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 30, 2020 Budget and Finance Committee Meeting

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Item 1 **File 20-0965** *Continued from 9/23/20 Meeting*	**Department:** Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a lease at 598 Portola Drive between the City as landlord and Twin Peaks Petroleum, Inc. as tenant, for a term of 25 years from November 2020 through October 2045, at initial annual base rent of $200,200 with three percent annual increases thereafter, and a five-year option to extend through October 2050.

Key Points

- The City has leased the property at 598 Portola Drive as a gasoline service station since 1972. In 2015, the Board of Supervisors approved the existing five-year lease with one five-year option to extend. The lease expires October 31, 2020, but may be extended for five years, through October 2025.
- The Real Estate Division (RED) has negotiated a new 25-year lease with Twin Peaks Petroleum, with initial annual base rent of $200,200 and three percent annual increases, with a five-year option to extend. A recent appraisal has affirmed the initial annual base rent of $200,200.

Fiscal Impact

- Under the proposed lease, the City would receive $200,200 in initial annual base rent, with three percent annual increases. The initial annual rent is an increase of $86,614 over the current annual rent of $113,586. Over the 25-year initial term, the City would receive $7,299,145 in total rent. If the five-year option to extend the lease were executed, the rent would be set at market rate based on an appraisal at that time.

Policy Consideration

- As noted in the Budget and Legislative Analyst's 2017 *Performance Audit of the City's Real Estate Division,* the City does not have an explicit policy for the use of public property for private purposes. As noted in the audit report, "The City does have a policy, codified in Administrative Code Section 23.A, to prioritize the use of surplus City property for development of affordable housing. However, the City has missed opportunities to use City property to better serve the City's policy priorities." The audit report noted that "At the time of the lease expiration (for 598 Portola Drive) in June 2014, the City missed the opportunity to reconsider the current property's use as a gas station and pursue a mixed-use development that would better conform to the City's housing goals".
- Because the proposed lease was not award as part of a competitive process and other vendors and uses have not been considered for the property, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

Recommendation

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

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten or more years, including options to renew, or having anticipated revenue to the City of $1,000,000 or more, is subject to Board of Supervisors approval.

Administrative Code Section 23.33 states that it is City policy that all leases of real property that are expected to produce more than $2,500 per month in revenue be awarded in accordance with competitive bidding procedures, unless the Board of Supervisors find such procedures are impractical or impossible.

BACKGROUND

The City originally acquired the property at 598 Portola Drive near Twin Peaks as part of the Laguna Honda site in the late 1800s. An approximately 15-acre portion of the Laguna Honda site was transferred to the Juvenile Probation Department in 1947 for development of the Youth Guidance Center, while the 598 Portola Drive property was retained by the Department of Public Health.

A gasoline service station, with a convenience store and garage, has operated at 598 Portola Drive since 1972, when the Board of Supervisors originally approved a 15-year lease with Mobil Oil (Resolution 466-72). In 1994, The Board of Supervisors approved a new 10-year lease with Twin Peaks Petroleum, Inc., the successor in interest to Mr. Michael Gharib, who had acquired the Mobil Oil franchise in 1985 (File 65-94-11, Ordinance 279-94).[1] The lease included a five-year option to extend, for a total term of 15 years through June 2009. In June 2004, the Board of Supervisors approved an amendment to the 1994 lease, increasing the option term to 10 years, and then exercised the 10-year extension through June 2014, to allow for the amortization of a State-mandated underground fuel tank replacement (File 04-0636, Resolution 364-04). In October 2015, the Board of Supervisors approved a new five-year lease through October 2020, with a five-year option to extend through October 2025 (File 15-0895, Resolution 394-15). Other than before the original 1972 lease, the leases were all awarded on a sole-source basis.

Twin Peaks Petroleum currently pays $9,466 per month in rent, or $113,586 in annual rent. The lease expires October 31, 2020. Rather than exercising the option to extend, the Real Estate Division (RED) has negotiated a new 25-year lease with Twin Peaks Petroleum through October 2045, with a five-year option to extend through October 2050.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease at 598 Portola Drive between the City as landlord and Twin Peaks Petroleum as tenant, for a term of 25 years, from November 2020 through October 2045, with initial annual base rent of $200,200 and three percent annual increases thereafter, and a five-year option to extend the lease through October 2050. The

[1] Records could not be located to account for the seven-year period between expiration of the 1972 lease in 1987 and the authorization of a new lease in 1994.

proposed resolution would also (1) find the competitive bidding procedures required by Chapter 23.33 of the Administrative Code are impractical, and (2) indemnify and hold the City harmless for claims and costs incurred by the tenant's use of the property as a gas station.

According to Ms. Claudia Gorham, Deputy Managing Director of the Real Estate Division, the tenant requested a new long-term lease rather than exercise the five-year option to extend. The base rent is consistent with an independent appraisal that was completed in July 2019.[2] The key provisions of the existing lease and proposed lease are shown in Table 1 below.

Table 1: Key Terms of Existing and Proposed Leases

	Existing Lease	Proposed New Lease
Lease Term	5 years, from November 2015 through October 2020	25 years, from November 2020 through October 2045
Premises	14,499 square feet	14,499 square feet
Options to Extend	One 5-year option	One 5-year option
Initial Annual Base Rent	$100,920 (currently $113,586)	$200,200
Rent Adjustment	3% annually	3% annually
Tenant Improvement Allowance	None	None
Utilities and Services	Paid by tenant	Paid by tenant

Source: Existing and Proposed Leases

Underground Storage Tank Replacement

As noted above, the prior lease was amended in 2004 to provide for the tenant to replace the underground fuel tank as required by the State and to extend the lease term to amortize the costs of the underground fuel storage tank replacement. According to Real Estate's discussions with the Tenant, the underground fuel tank replacement schedule was extended by the State and must be replaced by 2025 in accordance with State requirements. Ms. Gorham states that the tenant has provided documentation evidencing that it is currently in compliance with California and local permitting and inspection requirements for underground fuel storage tanks.

Under Section 6 of the proposed lease, Twin Peaks Petroleum will have to replace the underground storage tanks by 2025, as required by California codes, which require replacement of underground fuel storage tank replacement every 20 years. Rent will be waived for up to three months if the gas station and convenience store must be fully closed for the tank replacement. The City must approve the plans for these tenant improvements.

According to Ms. Gorham, the tenant would be able to repurpose the site for alternative fuel sales if demand for gasoline is reduced over the next 25 years.

FISCAL IMPACT

The proposed lease would increase the annual rent paid by Twin Peaks Petroleum to the City by $86,614 in the initial year, to $200,200. The rent would then increase by three percent annually.

[2] An appraisal was not required by Administrative Code Section 23.30 because the Real Estate Division determined that the market rate of the site was less than $45 per square foot. The base rent in the proposed lease is $13.86 per square foot. The appraised value was based on the site's use as a mixed-use development.

Over the initial 25-year term of the lease, the City would receive approximately $7,299,145 in base rent. Rent paid over the initial term is shown in Table 2 below.

Table 2: Rent Paid to City over Initial Term

Initial Annual Base Rent	$200,200
Annual Rent Escalation	3%
Total Rent Paid over 25 Years	$7,299,145

Source: BLA Analysis

If the option to extend were exercised, the base rent would be set at Fair Market Rate, based on an appraisal conducted at that time.

POLICY CONSIDERATION

Proposed Sole-Source Lease

The 598 Portola Drive parcel contains the only privately-operated gasoline station located on City-owned property. In addition, this lease of City property as a gasoline station, convenience store, and garage has continued for the past 48 years, or since 1972, without any competitive bidding since the original establishment of the station in 1972 under an initial 15-year lease. Furthermore, the proposed new 25-year lease with one five-year extension option would be awarded without undergoing a competitive bidding process.

In accordance with Administrative Code Section 23.33, all leases of City real property resulting in more than $2,500 per month in revenue must be awarded in accordance with competitive bidding procedures, unless such bidding procedures are impractical or impossible. According to Ms. Gorham, a competitive bidding process is impractical because the tenant owns all of the equipment at the site, and a new tenant would have to procure new equipment to continue operating a gas station at the site.

Use of City Property by Private Entities

As noted in the Budget and Legislative Analyst's 2017 *Performance Audit of the City's Real Estate Division,* the City does not have an explicit policy for the use of public property for private purposes. As noted in the audit report, "The City does have a policy, codified in Administrative Code Section 23.A, to prioritize the use of surplus City property for development of affordable housing. However, the City has missed opportunities to use City property to better serve the City's policy priorities." The audit report noted that "At the time of the lease expiration (for 598 Portola Drive) in June 2014, the City missed the opportunity to reconsider the current property's use as a gas station and pursue a mixed-use development that would better conform to the City's housing goals".

Policy Decision

Because the proposed lease was not award as part of a competitive process and other vendors and uses have not been considered for the property, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

RECOMMENDATION

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

Item 3 **File 20-0947**	**Department:** Municipal Transportation Agency

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would grant the SFMTA exemption from certain procurement and contracting requirements of Administrative Code Chapters 6 (public works procurement), 14B, (Local Business Enterprise and non-discrimination), and Chapter 21 (procurement of commodities and services) for the Potrero Yard Modernization Project.

Key Points

- The SFMTA is proposing a Joint Development Services project to replace the bus storage and maintenance facility at Bryant and Mariposa Streets, and potentially construct housing. SFMTA would select a master developer to assume full development responsibility for all components and phases of the Potrero Yard Modernization Project, including replacement the bus storage and maintenance facility and the residential and commercial development. The SFMTA would retain ownership of the land and bus storage and maintenance facility, and the private developer would lease the housing and commercial development through an agreement with SFMTA.
- The proposed ordinance does not waive certain prevailing wage, First Source Hiring, Local Business Enterprise (LBE), and State Apprenticeship Program requirements. According to the proposed ordinance, the Joint Development Services required for the Project will likely span the subject matter of Chapters 6, 14B, and 21, but none of these chapters contemplate the acquisition of these services in one procurement, as required for joint development projects.

Fiscal Impact

- The development and modernization of the bus storage facility and maintenance facility will cost approximately $500 million. Of that, $39.6 million is included in the SFMTA Five-Year Capital Improvement Program for FY 2021 – FY 2025.

Policy Consideration

- The intent of the proposed ordinance, which waives Administrative Code Chapters 6, 14B, and 21, is to provide for the procurement of a master developer to develop the proposed Potrero Yard Modernization Project through a Joint Development Services agreement.

Recommendations

- Amend the proposed ordinance to state specifically that (1) the SFMTA will submit a term sheet to the Board of Supervisors for endorsement at the beginning of negotiations for a proposed Project Agreement, and (2) the term sheet will provide that the proposed Project Agreement include (a) certain provisions contained in Administrative Code Chapters 6, 14B, and 21, including false claims, collusion with City officials, enforcement of prevailing wage and LBE participation requirements, and inspection of records and audit provisions; and (b) provide for a not-to-exceed amount in the proposed Project Agreement.
- Approval of the proposed ordinance as amended is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 2.105 states that all legislative acts shall be by ordinance, approved by a majority of the members of the Board of Supervisors.

BACKGOUND

Potrero Yard Modernization Project

Potrero Yard, a 4.4-acre site located at Bryant Street and Mariposa Street, is a 100-year old facility that currently serves as a storage yard and trolley bus maintenance facility. SFMTA proposes to construct a modern maintenance facility to improve worker safety, enhance worksite efficiency, and align the worksite with City policy objectives related to environmental sustainability. According to SFMTA, the layout of the maintenance facility does not conform to current design standards that would optimize worksite efficiency, and the structural condition of the facility could impede restoration of Muni service after a major earthquake.

In addition to the construction of a modern storage and maintenance facility and to leverage the construction opportunity to address Citywide goals for housing production, the SFMTA plans to solicit proposals for the bus facility and joint development atop the bus facility as a mixed-use residential development with ground floor community-serving uses. The SFMTA estimates that the Potrero Yard Modernization Project could support the construction of between 525 and 575 new housing units. While no agreement is yet in place, the SFMTA has proposed an initial target of 50 percent of the housing units being affordable (or 262 to 288 units) to low- to moderate-income residents.

To pursue these objectives, SFMTA is asking the Board to approve the procurement framework that will allow the Agency to enter into Joint Development Services agreements with a private development team to design, build, finance, maintain, and perform asset management services for the proposed new Potrero Yard storage and maintenance facility.

DETAILS OF PROPOSED LEGISLATION

Note: This report is based on a substituted ordinance to be submitted to the September 30, 2020 Budget and Finance Committee.

The proposed ordinance would grant the SFMTA exemption from certain procurement and contracting requirements of Chapter 6 of the Administrative Code, which contains policies for the City's public works procurements, Chapter 14B of the Administrative Code, which contains policies for Local Business Enterprise and non-discrimination in the City's contracting processes, and Chapter 21 of the Administrative Code, which contains policies related to the City's contracting process for commodities and professional services, with the exception of the provisions below. The exemptions would only apply to SFMTA contracting related to Joint Development Services.

The proposed ordinance would not waive the following Administrative Code provisions:

- Prevailing Wages: All construction work related to any space of project development will be required to pay prevailing wages in accordance with the provision outlined in Section 6.22(e) of the Administrative Code.
- State Apprenticeship Program Requirements: All construction work related to any space of project development will be required to comply with state apprenticeship hiring requirements in accordance with the provision outlined in Section 6.22(n) of the Administrative Code.
- Local Hiring / First Source Policies: The legislation states that the SFMTA will require that all construction, asset management, or related work performed under any Development Agreement be in compliance with the City's Local Hiring Policy, per Chapter 82 of the Administrative Code, or the City's First Source Hiring Program, per Chapter 83 of the Administrative Code.
- Local Business Enterprise: The SFMTA would work with the Contract Monitoring Division to develop a Local Business Enterprise program for the project that is "consistent" with Chapter 14B of the Administrative Code and would require selection of the majority of LBEs after the Board of Supervisors approves the Project Agreement that would obligate the developer to build the Project.

Other Code Provisions

According to the City Attorney's Office, certain City contracting requirements as well as all State licensing requirements and various provisions of the Administrative Code related to the approval and ongoing monitoring and oversight of City contracts will continue to apply despite exemptions granted through the pending ordinance. Chapters 12B and 12C of the Administrative Code pertaining to non-discrimination in contracts will remain in effect and binding on the Potrero Yard procurement and contracting framework, and to all agreements the executed through this procurement process. Chapter 25 of the Environmental Code outlining requirements for Public Works projects to meet clean construction requirements will remain in effect under the proposed ordinance. The Local Business Enterprises (LBE) certification process specified in Sections 14B 3(A)-(E) of the Administrative Code will continue to regulate the certification requirements for LBEs from whom services are procured under any agreement for Joint Development Services. Finally, the Potrero Yard agreements will remain subject to the provision of the City's Surveillance Technology Ordinance Administrative Code Section 19B.

Proposed Procurement Process

Selection and Exclusive Negotiating Agreement

According to the proposed ordinance, the SFMTA may pre-qualify and solicit proposals from private developers for Joint Development Services for the Project. In August 2020, the SFMTA issued a Request for Qualifications (RFQ), with responses due in October 2020, to design, build, finance, and maintain the Project. The SFMTA may then select a short list of up to three developers to participate in a forthcoming Request for Proposals (RFP) to develop the Project, and select one developer to enter into the first Joint Development Services agreement, the Pre-Development Agreement, which will be used to negotiate the Project Agreement and the developer's Joint Development Services.

Joint Development Services

According to Section 1 (c) of the proposed ordinance, Joint Development Services could include procurement and management of contractors for pre-development, design-build contractors, and asset management contractors for joint housing and bus facility development. Section 3 (b) (5) states that the SFMTA may enter into one or more agreements with the selected developer for Joint Development Services, including pre-development, early works, design-build, asset management, lease-purchase, lease-leaseback, development, project, direct, and other agreements to deliver the project.

Compensation to Other Proposers

The proposed ordinance provides the SFMTA the option to compensate the two proposers who are not selected for exclusive negotiations for the Project for their work product on terms and conditions and in such an amount as determined by the Director of Transportation. Such compensation would be contingent upon their proposals' being responsive to the RFP and the SFMTA's having the right to own the work products included in the proposals. According to discussions with SFMTA staff, payment of stipends to unsuccessful shortlisted proposers (in this case, two of three proposers) is a standard practice for this type of project, where the RFP requires that the proposing teams invest considerable expense for an approximately five-month proposal preparation period.

California Environmental Quality Act (CEQA)

According to the SFMTA, the Planning Department is currently conducting a California Environmental Quality Act review of the proposed bus storage and maintenance facility and potential housing development. According to the proposed ordinance, approval of the proposed ordinance does not constitute an approval of the project, and no project approval will occur until completion of CEQA review.

If the SFMTA and the selected developer successfully negotiate a Project Agreement that is approved by the Board of Supervisors, construction of the Potrero Yard Modernization Project is expected to occur in calendar years 2023 through 2026.

FISCAL IMPACT

The proposed ordinance states the development and modernization of the bus storage facility and maintenance facility will cost approximately $500 million. Of that, $39.6 million is included in the SFMTA Five-Year Capital Improvement Program for FY 2021 – FY 2025, the Agency's 5-year program of projects. According to Jonathan Rewers, SFMTA Building Progress Program Manager, $20.6 million of that amount is included in the Agency's 2-Year Capital Budget for Fiscal Years 2021 and 2022, which is supported by appropriations. Given the early stages of project planning, final funding sources for the construction phase have not yet been identified.

Fiscal Feasibility

Because the proposed modernization of the Potrero Yard facility qualifies as a transit improvement project, the project is exempt from the finding of fiscal feasibility requirement under Chapter 29 of the Administrative Code. However, the proposed ordinance states that, if after further review the housing and commercial component of the project is not deemed to be financially feasible, as defined by the SFMTA, then the Agency would not proceed with that component of the project and would only proceed with the transit component.

POLICY CONSIDERATION

Development Approach

According to the proposed ordinance, the Federal Transit Administration (FTA) defines joint development projects as projects that involve: (1) integrated development of transit and non-transit improvements, with transit projects physically or functionally related to commercial, residential, or mixed-use development; (2) public and private investments that are coordinated between transit agencies and developers to improve land owned by a transit agency or related to a transit improvement; and (3) mutual benefit and shared cost among all parties involved. According to discussions with SFMTA staff, if the SFMTA and developer successfully negotiate a Project Agreement, the Project Agreement would require the developer to assume full development responsibility for all components and phases of the Potrero Yard Modernization Project, including the bus storage and maintenance facility and the residential and commercial component. The SFMTA would retain ownership of the land and bus storage and maintenance facility, and the private developer would lease the housing and commercial development through an air-rights lease with the SFMTA, or an alternate agreement as negotiated by the parties. The form of agreement for the developer's use of the housing and commercial development would specify the affordability requirements.

Administrative Code Waivers

As noted above, the proposed ordinance waives procurement and contracting requirements under Chapters 6, 14B, and 21 of the Administrative Code for the Potrero Yard Modernization Project, for which key provisions are summarized below. According to the proposed ordinance, the Joint Development Services required for the Project will likely span the subject matter of Chapters 6, 14B, and 21, but none of these chapters contemplate the acquisition of these services in one procurement, as required for joint development projects. According to SFMTA staff, a Project Agreement will contain similar provisions to those being waived.

Competitive Procurement Procedures

Section 6.20 of the Administrative Code generally requires formal competitive procurement for public works contracts above $706,000. Section 21.1 of the Administrative Code generally requires competitive solicitations for procurement of commodities and professional services. Both of these provisions would be waived under the proposed ordinance, with the ordinance proposing an alternate framework that provides for a best-value competitive solicitation.

Lowest Bid for Construction Contracts

Section 6.20 of the Administrative Code, which requires public works contracts valued above $706,000 be awarded to those bids that demonstrate the ability meet all project specifications at lowest possible cost. Section 6.61 of the Administrative Code allows for “best-value” criteria to be used for design-build contracts, which are evaluated based upon responsibility and qualifications, stated subjective criteria, and project and/or financing costs. The proposed ordinance would authorize SFMTA to select the development team based on the overall best value to the City. Best value evaluation criteria include but are not limited to the qualifications of respondents, their projected construction and financing costs for the Project, life cycle cost savings to the City, design quality, and the extent to which the proposal or proposals meet the Project Objectives.

Not-to-Exceed Amounts

Section 21.19 of the Administrative Code requires professional service and commodities contracts contain a maximum not-to-exceed amount. The proposed ordinance waives this requirement. According to discussions with SFMTA staff, SFMTA intends to include a not-to-exceed amount in the Project Agreement, which is likely the final Joint Services Development agreement, and which would be subject to Board of Supervisors approval.

Board of Supervisors Approval and Reporting

False Claims. Section 6.80 of the Administrative Code requires written notification to the Board of Supervisors if a public works contractor submits false claims to the City. The proposed ordinance waives this Code section, Administrative Code Chapter 28.3 (which is not a subject of this ordinance) also includes submission of false information as grounds for disbarment of a contractor.

Collusion with City Officials. Section 6.81 of the Administrative Code allows the Board of Supervisors, on the recommendation of the Mayor, Department Head or the board or commission concerned, to nullify of a public works contract if contractors are found to have colluded with City officials. The proposed ordinance, as written, waives this requirement.

Labor Standards Enforcement and Prevailing Wage Requirements. Section 6.24 authorizes, subject to approval by the Mayor and Department of Administrative Services, the Office of Labor Standards Enforcement (OLSE) to develop and administer a plan to insure that all work contracted related to public works and public improvements will be conducted in manner consistent with Section 6.22(e) of the Administrative Code. While this provision would be waived, the proposed ordinance states that all Project work would be required to comply with applicable certified payroll requirements, and that the OLSE would continue to enforce prevailing wage.

Public Works Contractor Performance. Section 6.26 of the Administrative Code requires public works contractors’ performance be monitored and evaluated in a database maintained by the awarding Departments and report performance to the Board of Supervisors. According to discussions with SFMTA staff, the proposed ordinance waives this requirement because the master developer, and not SFMTA would have the contractual relationship with Project contractors, but would set up oversight and monitoring requirements in the Project Agreement.

LBE Reporting and Enforcement. Section 14B.15 requires the Contract Monitoring Division to provide quarterly reports, and relevant City Departments to provide annual reports, to the Board of Supervisors regarding progress towards meeting Local Business Enterprise and non-discrimination goals set forth in Chapter 14 of the Administrative Code. Section 14.B17 authorizes the Director of the Contract Monitoring Division to review and enforce the provisions of Chapter 14B as they related to LBE contact procurements. While the proposed ordinance waives this requirement, the proposed ordinance states that SFMTA shall work with the Contract Monitoring Division to develop an LBE program that is consistent with the policy goals and purpose of Chapter 14B to ensure participation by LBEs and non-discrimination in the design, construction, and ongoing asset management of the Project.

Inspection of Records

Administrative Code Section 21.34 allows the City to audit books and records of professional service and commodities contractors. Both of these provisions would be waived under the proposed ordinance.

Summary

According to discussions with SFMTA staff, the intent of the proposed ordinance, which waives Administrative Code Chapters 6, 14B, and 21, is to provide for the procurement of a master developer to develop the proposed Potrero Yard Modernization Project through a Joint Development Services agreement. Although the proposed ordinance states that the SFMTA will submit a term sheet for any proposed management or use agreements for the Project to the Board of Supervisors before requesting its final approval of those agreements pursuant to Charter Section 9.118, the Budget and Legislative Analyst recommends that the proposed ordinance be amended to state specifically that (1) the SFMTA will submit a term sheet to the Board of Supervisors for endorsement at the beginning of negotiations for a proposed Project Agreement: and (2) the term sheet will provide that the proposed Project Agreement include (a) certain provisions contained in Administrative Code Chapters 6, 14B, and 21, including false claims, collusion with City officials, enforcement of prevailing wage and LBE participation requirements, and inspection of records and audit provisions; and (b) provide for a not-to-exceed amount in the proposed Project Agreement.

RECOMMENDATIONS

- Amend the proposed ordinance to state specifically that (1) the SFMTA will submit a term sheet to the Board of Supervisors for endorsement at the beginning of negotiations for a proposed Project Agreement: and (2) the term sheet will provide that the proposed Project Agreement include (a) certain provisions contained in Administrative Code Chapters 6, 14B, and 21, including false claims, collusion with City officials, enforcement of prevailing wage and LBE participation requirements, and inspection of records and audit provisions; and (b) provide for a not-to-exceed amount in the proposed Project Agreement.

- Approval of the proposed ordinance as amended is a policy matter for the Board of Supervisors.

Item 9 **Files 20-1063**	**Department:** Department of Homelessness and Supportive Housing

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would (1) authorize the Department of Homelessness and Supportive Housing (HSH) to execute a Standard Agreement with the California Department of Housing and Community Development for up to $45,000,000 of Homekey grant funds for the acquisition of The Granada located at 1000 Sutter Street for Permanent Supportive Housing and (2) approve and authorize HSH to commit up to $23,000,000 in permanent funds and additional operating subsidies over five years to satisfy local match requirements.

Key Points

- The Department of Homelessness and Supportive Housing, along with co-applicant Episcopal Community Services, will receive $44.8 million from the California Department of Housing and Community Development's Homekey Program to purchase, renovate and operate The Granada in order to provide supportive housing for formerly homeless adults and existing tenants
- 152 units in The Granada are vacant and will be filled by individuals referred through San Francisco's Coordinated Entry System, including clients transitioning out of Shelter-In-Place hotels. The Department does not expect any of the 80 existing tenants to be displaced.

Fiscal Impact

- The total acquisition and rehabilitation for the Hotel Granada Project is $59.8 million, which includes $39.3 million funded by the Homekey Program grant funds and $20.5 million in gap loans provided by the Mayor's Office of Housing and Community Development, subject to Board of Supervisors approval.
- The proposed Standard Agreement requires the City to provide operating subsidies for at least five-years, which would cost approximately $2.9 million annually. The Homekey grant would cover the first two years of subsidies and the Department intends to fund ongoing operating subsidies with 2018 Proposition C funding.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

The Homekey Program

On July 16, 2020, the California Department of Housing and Community Development (HCD) announced the availability of approximately $600 million of Homekey Program grant funding through a Notice of Funding Availability (NOFA). The focus of the Homekey Program is to sustain and expand housing for persons experiencing homelessness and impacted by COVID-19. Homekey also encourages eligible applicants to utilize funding to ameliorate the disproportionate racial impacts of homelessness and COVID-19. In August 2020, the Board of Supervisors approved the Department of Homelessness and Supportive Housing's (HSH) application for Homekey grant funding (File 20-0817). One of the City's two applications was approved so far and will provide funding to enable the co-applicant, Episcopal Community Services (ECS), to purchase and renovate The Granada provide supportive housing for formerly homeless adults and serve all existing tenants, many of them low-income seniors who otherwise would be at risk of homelessness.

Project and Vendor Selection

Episcopal Community Services (ECS), a supportive housing service provider, was selected by the Department of Homelessness & Supportive Housing to serve as the co-applicant with the City for State funding. The City had a two-part process for selecting the co-applicant and The Granada. Prior to the release of the Homekey Program NOFA, the City had issued RFQ #HSH2020-130 on June 4, 2020 to solicit bids to provide services at Shelter-In-Place sites. This RFQ also established that in the event the City has the opportunity to convert these sites into more permanent settings or secure additional permanent sites, applicants may have the opportunity to qualify to provide ongoing services such as property management or support services. ECS was selected as one of the providers under this initial RFQ to run a Shelter-In-Place site. Upon release of the Homekey Program NOFA, HSH issued RFI #HSH2020-100 to identify properties that are available for acquisition and could be used as a Permanent Supportive Housing site. It was under RFI #HSH2020-100 that The Granada owner responded with ECS. According to the Department, ECS was the only qualified RFI respondent with running a Shelter-In-Place site and experience with affordable housing acquisition and development.

The Granada

The Granada is located at 1000 Sutter Street. The property includes 232 Single Residence Occupancy (SRO) units and will be operated as Permanent Supportive Housing. The building is currently owned by 655-685 4th St LP, and Pantoll Holdings LLC. According to the Department of Homelessness & Supportive Housing, 80 of the 232 units are currently occupied by low-income individuals, who are primarily reliant on rental subsidies. ECS will income-certify existing tenants' status as at-risk of homelessness but the Department does not expect any existing tenants to be displaced. According to the Department, 152 units are vacant and will be filled by individuals referred through San Francisco's Coordinated Entry System, including housing referral status clients transitioning out of Shelter-In-Place hotels.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) authorize the Department of Homelessness and Supportive Housing (HSH) to execute a Standard Agreement with the California Department of Housing and Community Development for up to $45,000,000 of Homekey grant funds for the acquisition of The Granada at 1000 Sutter Street for Permanent Supportive Housing, and (2) approve and authorize HSH to commit up to $23,000,000 in permanent funds and additional operating subsidies over five years to satisfy local match requirements. The proposed resolution also affirms the Planning Department's determination that the project is exempt from California Environmental Quality Act review.

The Department of Homelessness and Supportive Housing was notified of award of $44,840,003 in California Department of Housing and Community Development grant funds on September 21, 2020. According to the award, $39,272,003 of the funds is allocated for housing acquisition and rehabilitation, and $5,568,000 is allocated to subsidize housing operations for up to 24 months. The award of funds requires the Board of Supervisors to approve the Standard Agreement, which commits the City to identify funds for the remaining portion of the acquisition cost and to provide at least five years of operating subsidies for the Project.

Standard Agreement

The proposed Standard Agreement has a five-year term, and requires funds to be spent on interim or permanent supportive housing consistent with the application for Homekey grant funds.

Expedited Timeline

Because the State's Homekey Program is supported by the Coronavirus Relief Act (for acquisition costs) and the State General Fund (for operating subsidy costs), the Standard Agreement requires that Coronavirus Relief Act funds be spent by December 30, 2020, otherwise the U.S. Department of Treasury will recoup those monies that have not been used. The deadline for expending State General Funds is June 30, 2022.

According to the Homekey grant application, ECS will close the acquisition of The Granada by November 13, 2020. According to the City's Homekey grant application, ECS has ninety days after closing to reach fifty percent occupancy in the building. According to the Department, minor rehabilitation work will begin in November and be completed in time to reach 50 percent occupancy of the building in ninety days.

Ensuring Affordability

The proposed Standard Agreement requires ongoing affordability of the Project for at least 55 years. According to the Department, a gap loan from the Mayor's Office of Housing & Community

Development (MOHCD) to fund acquisition costs will require a Declaration of Restrictions that limits tenant incomes, rents, and rent increases as well as a Deed of Trust to secure the property in favor of the City. In addition, the proposed resolution states that the City and ECS have agreed to an Option to Purchase Agreement, which would allow the City right of first refusal if ECS sells the Project.

FISCAL IMPACT

Homekey Program Grant

The total Homekey Program grant award is $44,840,003, which includes $39,272,003 allocated to acquisition of The Granada, and $5,5680,000 for two years of operating subsidy.

Acquisition and Rehabilitation

Acquisition of The Granada is $46,856,760, funded by Homekey Program and City funds, as shown in Table 1 below. The total budget to acquire and rehabilitate The Granada is $59.8 million.

Table 1: Acquisition & Rehabilitation Budget

Source	Amount
Homekey Program Funding	$39,272,003
City Loan	7,584,757
Subtotal, Acquisition Sources	46,856,760
San Francisco Housing Accelerator Fund	12,959,250
Total Sources	**$59,816,010**

Uses	Amount
Acquisition	$46,856,760
Rehabilitation	6,540,000
Architectural Fees	457,800
Construction Interest & Fees	920,000
Reserves	1,638,000
Contingency	1,226,250
Other Soft Costs	1,177,200
Developer Costs	1,000,000
Total Uses	**59,816,010**

Source: Department of Homelessness & Supportive Housing

The Mayor's Office of Housing and Community Development (MOHCD) will loan the project $7,584,757 at the close of escrow in November 2020.

Housing Accelerator Fund

The Housing Accelerator Fund provided a bridge loan to the project of $12,959,250. MOHCD will provide a permanent gap loan to ECS to repay the Housing Accelerator Fund bridge loan within one year, which will be subject to Board of Supervisors approval.

Local Match

The proposed resolution approves the Department to commit the required funding match for Homekey Program grant up to $23 million for acquisition and rehabilitation. The City's match includes $7,584,757 for acquisition and $12,959,250 for the permanent gap loan, totaling $20,544,007. According to Ms. Gigi Whitley, Deputy Director for Administration and Finance at the Department of Homelessness & Supportive Housing, these matching funds, which will be used to fund the future gap loan through MOHCD, have been included in the Department's FY 2020-21 – FY 2021-22 budget.

Operating Subsidy

The Department of Homelessness and Supportive Housing estimates the annual operating subsidy to The Granada to be approximately $2.8 million to $2.9 million. The Homekey Program grant includes $5.6 million which would largely cover the operating subsidy for the first two years of the Project.

In addition, the proposed Standard Agreement requires the City to provide operating subsidies for at least five years. According to the Department of Homelessness & Supportive Housing, the estimated five-year operating subsidy is $14.6 million, or approximately $2.9 million per year, which the Department intends to fund with 2018 Proposition C funds. The Homekey award will offset the first two years of operating costs for Project. However, according to Ms. Whitley, in order to maintain the affordability of the Granada units, the City will need to subsidize housing operations and services to retain the site as Permanent Supportive Housing over the long-term.

RECOMMENDATION

Approve the proposed resolution.

Item 10 **File 20-1058**	**Department:** Health Service System (HSS)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would approve changes to the San Francisco Health Service System's (SFHSS) dental plans and contribution rates for calendar year 2021. The changes apply to Delta Dental's PPO and HMO plans for 2021.

Key Points

- The SFHSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board adopts the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by SFHSS employers and members.
- In July 2020, the Board of Supervisors approved the San Francisco Health Service System's (SFHSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year 2021 (File 20-0674). On September 10, 2020, the Health Service Board approved new premium and contribution rates for the Delta Dental Plans for dental insurance to become effective on January 1, 2021 for calendar year 2021.
- Claims for the months of March through June 2020 for all SFHSS retirees enrolled in the Delta Dental PPO temporarily decreased by $3 million or $26.60 per member per month, an approximately 60 percent decrease relative to the prior year. The Health Service System estimates that $2.3 million of the total $3 million is attributable to City retirees in the Delta Dental Retiree PPO plan, based on the proportion of City retiree dental PPO plan enrollment to all SFHSS retiree dental PPO plan enrollment. Consequently, the Health Service System negotiated the following changes to the previously approved dental plans: 1) SmileWay dental program enhancement for active City employees; and 2) Rate reduction for the retiree Delta Dental PPO and DeltaCare USA retiree plans.

Fiscal Impact

- Under the proposed ordinance, the total estimated dental plan premium amounts paid by the City in CY 2021 for the three active employee dental plans would increase by $592,270 or 1.47 percent, from $40,409,992 (as reported to the Board of Supervisors in July 2020 in File 20-0674) to $41,002,262. This increased City cost is to pay for the SmileWay dental program enhancement for active City employees. There are no additional City costs for retirees because they pay the full cost of SFHSS dental plans.
- The additional costs arising from the proposed ordinance would be funded by the Health Service System Trust Fund, which had a fund balance of $92.2M as of June 30, 2019.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Charter Section A8.423 requires the Board of Supervisors to adopt health care plan contribution rates, including dental plan rates and benefits, annually for Health Service System members by three fourths of its members. City Charter Section A8.428 also requires the City to contribute to the Health Service System Trust Fund to pay the costs of health plan premiums.

BACKGROUND

The Health Service Board oversees the San Francisco Health Service System (SFHSS). The SFHSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board adopts the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by SFHSS employers and members. Although the SFHSS includes the City, the School District, the Community College District, and the Superior Court, SFHSS only provides dental plans for City employees and Superior Court employees. Upon achieving eligibility to retire, however, retirees of the City, the School District, Community College District and Superior Court can enroll in retiree dental plan at their own costs.

Dental Plans

SFHSS offers three dental plans, including one PPO (Delta Dental PPO) and two HMOs (DeltaCare USA and UnitedHealthcare Dental). The City pays most of the cost of dental benefits for active employees enrolled in the Delta Dental PPO, and the full cost of the dental HMOs for active employees. Retirees pay the full cost of their dental plans. For plan year 2021, the City contributes (1) the total premium toward each of the dental HMO plans for City active employees, and (2) the monthly premium minus employee contributions ranging from $5.00 for employee only coverage to $15.00 per month for full family coverage, for the Dental PPO plan. Member contributions for the three dental plans remain unchanged from the 2020 plan year.

New Premium and Contribution Rates for Dental Plans

In July 2020, the Board of Supervisors approved the San Francisco Health Service System's (SFHSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year 2021 (File 20-0674). On September 10, 2020, the Health Service Board approved new premium and contribution rates for the Delta Dental Plans for dental insurance to become effective on January 1, 2021 for calendar year 2021.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve changes to the San Francisco Health Service System's (SFHSS) dental plans and contribution rates for calendar year 2021. The changes apply to Delta Dental's PPO and HMO plans for 2021.

Changes to Delta Dental Plan

According to Mr. Lawrence Loo, Chief Financial Officer at the Health Service System, since the dental plans were initially approved in July 2020, there has been substantial decrease in claim activity relative to 2020 because of the impact of closed dental offices due to the COVID-19 pandemic. Mr. Loo states that claims for the months of March through June 2020 for all SFHSS retirees enrolled in the Delta Dental PPO temporarily decreased by $3 million or $26.60 per member per month, an approximately 60 percent decrease relative to the prior year. The Health Service System estimates that $2.3 million of the total $3 million is attributable to City retirees in the Delta Dental Retiree PPO plan, based on the proportion of City retiree dental PPO plan enrollment to all SFHSS retiree dental PPO plan enrollment. Consequently, the Health Service System negotiated the following changes to the previously approved dental plans:

1) **Benefit Enhancement**: Delta Dental PPO plan's SmileWay benefit allows for members with one or more chronic disease conditions (diabetes, heart disease, HIV/AIDS, rheumatoid arthritis, and stroke) to receive additional dental services at no charge.[1] According to Mr. Loo, some benefits provided by the SmileWay program for qualifying members were being applied to member dental annual benefit maximums, which meant added services for root planing, periodontal scaling, and periodontal maintenance were being paid out-of-pocket by members who have achieved their annual dental benefit maximum previously. The benefit enhancement corrects for this gap in SFHSS active employee PPO and retiree PPO plan coverage for individuals needing added dental services resulting from having one of the five qualifying chronic conditions mentioned above.
2) **Rate Reduction**: Delta Dental has proposed to credit SFHSS 25 percent of the insured plan premium for August 2020 and September 2020 for the retiree Delta Dental PPO and DeltaCare USA retiree plans by reducing the rate effective January 2021.

FISCAL IMPACT

Under the proposed ordinance, the total estimated dental plan premium amounts paid by the City in CY 2021 for the three active employee dental plans would increase by $592,270 or 1.47 percent, from $40,409,992 (as reported to the Board of Supervisors in July 2020 in File 20-0674) to $41,002,262. This increased City cost is to pay for the SmileWay dental program enhancement for active City employees. There are no additional City costs for retirees because they pay the full cost of SFHSS dental plans.[2] The additional costs arising from the proposed ordinance would be funded by the Health Service System Trust Fund, which had a fund balance of $92.2M as of June 30, 2019.

RECOMMENDATION

Approve the proposed ordinance.

[1] The added coverage for SmileWay program enrolled members includes: 1) Four teeth cleanings (e.g., prophylaxis) covered at 100% annually; 2) Four periodontal maintenance procedures covered at 100% annually; and 3) One periodontal scaling and root planing procedure per quadrant covered at 100% annually.

[2] The 2021 monthly premiums for retiree Delta Dental Plan PPO would decrease by $1.07 and the DeltaCare USA DHMO would decrease by $1.35 relative to the previously approved premiums.

Items 11 - 40 **Files 20-0178 through 20-0207**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve 30 concession lease amendments between San Francisco International Airport (Airport) as landlord and various food and beverage and retail tenants, extending each lease term by two years, with no changes to the Minimum Annual Guaranteed (MAG) rents.

Key Points

- The Airport requires its concession tenants to make a minimum investment into improving their premises, ranging from $450-$1,000 per square foot for food and beverage leases and $450-700 per square foot for retail leases. Due to higher than expected construction costs, actual development costs have significantly exceeded the minimum investment amounts, ranging from $776 to $3,363 per square foot for food and beverage tenants and $593 to $1,441 per square foot for retail tenants. To assist retail tenants to amortize their development costs, Airport staff has recommended extending concession lease base terms by two years for tenants that incurred substantial costs.
- The Airport identified 22 food and beverage tenants with development costs over $1,300 per square foot and eight retail tenants with development costs over $900 per square foot. In September 2019, the Airport Commission approved two-year lease extensions to these 30 tenants.
- The proposed resolutions would approve two-year lease extensions with 30 Airport concession tenants. The resolutions would not make other amendments to the leases, such as amending the MAG rents.

Fiscal Impact

- Under Airport concession leases, tenants pay the greater of the MAG rent or percentage rent based on gross revenues. The total combined MAG rent for the 30 leases is $12,279,905 per year.
- However, due to the impact of COVID-19 on air travel, as of this writing most MAG rents are suspended and tenants are only paying percentage rent on eligible revenue. When Airport activity exceeds 80 percent of baseline for two months, MAG rents will be reinstated.

Recommendations

1. Amend File 20-0203 to correct the term end-date for the lease from July 31, 2031 to January 31, 2031.
2. Approve the proposed resolutions, as amended.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

The San Francisco International Airport (Airport) requires its concession tenants to make a minimum investment into improving their premises. Since 2017, 41 concession leases at the Airport have commenced. The minimum investment amounts for these leases range from $450-$1,000 per square foot for food and beverage concession tenants and $450-$700 per square foot for retail tenants. According to Ms. Cheryl Nashir, Airport Director of Revenue Development and Management, the certified construction costs of tenant improvements have significantly exceeded the minimum investment amounts. Actual costs have ranged from $776-$3,363 per square foot for food and beverage tenants and $593-$1,441 per square foot for retail tenants.[1] According to Ms. Nashir, tenant improvement costs are higher than expected because of unexpectedly high construction costs.

According to the Airport, the business deals created for the concession agreements which are the subject of this memorandum were developed by the Airport with the assumption that development costs would not exceed $1,300 per square foot for food and beverage tenants and $900 for retail tenants. According to Ms. Nashir, in establishing rent and lease terms, the Airport also forecasts sales and makes assumptions about capital investment needs. According to the Airport, if construction costs for concessions were more than $1,300 per square foot for food and beverage and $900 per square foot for retail, the tenant could be financially vulnerable and could lead to reducing staffing, maintaining less product, or an early termination of the concession lease.

To assist retail tenants to amortize their development costs, Airport staff has recommended extending concession lease base terms by two years for tenants that incurred substantial costs. The Airport identified 22 food and beverage tenants with development costs over $1,300 per square foot and eight retail tenants with development costs over $900 per square foot, as shown in Table 1 below.

[1] According to Ms. Nashir, leases commenced before 2017 were not considered for term extensions because the development costs were not excessive. Construction costs in 2015-2016 were approximately $1,078-$1,164 per square foot for food and beverage tenants and approximately $587-712 for retail tenants.

Table 1: Concession Tenant Development Costs

File	Tenant	Business Name	Construction Cost per Square Foot
Food and Beverage Leases			
20-0194	SSP America, Inc.	The Manufactory Food Hall & Marina Café	$3,363
20-0195	Andre-Boudin Bakery & Café	Boudin Bakery & Café	2,503
20-0196	Black Point Coffee SFO, LLC	Black Point Coffee	2,457
20-0205	Paradies Lagardere @ SFO 2018 (F&B), LLC	Bourbon Pub	2,245
20-0182	Midfield Concession Enterprises, Inc.	Roasting Plant	2,190
20-0188	Tastes on the Fly San Francisco, LLC	SF Giants Club House	2,058
20-0203	SSP America, Inc.	The Little Chihuahua	1,913
20-0198	SSP America, Inc.	Sweet Maple	1,879
20-0187	Amoura International, Inc.	Amoura Café	1,830
20-0181	Joe & the Juice New York, LLC	Joe & the Juice	1,766
20-0184	San Francisco Soup Company	Ladle and Leaf	1,754
20-0179	Elevated Tastes SFO Inc.	Tomokazu	1,711
20-0202	Bun Mee, LLC	Bun Mee	1,691
20-0189	HFF-BRH-SFO, LLC	Farmerbrown	1,570
20-0178	Tastes on the Fly SFO International, LLC	Napa Farms, Mustards Bar & Grill, and Samovar Tea	1,488
20-0186	Paradies Lagardere @ SFO, LLC	Limon Rotisserie	1,477
20-0206	Tastes on the Fly San Francisco, LLC	Starbird	1,475
20-0207	Soaring Food Group, LLC	Illy’s Café	1,423
20-0204	Amy’s Kitchen Restaurant Operating Company, LLC	Amy’s Drive Thru	1,375
20-0185	Host International, Inc.	Super Duper Burger	1,372
20-0183	Bayport Concessions, LLC	Koi Palace	1,346
20-0180	SSP America, Inc.	1300 on Fillmore	1,334
Retail Leases			
20-0191	DFS Group, LP	DFS Watches	$1,441
20-0201	Skyline Concessions, Inc.	Skyline News	1,311
20-0193	Stellar Partners, Inc.	The New Stand	1,114
20-0197	Canonica New York, LLC	The Chocolate Market	1,033
20-0190	Stellar Partners, Inc.	The New Stand	989
20-0200	Paradies Lagardere @ SFO 2018, LLC	Mills Cargo	960
20-0199	InMotion Entertainment Group, LLC	iStore	936
20-0192	Canonica New York, LLC	The Chocolate Market	905

Source: Airport

In September 2019, the Airport Commission approved two-year lease extensions for these 30 leases. As noted in Table 2 below, the 30 concession leases have yet reached their original expiration date.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve two-year lease extensions for 30 Airport concession leases, as shown in Table 2 below. The proposed resolutions would not make other amendments to the leases, such as amending the Minimum Annual Guaranteed (MAG)[2] rents.

Table 2: Proposed Concession Lease Extensions

File	Tenant (Business Name)	Expiration Date Original	Expiration Date Proposed	Options to Extend	MAG Rent
20-0178	Napa Farms, Mustards Bar & Grill, and Samovar Tea	6/30/2024; 7/31/2028[3]	6/30/2026; 7/31/2030	Three 1-year options; Two 1-year options	$910,000
20-0179	Tomokazu	5/31/2027	5/31/2029	Two 1-year options	165,000
20-0180	1300 on Fillmore	5/31/2027	5/31/2029	Two 1-year options	279,000
20-0181	Joe & the Juice	12/31/2026	12/31/2028	Two 1-year options	150,000
20-0182	Roasting Plant	8/31/2024	8/31/2026	Three 1-year options	125,000
20-0183	Koi Palace	4/30/2024	4/30/2026	Three 1-year options	155,000
20-0184	Ladle and Leaf	9/30/2024	9/30/2026	Two 1-year options	250,000
20-0185	Super Duper Burger	8/31/2024	8/31/2026	Two 1-year options	250,000
20-0186	Limon Rotisserie	2/29/2024	2/28/2026	Two 1-year options	250,000
20-0187	Amoura Café	3/31/2026	3/31/2028	Two 1-year options	250,000
20-0188	SF Giants Club House	3/31/2025	3/31/2027	Two 1-year options	650,000
20-0189	Farmerbrown	10/31/2025	10/31/2027	Two 1-year options	1,000,000
20-0190	The New Stand	7/31/2025	7/31/2027	Two 1-year options	814,144
20-0191	DFS Watches	1/31/2026	1/31/2028	Two 1-year options	380,000
20-0192	The Chocolate Market	6/30/2025	6/30/2027	Two 1-year options	280,000
20-0193	The New Stand	7/31/2025	7/31/2027	Two 1-year options	1,531,761
20-0194	The Manufactory Food Hall & Marina Café	12/31/2028	12/31/2030	Two 1-year options	495,000
20-0195	Boudin Bakery & Café	9/30/2028	9/30/2030	Two 1-year options	330,000
20-0196	Black Point Coffee	12/31/2026	12/31/2028	Two 1-year options	165,000
20-0197	The Chocolate Market	4/5/2026	4/5/2028	None	225,000
20-0198	Sweet Maple	4/30/2029	4/30/2031	None	250,000
20-0199	iStore	7/31/2029	7/31/2031	None	405,000
20-0200	Mills Cargo	7/31/2026	7/31/2028	None	700,000
20-0201	Skyline News	7/31/2026	7/31/2028	None	220,000
20-0202	Bun Mee	7/31/2029	7/31/2031	One 2-year option	365,000
20-0203	The Little Chihuahua	1/31/2029	1/31/2031	One 2-year option	365,000
20-0204	Amy's Drive Thru	8/8/2029	7/31/2031	One 2-year option	475,000
20-0205	Bourbon Pub	7/31/2029	7/31/2031	None	600,000
20-0206	Starbird	7/31/2029	7/31/2031	One 2-year option	310,000
20-0207	Illy's Café	7/31/2029	7/31/2031	One 2-year option	385,000

[2] Under Airport concession leases, tenants pay the greater of the Minimum Annual Guaranteed (MAG) rent or percentage rent based on gross revenues. The Airport typically sets MAG rents for food and beverage leases at 65 percent of projected percentage rent and MAG rents for retail leases at 75 percent of projected percentage rent.

[3] The lease for Tastes on the Fly SFO International, LLC is comprised of three locations in the International Terminal: Samovar Tea (pre-security), Napa Farms (post-security), and Mustards Bar and Grill (post-security). The lease for Samovar Tea will expire June 30, 2024, with three one-year options to extend, and the leases for Napa Farms and Mustards Bar and Grill will expire July 31, 2028, with two one-year options to extend.

Source: Existing Concession Leases and Proposed Amendments

FISCAL IMPACT

Under Airport concession leases, tenants pay the greater of the MAG rent or percentage rent based on gross revenues. The total combined MAG rent for the 30 leases is $12,279,905 per year, before accounting for inflation escalations allowed under the concession leases.

However, the Airport concession leases contain a provision that suspends the MAG rent when enplanements drop below 80 percent from a reference year[4] for three consecutive months. The MAG is then reinstated when enplanements recover to at least 80 percent of the reference year for two consecutive months. Due to the impact of the COVID-19 pandemic on air travel, MAG rents have been suspended for the foreseeable future.

RECOMMENDATIONS

3. Amend File 20-0203 to correct the term end-date for the lease from July 31, 2031 to January 31, 2031.
4. Approve the proposed resolutions, as amended.

[4] Reference years in Airport concession leases are the year prior to the year when the lease was awarded.