estimated agreement expenditures for insurance premiums and related risk management services for the initial two-year term of the agreement from July 28, 2011 through July 21, 2013 are $14,526,009, as show in Table 1 below.

Table 1: Expenditures for Insurance Premiums and Other Risk Management Services

Insurance Premiums	FY 2011-12	FY 2012-13	July 2013 (Estimated)	Total July 28, 2011 through July 21, 2013
Property	$5,032,288	$5,517,255	$504,080	$11,053,623
Art Collection	853,793	939,170	86,090	1,879,053
Electronic Data Processing	294,615	224,004	14,193	532,812
Exhibits, Events and Projects	480,234	531,303	48,983	1,060,520
Total	**$6,660,930**	**$7,211,732**	**$653,347**	**$14,526,009**

Source: Risk Management Division

As shown in Table 2 below, these premium and related risk management expenditures are paid by City departments through work orders with the Risk Management Division. According to Ms. Stacey Camillo, Risk Management Division Deputy Director, the respective City departments' FY 2012-13 budgets include funds to pay for the Risk Management Division work order.

Table 2: City Departments' Budgets for Risk Management Division Work Order

Department	FY 2011-12	FY 2012-13
Airport	$1,370,967	$1,828,296
Art Commission	7,667	7,631
Asian Art Museum	284,598	313,057
City Hall	259	0
Controller (Public Finance)	78,499	88,972
Convention Facilities	297,478	320,675
Elections	22,070	18,967
Emergency Communications	11,032	12,438
Environment	1,224	1,171
Fine Art Museums	835,319	626,115
Human Services Agency	15,490	15,873
Juvenile Probation	26,117	27,489
Law Library	10,000	10,000
Library	29,012	28,086
Municipal Transportation Agency	1,189,384	1,236,572
Planning	3,626	2,941
Port	1,004,357	1,037,793
Public Health	155,327	173,903
Public Utilities Commission	702,838	795,945
Public Works	70,269	79,633
Real Estate Division	346,622	411,339
Recreation and Park	4,000	4,000
Rent Board	569	339
Retirement	4,243	3,701
SFGov TV	4,277	3,752
Superior Court	21,445	21,572
Technology	161,078	138,829
Treasurer/Tax Collector	3,163	2,643
Total	**$6,660,930**	**$7,211,732**

Source: City Risk Manager

The estimated budget for the agreement between the Risk Management Division and Alliant from July 28, 2011 through July 21, 2013 is approximately $15,026,009, which includes budgeted expenditures of $14,526,009, as shown in Table 1, plus a $500,000 contingency for unanticipated insurance needs for art exhibits, construction projects, and other events that are not yet known. Therefore, the Budget and Legislative Analyst recommends reducing the proposed not-to-exceed amount by $1,900,000, from $17,000,000 to $15,100,000.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not-to-exceed amount by $1,900,000, from $17,000,000 to $15,100,000.
2. Approve the proposed resolution, as amended.

Items 7, 8, 9, 10, 11 & 12 Files 12-0735, 12-0736, 12-0737, 12-0738, 12-0739 & 12-0740	Department: Treasure Island Development Authority

EXECUTIVE SUMMARY

Legislative Objectives

- File 12-0735: The proposed resolution would approve the 28th Amendment to the Treasure Island South Waterfront Master Lease between the Treasure Island Development Authority (TIDA) and the U.S. Navy (the Navy) to extend the term of the Lease by one year, from December 1, 2012 through November 30, 2013, unless terminated sooner in accordance with the terms and conditions of the Master Lease.
- File 12-0736: The proposed resolution would approve the 37th Amendment to the Treasure Island Land and Structures Master Lease between TIDA and the Navy to extend the term of the Lease by one year, from December 1, 2012 through November 30, 2013, unless terminated sooner in accordance with the terms and conditions of the Master Lease.
- File 12-0737: The proposed resolution would approve the 16th Amendment to the Treasure Island Marina Master Lease between TIDA and the Navy to extend the term of the Lease by one year, from December 1, 2012 through November 30, 2013, unless terminated sooner in accordance with the terms and conditions of the Master Lease.
- File 12-0738: The proposed resolution would approve the 8th Amendment to the Treasure Island Childcare Master Lease between TIDA and the Navy to extend the term of the Lease by one year, from December 1, 2012 through November 30, 2013, unless terminated sooner in accordance with the terms and conditions of the Master Lease.
- File 12-0739: The proposed resolution would approve the 24th Amendment to the Treasure Island Event Venues Master Lease between TIDA and the Navy to extend the term of the Lease by one year, from December 1, 2012 through November 30, 2013, unless terminated sooner in accordance with the terms and conditions of the Master Lease.
- File 12-0740: The proposed resolution would approve the 27th modification to the Cooperative Agreement between TIDA and the Navy to extend the term of the Agreement by one year, from October 1, 2012 through September 30, 2013.

Key Points

- The only change being proposed to the existing five leases and one Cooperative Agreement, between TIDA and the Navy, is to extend the leases and agreement by one year**.** The five leases would be extended from December 1, 2012 through November 30, 2013 and the Cooperative Agreement would be extended from October 1, 2012 through September 30, 2013.

Fiscal Analysis

- TIDA anticipates generating $8,326,365 in FY 2012-2013 revenues from leasing existing residential and commercial facilities and special events. Such revenues would offset the $8,326,365 expected to be incurred by TIDA under the Cooperative Agreement between TIDA and the Navy.

Recommendations

- Approve the proposed resolutions.

MANDATE STATEMENT/ BACKGROUND

Mandate Statement

In accordance with Charter Sections 9.118(b) and 9.118(c), any agreements or leases with a term of ten years or more and/or over $10,000,000 of expenditures is subject to Board of Supervisors approval.

Background

File 12-0735: The Treasure Island Development Authority (TIDA) and the Navy entered into a two-year South Waterfront Master Lease on September 4, 1998, for TIDA to use and sublease certain land and facilities at Treasure Island, including the Administration Building, Building 180, Hangar 2, and Hangar 3. The Lease is at no cost to TIDA. Since that time, the South Waterfront Master Lease has been amended 27 times, mainly to add or delete property and to extend the term. The 27th amendment was approved by the Board of Supervisors on September 13, 2011 (Resolution No. 370-11).

File 12-0736: TIDA and the Navy entered into a one-year Land and Structures Master Lease on November 19, 1998, for TIDA to use and sublease certain land and structures at Treasure Island that are subleased to non-profit agencies and commercial interests. The Lease is at no cost to TIDA. Since that time, the Land and Structures Master Lease has been amended 36 times, mainly to add or delete property and to extend the term. The 36th amendment, which added Building 449[1] located at Avenue C and 4th Street to the Land and Structure Master Lease at no cost to TIDA, was approved by the Board of Supervisors on January 24, 2012 (Resolution No. 12-12).

File 12-0737: TIDA and the Navy entered into a two-year Marina Master Lease on September 4, 1998, for TIDA to use and sublease certain facilities at Treasure Island, including the Treasure Isle Marina, the Treasure Isle Marina parking lot and the Treasure Island Yacht Club. The Lease is at no cost to TIDA. Since that time, the Lease has been amended 15 times, mainly to extend the term. The 15th amendment was approved by the Board of Supervisors on September 13, 2011 (Resolution No. 0375-11).

File 12-0738: TIDA and the Navy entered into a five-year Childcare Master Lease on October 1, 2001, for TIDA to sublease land and structures, including Building 502, at Treasure Island for the purpose of operating a childcare center. The Lease is at no cost to TIDA. Since that time, the Lease has been amended seven times, mainly to extend the term. The 7th amendment was approved by the Board of Supervisors on September 13, 2011 (Resolution No. 0371-11).

File 12-0739: TIDA and the Navy entered into a two-year Event Venues Master Lease on September 4, 1998, for TIDA to use and sublease certain land and structures at Treasure Island, at no cost to TIDA. Since that time, the Lease has been amended 23 times, mainly to add or delete property and to extend the term. The 23rd amendment was approved by the Board of Supervisors on September 13, 2011 (Resolution No. 0373-11).

[1] Building 449 is a 13,000 square foot vacant concrete structure which TIDA uses for commercial leasing opportunities such as storage, light industrial, or warehouse space.

File 12-0740: The City and the Navy entered into a one-year Cooperative Agreement, for the City to assume responsibility for various services on Treasure Island, which was initially approved by the Board of Supervisors on October 1, 1997 (File 244-97-4). Such services include: (i) operation and maintenance of the water, waste water, storm water, electric and gas utility systems, (ii) security, public health and safety services, (iii) grounds and street maintenance and repair, and (iv) property management and caretaker services. The Cooperative Agreement was modified in 1998 to make TIDA party to the Cooperative Agreement with the Navy, which was approved by the Board of Supervisors on November 19, 1998 (File 98-1751). Under the original Cooperative Agreement, reimbursements paid by the Navy to TIDA for the TIDA services provided to the Navy were negotiated on an annual basis as the Cooperative Agreement was renewed each year. In all, the Navy paid TIDA a total of $12,848,213 from FY 1997-1998 through FY 2001-2002, when such payments by the Navy ended[2]. According to Ms. Mirian Saez, TIDA Director of Island Operations, revenues generated from leasing of existing residential and commercial facilities, special events and film and photo productions have offset the costs associated with the Cooperative Agreement since FY 2002-2003.

The Cooperative Agreement has been modified 26 times. The 26th amendment was approved by the Board of Supervisors on September 13, 2011 (Resolution No. 0372-11).

Status of the Conveyance of Treasure Island Property

The Board of Supervisors approved the Economic Development Conveyance Memorandum of Agreement (EDC MOA) between the Treasure Island Development Authority (TIDA) and the Navy on June 7, 2011 (Resolution No. 242-11). Under the terms of the EDC MOA, the Navy will convey Treasure Island property to TIDA in phases, commencing upon the Navy's completion of ongoing environmental remediation. According to Mr. Michael Tymoff, TIDA Development Project Director, the first phase conveyance of Treasure Island property from the Navy to TIDA is anticipated to occur before December, 2012. The second phase conveyance is expected to occur in April, 2013. Mr. Tymoff advises that the full conveyance of Treasure Island to TIDA is currently estimated to occur sometime in 2019.

The properties that are not conveyed will continue to be managed by TIDA, in accordance with the Cooperative Agreement (File 12-0740), until the conveyance is complete. The individual Master Leases between TIDA and the Navy will terminate for specified properties as such properties are conveyed to TIDA, in accordance with the EDC MOA. According to Mr. Tymoff, in exchange for the conveyance of the Treasure Island property, the EDC MOA commits TIDA to paying the Navy (a) $55,000,000 in ten annual $5,500,000 payments, plus interest[3], projected to total $12,375,000, (b) an additional $50,000,000 if the project achieves certain financial performance benchmarks (i.e., an internal rate of return on private capital above 18%), and (c)

[2] TIDA was advised by the U.S. Navy that the U.S. Navy reimbursements would be eliminated based on the U.S. Navy's determination that the Treasure Island Development Authority was earning sufficient revenues to pay for all of the costs of providing services at Treasure Island.

[3] The EDC MOA sets the interest rate as "the interest rate payable on ten year Treasury Notes in effect as of the month that this Agreement is entered into plus one hundred fifty basis points, which Interest Rate will be locked for the duration of this Agreement."

35% of all profits above a 22.5% internal rate of return. The first payment due to the Navy is projected to occur in April 2013, with the second phase conveyance.

Based on the EDC MOA and the approved Disposition and Development Agreement (Resolution No. 241-11) between TIDA and Treasure Island Community Development, LLC, the master developer for the Treasure Island project, is required to make all the payments to the Navy, on behalf of TIDA. According to Mr. Tymoff, TIDA plans to introduce a resolution at a future Board of Supervisors meeting that would amend the EDC MOA in order to: (a) provide more protections to TIDA regarding the Navy's environmental remediation obligations, (b) define the terms of the transfer for 27-acres on Yerba Buena Island (YBI) for the YBI Ramps Improvement Project, and (c) address utility access easements, operations and maintenance.

DETAILS OF PROPOSED LEGISLATION

The six proposed resolutions would extend the term of the following five Leases and the one Cooperative Agreement between the Treasure Island Development Authority (TIDA) and the U.S. Navy (Navy) by one year, as detailed in Table 1 below.

Table 1: Proposed Term Period Extensions of TIDA's Leases and Cooperative Agreement

File No.	Lease/Agreement	Amendment Number	Term Period Extensions
12-0735	Treasure Island South Waterfront Master Lease	28	December 1, 2012 - November 30, 2013
12-0736	Treasure Island Land and Structures Master Lease	37	December 1, 2012 - November 30, 2013
12-0737	Treasure Island Marina Master Lease	16	December 1, 2012 - November 30, 2013
12-0738	Treasure Island Childcare Master Lease	8	December 1, 2012 - November 30, 2013
12-0739	Treasure Island Event Venues Master Lease	24	December 1, 2012 - November 30, 2013
12-0740	Cooperative Agreement	27	October 1, 2012 - September 30, 2013

The only change being proposed to the existing five leases and one Cooperative Agreement, between TIDA and the Navy, is to extend the leases and agreement by one year. As detailed in Table 1 above, the five leases would be extended from December 1, 2012 through November 30, 2013 and the Cooperative Agreement would be extended from October 1, 2012 through September 30, 2013. These proposed extensions have been approved by the Navy and were approved by TIDA's Board of Directors on June 13, 2012.

According to Ms. Saez, TIDA seeks to extend all master agreements with the Navy in order to continue operations in accordance with the Cooperative Agreement with the Navy, which assigns TIDA the responsibility for municipal services of land leased by TIDA from the Navy under the Master Leases and allows TIDA to sublease property to generate revenue pending conveyance of the Treasure Island property from the Navy to TIDA. A year-to-year term of the Cooperative Agreement allows TIDA and the Navy the flexibility to discontinue all or portions of the agreements as the conveyance of Treasure Island property from the Navy to TIDA occurs.

FISCAL ANALYSIS

Revenues Generated from Leases and Costs Associated with the Cooperative Agreement

Continuation of the subject (a) Treasure Island South Waterfront Master Lease, (b) Treasure Island Land and Structures Master Lease, (c) Treasure Island Marina Master Lease, (d) Treasure Island Childcare Master Lease, and (e) Treasure Island Event Venues Master Lease would allow TIDA to continue to generate revenues to support TIDA's interim operations of Treasure Island until the Navy fully transfers Treasure Island to TIDA.

As shown in Table 2 below, TIDA received a total of $7,845,818 from various revenue sources in FY 2011-2012. TIDA has budgeted for $8,326,365 in revenue for FY 2012-2013, an increase of $480,547 or 6.1 percent more than FY 2011-2012.

Table 2: Actual and Projected Revenues Under Leases

TIDA Revenue Sources as of 8/28/2012	Actual 2011-12 Revenue	Budgeted 2012-13 Revenue
Joint Venture Special Events	$0	$286,000
TIDA Special Events Revenues	628,221	316,200
TI Commercial Revenues	2,336,412	2,505,000
Film Revenues	13,986	25,000
YBI Filming/Cellsites/ Banner Revenues	182,039	282,550
Maritime Revenues	93,300	90,000
John Stewart Company Housing Revenues	4,164,511	4,342,143
Other Housing Common Area Maintenance (CAM)	427,349	479,472
Total	**$7,845,818**	**$8,326,365**

TIDA's projected revenues would offset the $8,326,365 of expenditures expected to be incurred by TIDA in FY 2012-13.

RECOMMENDATIONS

Approve the proposed resolutions.