CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

May 9, 2014

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: May 14, 2014 Rescheduled Budget and Finance Committee Meeting

TABLE OF CONTENTS

Items 6 & 7 **Files 14-0409 & 14-0488**	**Department:** Fire Department

EXECUTIVE SUMMARY

Legislative Objective

- File 14-0409: The proposed resolution would approve the award of a contract for procurement for a fire boat to Vigor Fab, Inc. in the amount not-to-exceed $11,637,660.
- File 14-0488: The proposed resolution would authorize SFFD to accept and expend a 75% matching grant in the amount of $7,608,000 from the Federal Emergency Management Agency (FEMA) and the U.S. Department of Homeland Security's Port Security Grant Program to purchase a fire boat. The proposed grant also requires the SFFD to provide matching funds of at least $2,536,093, or 25% of the originally estimated total fire boat cost of $10,144,093.

Key Points

- In 2011, the Federal Emergency Management Agency (FEMA) and the U.S. Department of Homeland Security's Port Security Grant Program awarded the San Francisco Fire Department (SFFD) a grant of $7,870,484 to purchase a fire boat to supplement two existing fire boats. The grant expired before the Fire Department purchased the fire boat due to procurement delays of the new fire boat.
- SFFD currently has two fire boats, the *Phoenix* and the *Guardian*, which are both over 60 years old.

Fiscal Impact

- The total contract amount is $11,637,660.
- To provide sufficient funds to procure the new fire boat, SFFD will re-allocate $1,328,663 in existing funds. The remaining $2,700,997 in funds SFFD proposes to secure in the upcoming FY2014-15 and FY2015-16 budgets.

Recommendations

- Approve the proposed resolution to accept and expend the $7,608,000 FEMA and U.S. Department of Homeland Security Port Security Grant (File 14-0488).
- Approve the proposed contract between the City and Vigor Fab, Inc. to purchase the new fire boat (File 14-0409).
- Amend the proposed resolution (File 14-0409) to require the SFFD to decommission one of the existing two 60-year old fire boats on delivery of the new fire boat in order to reduce annual maintenance costs by an estimated $150,206.

MANDATE STATEMENT

File 14-0409: In accordance with Charter Section 9.118(b), City agreements that having a term of more than ten years or anticipated expenditures of $10,000,000 or more, or amendments to such City agreements with expenditures of more than $500,000 are subject to Board of Supervisors approval.

File 14-0488: City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors' approval.

BACKGROUND

In 2011, the Federal Emergency Management Agency (FEMA) and the U.S. Department of Homeland Security's Port Security Grant Program awarded the San Francisco Fire Department (SFFD) a grant of $7,870,484 to purchase a fire boat to supplement two existing fire boats SFFD currently use. However, the grant expired before the Fire Department purchased the fire boat due to procurement delays of the new fire boat, including delays in the design and a procurement bid protest.

In June 2013, SFFD re-applied to FEMA and the U.S. Department of Homeland Security's Port Security Grant Program for a 75% matching grant in the amount of $7,608,000 to purchase a new fire boat. In August of 2013, the Department of Homeland Security awarded the SFFD the full amount of $7,608,000.

SFFD currently has two fire boats, the *Phoenix* and the *Guardian*, which are both over 60 years old. According to Mr. Mark Corso, SFFD Chief Financial Officer, the SFFD's fire boats are the only 24-hour operationally staffed large fire boats on the Bay, and are an asset to the entire region. The fire boats respond to a variety of incidents, including firefighting, marine firefighting, oil spill response, and search and rescue. In addition, the fire boats are part of both the SFFD's Auxiliary Water Supply and Portable Water Supply Systems, where the fire boat can connect to existing water infrastructure, as well as fire engines, and can be used to draw water from the bay as needed.

Although the SFFD has two fire boats, only one fire boat is staffed and in operation in a 24-hour capacity at any given time. Staffing of the boat consists of one pilot, one engineer, and one officer. A fire boat that is not staffed could be operated in an emergency using SFFD staff on overtime. According to Mr. Corso, the new fire boat will offer improved pumping capacity and overall functionality over the two existing fire boats.

The City's Office of Contract Administration initiated a Request for Proposal (RFP) process to procure the new fire boat and received 2 proposals, from Vigor Fab, Inc. and from Marine Group Boat Works LLC. The evaluation criteria used on the two proposals were: a) Executive

Summary (5 points), b) Project Approach and Construction Plan (15 points), c) Team Qualifications (15 points), d) Experience of Firm and Sub-consultants (30 points), e) Warranty/Technical Support (5 points), and f) Fee Proposal (30 points). As shown in Table 1 below, the Vigor Fab, Inc. proposal in the amount of $11,637,660 was ranked as the highest responsive proposer.

Table 1: RFP Results for Fire Boat Procurement

	Price	Proposal Score	Rank
Vigor Fab, Inc.	$11,637,660	92.25	**1**
Marine Group Boat Works LLC	$10,766,220	82	**2**

DETAILS OF PROPOSED LEGISLATION

File 14-0409

The proposed resolution would approve the award of a contract for procurement for a fire boat to Vigor Fab, Inc. in the amount not-to-exceed $11,637,660. Production of the fire boat is expected to take 15 months with the SFFD anticipating a final delivery by August 2015.

As noted above, the original estimated total cost for a new fire boat was $10,144,093. However, as also noted above, Vigor Fab, Inc., the highest ranking proposer submitted a bid not-to-exceed $11,637,660, or $1,493,567 more than the original estimated cost of $10,144,093 included in the grant application.

File 14-0488

The proposed resolution would authorize SFFD to accept and expend a 75% matching grant in the amount of $7,608,000 from the Federal Emergency Management Agency (FEMA) and the U.S. Department of Homeland Security's Port Security Grant Program to purchase a fire boat. The proposed grant also requires the SFFD to provide matching funds of at least $2,536,093, or 25% of the originally estimated total fire boat cost of $10,144,093.

FISCAL IMPACT

The funding sources for the purchase of one fire boat in the amount of $11,637,660 are shown in Table 2 below.

Table 2: Source of Funds for Purchase of Fire Boat for SFFD

FEMA with U.S. Department of Homeland Security Port Security Grant Program	$7,608,000	65.4%
City Matching Funds	$4,029,660	34.6%
Total	**$11,637,660**	**100.0%**

In order for the City to provide the required $4,029,660 to procure the new fire boat, SFFD will re-allocate the following $1,328,663 in existing funds, displayed in Table 3 below:

- $345,000 in the Urban Areas Security Initiative (UASI) funds, provided to the City to support regional collaboration for security systems for prevention, protection, response, and recovery. The UASI board is scheduled to vote on re-allocation of these funds on May 8th, 2014. According to Mr. Corso, in the event that the UASI does not approve re-allocation, the Mayor's Office has agreed to allocate General Fund dollars to cover this amount of $345,000 in SFFD's FY14-15 budget proposal.
- $983,663 in General Fund monies previously appropriated by the Board of Supervisors in SFFD's FY 2014-15 budget to fund two fire engines. Mr. Corso advises SFFD has decided to prioritize the acquisition of a new fire boat over the fire engines.

As shown in Table 3 below, in order to fully pay for the new fire boat, SFFD additionally anticipates the following funding in the amount totaling $2,700,997 which has not yet been finally secured:

- $1,537,231 in General Fund monies to be proposed by the Mayor in SFFD's FY 2014-15 budget, subject to the Board of Supervisors appropriations approval.
- $1,163,766 in not-yet-identified grants or donations to be obtained by SFFD in FY 2015-16. According to Mr. Corso, the Mayor's Office has pledged to fund this balance of $1,163,766 in SFFD's FY 2015-16 budget, subject to the Board of Supervisors appropriation approval, if SFFD is unable to secure donations or grant funds in that amount. Because the contract to purchase the fire boat will be paid off through 11 installments, the total contract amount of $11,637,660 will not be completely due until FY 2015-16.

Table 3: Source of City Funds for Purchase of Fire Boat for SFFD

Available Funds	
Reallocation of Existing Federal Grant:	
U.S. Department of Homeland Security Urban Areas Security Initiative Funds	$345,000
City Funds:	
Reallocation of equipment funds previously appropriated in SFFD's FY 2014-15 budget	983,663
Total Available Funds	$1,328,663
Future Funds	
City Funds:	
Mayor's FY 2014-15 pending budget submission to the Board of Supervisors	$1,537,231
Other grant/donation funds not yet identified or appropriations in SFFD's FY 2015-16 budget	1,163,766
Total Future Funds	$2,700,997
Sum Total	**$4,029,660**

Operating Expenditures

According to Mr. Corso, SFFD will not require additional operating expenditures beyond its current operating expenditures to operate the new fire boat. SFFD will continue to operate only one fire boat and will keep the other two boats in reserve. According to Mr. Corso, SFFD will have unquantified savings to maintain and operate the new fire boat as compared to operating and maintaining the existing two fire boats, which have estimated annual maintenance costs of $300,412, or an estimated $150,206 per fire boat. Operating and maintaining the fire boats is funded by the Port from Port operating funds.

According to Mr. Corso, over the next two years the Fire Chief, Executive Director of the Port, and the Mayor's Office will evaluate the need to either continue to keep all three fire boats or to reduce the size of the three fire boats.

POLICY CONSIDERATION

According to Mr. Corso, SFFD is requesting approval of the proposed $7,608,000 in FEMA with U.S. Department of Homeland Security Port Security Grant Program funds and the associated contract to procure the new fire boat, even though the Department has not yet finally secured all of the funding needed to procure the new fire boat because (1) the Department requires a replacement for one of the two 60-year old fire boats, (2) the new fire boat will have increased pumping capacity and functionality compared to the existing two fire boats, and will have lower annual maintenance costs, and (3) the grant will pay for 65.4 percent of the fire boat's procurement costs.

If the Board of Supervisors approves acceptance and expenditure of the $7,608,000 in Federal grant funds, SFFD will need to secure a total of $2,700,997 (see Table 3 above) in additional funds to pay for the fire boat. This could result in a request for the Board of Supervisors to appropriate $1,537,231 in General Fund monies in SFFD's FY 2014-15 budget. Further, if the SFFD does not identify grant funds or donations of the balance of $1,163,766 to pay for the fire boat, this could result in a request for the Board of Supervisors to appropriate an additional $1,163,766 in General Fund monies in SFFD's FY 2015-16 budget.

If the Board of Supervisors does not approve the acceptance and expenditure of $7,608,000 in Federal grant funds, SFFD would lose the $7,608,000 in such Federal grant funds and could potentially incur the full cost of $11,637,660 to procure a new fire boat if the two existing 60-year-old fire boats are no longer operational.

If the Board of Supervisors approves acceptance and expenditure of the $7,608,000 FEMA and U.S. Department of Homeland Security Port Security Grant Program funds and approve the proposed contract between the City and Vigor Fab, Inc., the Budget and Legislative Analyst recommends amending the proposed resolution (File 14-0488) to request that the SFFD to decommission one of the two existing 60-year old fire boats upon delivery of the new fire boat in order to reduce annual maintenance costs by an estimated $150,206.

RECOMMENDATIONS

1. Amend the proposed resolution (File 14-0488) to request the SFFD to decommission one of the two existing 60-year old fire boats upon delivery of the new fire boat in order to reduce annual maintenance costs by an estimated $150,206.
2. Approve the proposed resolution to accept and expend the $7,608,000 FEMA and U.S. Department of Homeland Security Port Security's Grant, as amended (File 14-0488).
3. Approve the proposed contract between the City and Vigor Fab, Inc. to purchase the new fire boat in the not-to-exceed amount $11,637,660 (File 14-0409).

Item 9 **File 14-0225** *(Continued from April 30, 2014 Sub-Comm. Meeting)*	**Department:** San Francisco Municipal Transportation Authority (SFMTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the SFMTA to enter into an agreement with Titan Outdoor LLC (Titan) to provide advertising on SFMTA vehicles and other property for a term of five years. SFMTA would also have two five-year options to extend the contract.

Key Points

- In 2009, the City entered into an agreement with Titan to provide advertising on SFMTA vehicles and other property for a five-year term, which expires on June 30, 2014. SFMTA issued an RFP on October 16, 2013 to solicit a new advertising contract, and SFMTA received three proposals, two of which met the minimum qualifications. After undergoing review, Titan's proposal received a score of 383, and CBS Outdoor's proposal received a score of 334.1, out of 400; and SFMTA awarded the advertising agreement to Titan.
- The proposed agreement differs from the previous agreement in that it would allow full window wraps on 15-30 buses, whereas only 15 window wraps on buses are currently permitted.
- The proposed agreement also allows for advertising to be negotiated in the Central Subway upon its completion. Any modification to the agreement that includes an increase in the Minimum Annual Guarantee (MAG) is subject to Board of Supervisors approval in accordance with Charter Section 9.118(a).

Fiscal Impact

- Under the proposed agreement, Titan will pay SFMTA the greater of (a) 65% of its gross advertising revenues; or (b) a MAG of $5,400,000 in the first year of the agreement, increasing annually by $150,000 per year. Titan will also pay the SFMTA an annual administrative fee of $150,000 and annual marketing support of $150,000, payments which will escalate annually according to the Consumer Price Index of the Bay Area. resulting in minimum first year revenue of $5,700,000.
- The minimum revenue to the SFMTA over the initial five-year term of the agreement is $30,000,000, including the MAG, and administrative and marketing fees.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

City Charter Section 9.118(a) states that agreements entered into by a department, board or commission that will generate revenue in excess of $1 million, or any modification of that agreement, is subject to Board of Supervisors approval.

Background

In 2009, based on a competitive Request for Proposals (RFP), the Board of Supervisors approved an agreement between the San Francisco Municipal Transportation Agency (SFMTA) and Titan Outdoor LLC (Titan) for advertising on SFMTA vehicles and other SFMTA property for a term of five years from July 1, 2009 through June 30, 2014 (File 09-0633). On October 16, 2013, the SFMTA Board of Directors authorized the issuance of a competitive RFP for a new agreement for these services that would commence on July 1, 2014, following the termination of the existing agreement on June 30, 2014.

The SFMTA received three proposals, two of which were responsive to the minimum qualifications set forth in the RFP. The qualifications included a minimum of three years of advertising experience in the transit advertising business, a corporate net worth of $25,000,000 for the last three years, and a demonstration of financial stability. Other criteria pertained to experience, quality of the proposals and amount to be paid to the SFMTA. The SFMTA conducted an evaluation of Titan and CBS Outdoor, the proposers that submitted the responsive proposals. Titan received the highest score, as shown in Table 1 below.

Table 1: Name of Advertising Business and Total Score Received

Name of Advertising Business	Score (Out of 400)
Titan Outdoor LLC (Titan)	383
CBS Outdoor	334.1

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize SFMTA to execute a new transit advertising agreement with Titan for an initial five-year term, from July 1, 2014, through June 30, 2019. Titan would be required to pay SFMTA a Minimum Annual Guarantee (MAG) of $5,400,000 for the first year. The MAG would increase by the Consumer Price Index (CPI) in each subsequent year. The agreement includes two five-year options to extend, for a total term up to 15 years. Table 2 below shows a comparison of the provisions under the proposed and current agreements with Titan.

Table 2: Summary of Differences between Current Agreement and Proposed Agreement

Requirement	Current Agreement	Proposed Agreement
Initial Contract Term	Five years July 1, 2009 through June 30, 2014	Five years July 1, 2014 through June 30, 2019
Options to Extend	None	Two 5-year options through June 30, 2029, for a total contract term of up to 15 years
Minimum Annual Guarantee (MAG) Annual Increase in MAG Administrative Fee Marketing Fee	$4,000,000 for first year 5% per year None None	$5,400,000 for first year $150,000 per year (2.8% in the first year) $150,000 per year, adjusted annually by the Consumer Price Index (CPI) $150,000 per year, adjusted annually by the CPI
Revenue (Percentage of gross advertising revenue if greater than the MAG)	65% of gross advertising revenues	65% of gross advertising revenues
Window Wraps	15 at any one time	15-30 at discretion of the Director of Transportation
Central Subway advertising program	None	To be negotiated, including the revenues payable to the SFMTA, before the opening of Central Subway as an amendment to the agreement, subject to approval by the Board of Supervisors
Corporate Sponsorships/ Naming Rights	If exercised, would be a contract amendment	None
Letter of Credit	100% of MAG	75% of MAG
Security Fund	$250,000	$150,000
Hire Trainees	None	Minimum of two trainees

Advertising Provisions in the Proposed Agreement between SFMTA and Titan

The proposed agreement differs in several ways from the current agreement. Key activities, requirements and changes are highlighted below.

Window Wraps and Non-Window Coverings

Under the current agreement, SFMTA allows full wraps of vehicles with windows covered ("window wraps") on not more than 15 vehicles at any one time. The proposed agreement allows window wraps on at least 15 vehicles to not more than 30. The number of window wraps for the first fiscal year of the proposed agreement will be 30. The calculated MAG assumes the continuation of a minimum of 15 window wraps. If the Board of Supervisors does not approve a program of at least 15 window wraps, then the MAG will be decreased by $325,000 for each fiscal year of the agreement.

The SFMTA also intends to continue a program of non-window coverings, which cover the body of the vehicles but not windows. The total number of window wraps and non-window coverings together will not exceed 20% of the SFMTA's transit vehicles at any one time. Cable cars and historic vehicles will not receive any window wraps or non-window coverings. The number of window wraps and the approval of the window wraps program do not affect the number of advertisements on transit vehicles that can partially cover windows, which are not limited.

The SFMTA reports that the quality of the material for window wraps has improved throughout the term of the existing contract and that visibility has improved. The SFMTA has provided a video which illustrates this point.[1] In addition, Titan is responsible for maintaining all of the advertisements, including cleaning off all graffiti and/or replacing the defaced advertisements and addressing all vandalism. In the case of the window wraps, this means that Titan is responsible for the maintenance of the entire outside of the wrapped vehicle.

Central Subway

The proposed agreement includes a provision that enables the SFMTA to include an advertising program in the new Central Subway stations and tunnel after their completion. If exercised, the SFMTA and Titan will negotiate the increased amounts to the MAG payable by Titan to the SFMTA over the remaining term of the agreement. Any modification to the proposed agreement regarding the Central Subway would be subject to Board of Supervisors approval in accordance with Charter Section 9.118(a).

[1] The video can be found here: http://www.youtube.com/watch?v=y5YAVl2HyE8

SFMTA Property; Other Property; Limitations on Advertising Displays

The following SFMTA property is available for advertising under the agreement: transit vehicles, parking garages (including those under the jurisdiction of the Recreation and Park Department), transit stations, other SFMTA facilities, and fare and parking media. Only interior advertisements are allowed on historic streetcars, and all advertisements on cable cars and historic vehicles must be in conformity with the character, style, and design of such vehicles. Titan may place digital advertising on up to 20 percent of the SFMTA's transit vehicles at any one time, excluding cable cars and historic streetcars. The SFMTA will be able to override digital advertising with emergency signage.

Performance Requirements and Security Deposits

Titan will provide a letter of credit for 75% of the MAG each fiscal year for the duration of the agreement. The SFMTA may draw on the letter of credit in the event that a) Titan fails to pay the SFMTA the annual required revenues due to the SFMTA under the proposed agreement, b) there is a failure to replenish the Security Fund, or c) termination of the agreement due to a default by Titan. Titan will also provide a Security Fund in the amount of $150,000 to guarantee the performance of obligations not covered under the letter of credit. Titan has provided the SFMTA with a bid security check for $1,000,000 to secure its proposal. If Titan fails to execute the agreement and furnish the required letter of credit and insurance certificates, then the SFMTA will keep the $1,000,000 as compensation for damages sustained by the SFMTA. The SFMTA would return the bid security check to Titan upon final approval of the agreement.

Termination

The SFMTA may terminate the agreement for default or convenience. The SFMTA may also partially terminate advertising rights with respect to any category of advertising space, other than transit vehicles, that Titan does not sell over a period of 60 days unless Titan demonstrates to the SFMTA that it intends to sell advertising on that space even though it has been unable to previously do so.

FISCAL IMPACT

Under the proposed agreement, Titan is required to pay the SFMTA the greater of (a) 65% of its gross advertising revenues or (b) the MAG. The MAG for the first year of the agreement is $5,400,000, which is $537,975, or 11 percent, more than the MAG for the final year of the existing agreement, $4,862,025. The MAG is subject to annual CPI adjustments over the remaining term of the agreement. Titan is also required to pay the SFMTA an annual administrative fee of $150,000 and an annual marketing fee of $150,000, payments which will escalate annually according to the CPI of the Bay Area.

As shown in Table 3 below, the total MAG payable by Titan to SFMTA over the initial five-year term of the agreement is $28,500,000, and the total minimum revenues payable to SFMTA by Titan over the entire five-year period is $30,000,000.

Table 3: Minimum Annual Guarantee and Fees
Payable by Titan to SFTMA during Initial 5-Year Term

Fiscal Year	MAG	Administrative Fee[1]	Marketing Fee[1]	Total
2014-15	$5,400,000	$150,000	$150,000	$5,700,000
2015-16	5,550,000	150,000	150,000	5,850,000
2016-17	5,700,000	150,000	150,000	6,000,000
2017-18	5,850,000	150,000	150,000	6,150,000
2019-20	6,000,000	150,000	150,000	6,300,000
TOTAL	**$28,500,000**	**$750,000**	**$750,000**	**$30,000,000**

[1] Does not include annual CPI adjustments.

According to Ms. Gail Stein, SFMTA Finance Manager, the SFMTA will receive a $150,000 increase annually in the MAG under the proposed agreement which differs from the existing agreement in which SFMTA received 5% annual increases in the MAG. The SFMTA accepted this change for two reasons: (1) As previously noted, the initial MAG of $5,400,000 in the new agreement is $537,975 more, or 11 percent, than the final year, 2013-2014 MAG in the existing agreement; and (2) the proposed new agreement includes an additional $300,000 per year in fees escalated by Bay Area CPI to cover SFMTA administrative costs ($150,000) and marketing costs ($150,000) which were not received under the existing contract. Therefore, the SFMTA believes that the provisions under the proposed new agreement structure will result in more certainty and additional revenues to the SFMTA than the existing agreement.

Under the existing 5-year agreement between SFMTA and Titan, the revenues paid by Titan to the SFMTA exceeded the MAG in every year as shown in Table 4 below.

Table 4: Payments by Titan to SFMTA
FY 2009-10 through FY 2013-14

Fiscal Year	MAG	65% of Gross Revenues
2009-2010	$4,000,000	$4,219,066
2010-2011	$4,200,000	$5,112,527
2011-2012	$4,410,000	$4,758,319
2012-2013	$4,630,500	$5,799,660
2013-2014 (through February 2014)*	$4,862,025	$3,806,298

*The SFMTA estimates that the percentage of gross revenues payable by Titan to the SFMTA will exceed the MAG for Fiscal Year 2013-2014 by at least $500,000.

RECOMMENDATION

Approve the proposed resolution.

Item 11 **File 14-0423** *(Continued from April 30, 2014)*	**Department:** Office of Community Investment and Infrastructure (OCII)

EXECUTIVE SUMMARY

Legislative Objectives

- File 14-0423 is a resolution consenting to the transfer of Blocks 33 and 34 in the Mission Bay South Plan Area to the Regents of the University of California, as a tax exempt entity, for the future development of 500,000 gross square feet in the Mission Bay South Redevelopment Project Area; and making environmental findings under the California Environmental Quality Act (CEQA).

Key Points

- Mission Bay consists of 303 acres between San Francisco Bay and Interstate 280, and is divided into two redevelopment project areas: North Plan Area and South Plan Area. The University of California originally acquired parcels in Mission Bay to develop the University of California San Francisco (UCSF) Campus Site. The University is now proposing to acquire two additional parcels in the South Plan Area, Blocks 33 and 34, to develop office buildings and parking.
- Under the South Plan Area Owner Participation Agreement (South OPA) between the Office of Community Investment and Infrastructure (OCII), which is the Successor Agency to the former Redevelopment Agency, and FOCIL-MB, LLC (FOCIL), the South Plan Area master developer, tax-exempt entities acquiring parcels in the South Plan Area must make payments in lieu of taxes (PILOT) to OCII in the amount of property tax increment that the parcels would otherwise generate. Under the California Constitution, the University of California is not required to pay property taxes, but would be required to make the PILOT under the third-party contractual agreement (the South OPA) between OCII and FOCIL.
- Under the proposed resolution, the University of California would make two one-time payments totaling $32,100,000 rather than make the PILOT required by the South OPA: $21,900,000 to FOCIL to pay a share of the costs of public infrastructure, and $10,200,000 to OCII to pay a share of costs for affordable housing.
- OCII and the Mayor’s Office of Economic and Workforce Development are recommending that the University of California be released from the requirement to pay a PILOT for Blocks 33 and 34, but instead make one-time payments for affordable housing and public infrastructure, because of the public benefits that would be generated by UCSF development on Blocks 33 and 34.

Fiscal Impact

- According to an analysis prepared by ALH Urban and Regional Economics, the net present value of the incremental property taxes is $39,778,228, which is $7,678,228 more than the one-time payments to be made by the University of California of $32,100,000
- As a property tax exempt entity, UCSF does not pay property taxes on leased or owned property. Therefore, for leased space UCSF receives a property tax exemption, which effectively reduces the property taxes paid for the associated buildings. Based on the analysis provided by ALH Economics, the relocation of UCSF to Mission Bay will generate additional property tax revenues with an estimated net present value of $16,203,704, which $8,525,476 more than the net loss to OCII of $7,678,228 under the proposed resolution, as noted above. Therefore, the Budget and Legislative Analyst recommends approval of the proposed resolution.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

The Mission Bay South Owner Participation Agreement Section 14.7, between the Office of Community Investment and Infrastructure (the Successor Agency to the former San Francisco Redevelopment Agency) and FOCIL-MB, LLC (the Mission Bay South Redevelopment Project Area master developer) requires the consent of the Board of Supervisors to transfer property to a tax exempt entity if a payment in lieu of taxes will not be required.

Background

Mission Bay South Plan Area

Mission Bay consists of 303 acres of land on the east side of the City between the San Francisco Bay and Interstate 280. Development consists of new housing units, commercial space and retail space, the University of California San Francisco (UCSF) research campus and medical center, open space and public facilities, and other development.

Mission Bay is divided into two redevelopment project areas: the Mission Bay North Redevelopment Project Area (North Plan Area) and the Mission Bay South Redevelopment Project Area (South Plan Area).

The Mission Bay South Redevelopment Plan (South Plan) describes the development in the South Plan Area, which contains a mix of primarily residential, retail and commercial/industrial uses, as well as the UCSF research campus and medical center. Development of the South Plan Area is governed by the South Plan, the Mission Bay South Owner Participation Agreement (South OPA) between the Office of Community Investment and Infrastructure (OCII) and the master developer for the Mission Bay South Redevelopment Project Area, FOCIL-MB, LLC (FOCIL), as well as other related documents.

The South OPA requires FOCIL to construct the public infrastructure, consisting of right-of-way, utilities and other infrastructure directly related to each of the major phases of development under the South Plan. Under the South OPA, and the related Mission Bay South Tax Increment Allocation Pledge Agreement between the former San Francisco Redevelopment Agency and the City (Pledge Agreement), OCII is obligated to reimburse FOCIL for the direct and indirect costs of constructing the public infrastructure using property tax increment generated within the South Plan Area.

The Pledge Agreement also dedicates approximately 20 percent of the total property tax increment generated by development in Mission Bay to implement the affordable housing program contemplated by the South Plan. OCII will ultimately construct 1,108 affordable units in the South Plan Area on land donated to OCII by FOCIL. The units will target low income families, formerly homeless families and individuals, and seniors.

Under Redevelopment Dissolution Law, amendments to enforceable obligations, such as the South OPA, must include findings that the amendment creates a benefit to the affected taxing entities. In addition, under Redevelopment Dissolution Law, OCII is required to allocate funds that it receives to the fulfillment of its enforceable obligations, which in Mission Bay South includes public infrastructure and affordable housing.

DETAILS OF PROPOSED LEGISLATION

File 14-0423 is a resolution consenting to the transfer of Blocks 33 and 34 in the Mission Bay South Plan Area to the Regents of the University of California, as a tax exempt entity, for the future development of 500,000 gross square feet in the Mission Bay South Redevelopment Project Area; and making environmental findings under the California Environmental Quality Act (CEQA).

Transfer of Blocks 33 and 34 to the University of California

Under the proposed resolution, the Board of Supervisors would conditionally consent (as discussed below) to the transfer of Blocks 33 and 34 in the South Plan Area to the University of California. The University of California currently owns parcels in the South Plan Area, shown in the attached map (Exhibit A), that house the UCSF education and research facilities and medical center. Under the proposed resolution, two additional parcels - Blocks 33 and 34 shown in Exhibit A - would be transferred from the current property owner, Bay Jacaranda No. 3334 LLC (Bay Jacaranda), an affiliate of Salesforce.com, Inc., to the University of California for the expansion of UCSF's facilities.

Under the California Constitution, the University of California is exempt from local land use and redevelopment regulations and from local property taxes where the University uses its property for furtherance of its educational mission. However, the University of California is subject to third party contractual obligations, such as the South OPA between OCII and FOCIL.

Requirements of South OPA Section 14.7

Section 14.7 of the South OPA states that prior to the transfer of property in the South Plan Area to a tax-exempt entity, such as the University of California, the tax exempt entity or the party transferring the property to the tax exempt entity (in this case, Bay Jacaranda), is required to take one of the following actions:

- Enter into an agreement for payment in lieu of taxes (PILOT) equal to the full amount of the property taxes that would have been assessed against the property notwithstanding such ownership by a tax exempt entity; or
- Obtain the written consent of OCII and the City.

The OCII Commission will consider a Memorandum of Understanding (MOU) with the University of California at the April 29, 2014 meeting. Under the proposed MOU, OCII would release the University of California from certain obligations of the South Redevelopment Plan, the South OPA, and the PILOT Agreement, including release from paying the PILOT, if the University of California makes one-time payments totaling $32,100,000 as follows:

- A one-time payment of $21,900,000 by the University of California to FOCIL, the master developer, to be used by FOCIL to pay for a share of the costs of public infrastructure in the South Plan Area; and

- A one-time payment of $10,200,000 by the University of California to OCII for the development of affordable housing in the South Plan Area

The University would pay special taxes authorized by Community Facilities District No. 5 to fund park and open space maintenance and by Community Facilities District No. 6 to fund infrastructure costs in the South Plan Area. [1]

OCII and FOCIL would enter into a Fifth Amendment to the South OPA that would (1) consent to the transfer of Blocks 33 and 34 by Bay Jacaranda to the University of California, subject to the requirements of the MOU, and (2) release Bay Jacaranda from certain obligations under the South OPA pertaining to Blocks 33 and 34, conditioned on the one-time payments by the University of California for affordable housing and public infrastructure.

Under the proposed resolution, the Board of Supervisors would conditionally consent, under Section 14.7 of the South OPA, to the transfer of Blocks 33 and 34 from Jacaranda to the Regents of the University of California. The University of California would not be required to make a payment in lieu of taxes to OCII on the condition that the University makes a one-time payment of $32.1 million for affordable housing and public infrastructure, subject to approval of the Fifth Amendment to the South OPA by DOF and in accordance with the terms of the MOU, Fifth Amendment to the South OPA, and Release Agreement.

Final Subsequent Environmental Impact Report

The Board of Supervisors approved the CEQA findings for the Mission Bay South Redevelopment Plans in October 1998 (File 98-1427). According to Ms. Catherine Reilly, OCII Project Manager, OCII has determined that the MOU, Fifth Amendment, and Release Agreement are within the scope of the Mission Bay South Redevelopment Plan analyzed in the 1998 Final Subsequent Environmental Impact Report.

FISCAL IMPACT

Under the proposed MOU, Fifth Amendment, and Release Agreement, the University of California would not make a payment in lieu of taxes to OCII, but rather would make two one-time payments, totaling $32,100,000 as follows:

- $10,200,000 to OCII for affordable housing; and
- $21,900,000 to FOCIL for public infrastructure.

OCII hired ALH Urban and Regional Economics (ALH Economics) to compare the benefit of the $32,100,000 one-time payments to ongoing payments in lieu of taxes to OCII over 30 years to 2043, which is the last date that OCII can collect tax increment to pay for affordable housing and infrastructure bonds.

[1] The State Legislature adopted the Community Facilities Act in 1982 (also known as Mello Roos), enabling local governments to establish community assessment districts, in which property owners in the district are assessed additional funds to pay for public infrastructure and facilities.

The preliminary development program for Blocks 33 and 34, proposed by UCSF and analyzed by ALH Economics, consists of two phases. Phase I is the development of an office building to be completed in approximately 2017, and a parking garage to be completed in approximately 2021. Phase II is the development of an additional office building consisting of medical and other offices to be completed in approximately 2022. ALH Economics estimated that the incremental increase in assessed property value from Phase I and Phase II development is $336.4 million.

According to ALH Economics, the net present value of the incremental property taxes is $39,778,228, which is $7,678,228 more than the one-time payments to be made by the University of California of $32,100,000, as shown in Table 1 below.

Table 1: Net Present Value of Payment in Lieu of Taxes

Estimated PILOT over 30 Years (Net Present Value)	$39,778,228
Affordable Housing One-Time Payment	10,200,000
Infrastructure One-Time Payment	21,900,000
Total One Time Payments	32,100,000
Difference	$7,678,228

Source: ALH Economics

According to Ms. Catherine Reilly, OCII Project Manager, Section 14.7 of the South OPA only requires a PILOT during the life of the South OPA, which ends in 2043. Ms. Reilly states that the intent was to have the tax exempt entity make the payment in lieu of taxes to OCII during the life of the South Plan so that OCII could finance the public infrastructure and affordable housing.

Community Facilities Districts

Under the proposed resolution, the University of California would pay assessments to Community Facilities Districts No. 5 and No. 6, as noted above. The amount of the assessment would be based on the obligations of the community facility district, which generally would be the debt service on the special tax bonds issued by the community facility district, and the apportionment of the obligations among the property parcels contained in the community development district.

Development Impact Fees/ Transfer Taxes

The University of California is exempt from payment of development impact fees and transfer taxes under the California Constitution.

POLICY CONSIDERATION

As noted above, under the California Constitution, the University of California is exempt from local land use and redevelopment regulations and from local property taxes where the University uses its property for furtherance of its educational mission. However, the South OPA requires tax-exempt entities such as the University of California to enter into an agreement for payment in lieu of taxes (PILOT) equal to the full amount of the property tax increment that otherwise would have been assessed.

The University of California's Long Range Development Plan calls for a UCSF campus to be located in Mission Bay that includes UCSF medical facilities and housing for staff and students. The City and County of San Francisco, along with Catellus Development Corporation, which was the master developer for Mission Bay North and South at the time the South Plan was adopted, conveyed 43 acres to the University of California for the UCSF campus, which consists of UCSF educational and medical facilities and housing for students and staff. The UCSF Campus Site is not covered by either the Mission Bay North or the Mission Bay South Owner Participation Agreements, and therefore the University of California is not required to pay a PILOT for this property.

In addition to the UCSF Campus Site, the University of California acquired Blocks 36 through 39 and X3 in the South Plan Area for expansion of UCSF medical facilities. These parcels are not subject to the PILOT Agreement under the Mission Bay South OPA. However, while not subject to a PILOT or Section 14.7 of the South OPA, UCSF entered into agreements with the former San Francisco Redevelopment Agency and the master developer to address the loss of property tax increment for both affordable housing and public infrastructure related to Blocks 36 through 29 and X3.

According to Ms. Reilly, OCII and the Mayor's Office of Economic and Workforce Development are recommending that the University of California be released from the requirement to pay a PILOT for Blocks 33 and 34, but instead make one-time payments for affordable housing and public infrastructure, because of the public benefits that would be generated by UCSF development on Blocks 33 and 34. These benefits include: (1) generation of jobs by UCSF, which is one of San Francisco's largest employers; (2) UCSF's role as a catalyst for the developing biotechnology industry; (3) education and health services provided by UCSF; (4) UCSF's investments in the Campus Site and Blocks 36 through 39 and X3; and (5) facilitating the completion of the affordable housing and infrastructure programs of the South OPA.

According to an analysis prepared by ALH Economics based on information provided by UCSF, transfer of UCSF facilities from existing leased space to the proposed space at Blocks 33 and 34 could result in increased property tax payments from the existing leased space with a net present value of $16.2 million

Subsequent to the April 30, 2014 Budget and Finance Committee meeting, OCII engaged ALH Economics to review UCSF's analysis of property tax revenues that would accrue to the City from leased space formerly occupied by UCSF. According to ALH Economics, as a property tax exempt entity, UCSF does not pay property taxes on leased or owned property. Therefore, for leased space UCSF receives a property tax exemption, which effectively reduces the property taxes paid for the associated buildings.

ALH Economics concurred with the UCSF analysis that vacation of the existing leases by UCSF would result in increased property tax revenues when the subject space is leased to new tenants. The Budget and Legislative Analyst prepared the following table based on the ALH Economics analysis.

Table 2: Net Present Value of Property Taxes Generated by Leased Space Currently Occupied by UCSF

Property	Lease Expiration	Square Feet	Net Present Value Property Taxes 2015 to 2035
Office Space			
China Basin Radiology and Imaging Center	2018	75,644	$5,256,162
220 Montgomery Street	2018	38,678	858,233
250 Executive Park	2018	42,438	781,534
Subtotal, 2018 Expiration		156,760	6,895,928
185 Berry Street	2022	43,076	2,626,251
1500 Owens Street	2022	43,028	1,441,707
Subtotal, 2022 Expiration		86,104	4,067,958
Subtotal, Office Space		242,864	$10,963,886
Clinical Space			
185 Berry Street	2022	55,120	$3,360,586
1500 Owens Street	2022	56,086	1,879,231
Subtotal, Clinical Space		111,206	$5,239,817
Total Office and Clinical		**354,070**	**$16,203,704**

Source: Budget and Legislative Analyst, based on ALH Economics analysis

According to ALH Economics, the net present value calculation of the property taxes generated by the subject leased space would be less if the space were leased to nonprofit tenants after UCSF vacated the space or the property values declined.

According to Ms. Maher, based on representations by UCSF, the development of the UCSF Campus Site and associated space at Mission Bay has sufficient square footage to allow relocation of UCSF from the existing leased space to the new space at Mission Bay.

According to ALH Economics, of the estimated property tax revenues with net present value of $16.2 million, $6.6 million would accrue to the City's General Fund and the balance would accrue to other City funds, regional taxing entities, and tax increment to OCII, as shown in Table 3 below.

Table 3: Distribution of Property Tax Revenues Generated by Leased Space Currently Occupied by UCSF

Distribution	Property Tax
City Revenues	
General Fund	$6,598,709
Children's Fund	349,828
Library Preservation Fund	291,523
Open Space Preservation Fund	291,523
County Office of Education	11,351
General Obligation Bonds Debt Service	1,629,639
Subtotal, City Revenues	$9,172,574
Other Taxing Entities	
Educational Revenue Augmentation Fund	$2,953,726
San Francisco Community College District	415,759
San Francisco Unified School District	1,482,720
Bay Area Air Quality Management District	24,317
Bay Area Tax Increment	176,055
Subtotal, Other Taxing Entities	$5,052,576
OCII [a]	
Affordable Housing	$527,614
Infrastructure	1,450,939
Subtotal, OCII	$1,978,553
Total	**$16,203,704**

Source: Budget and Legislative Analyst, based on ALH Economics analysis

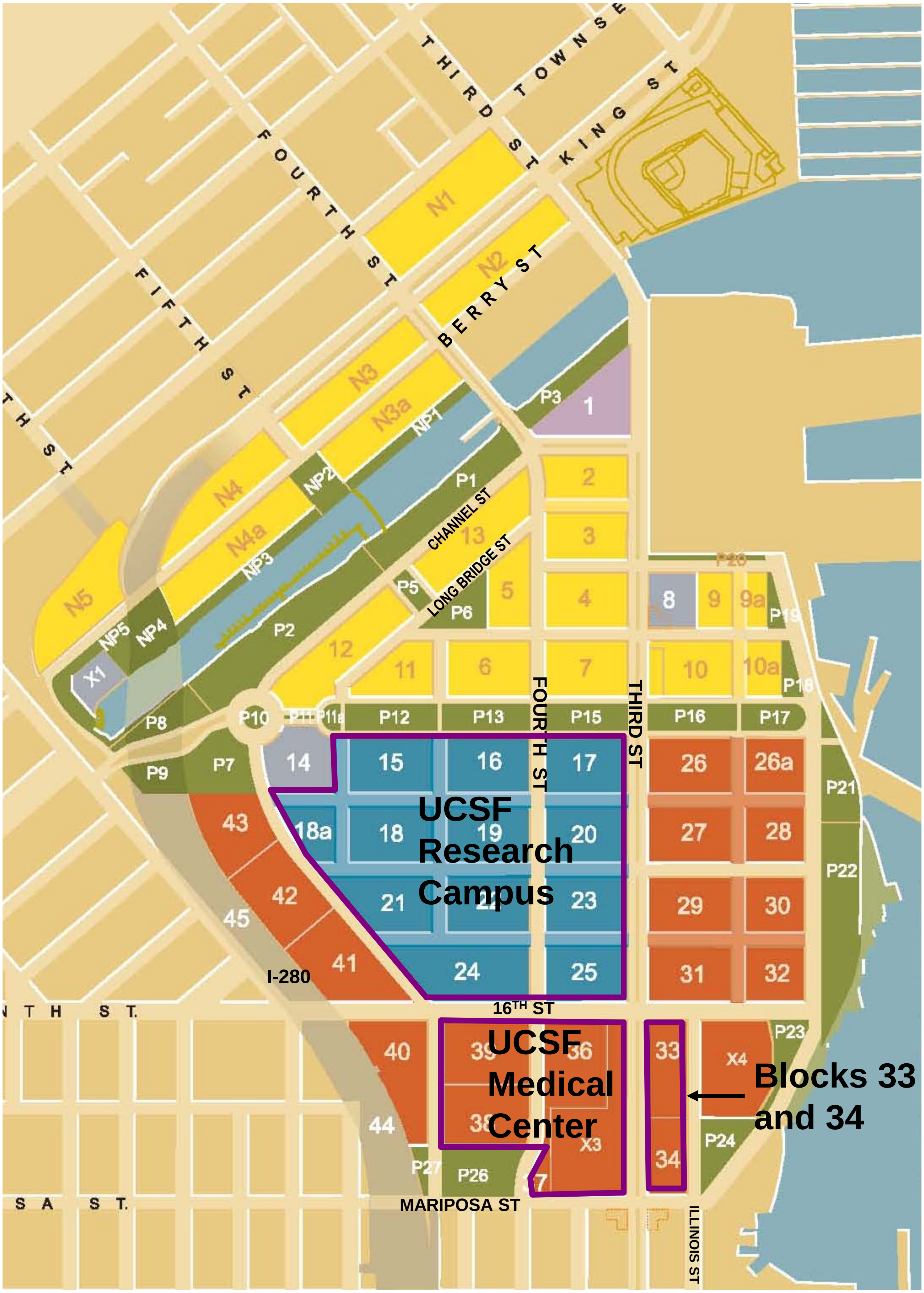
[2] 1500 Owens Street, currently occupied by UCSF, is located in Mission Bay South, and therefore generates property tax increment that accrues to OCII as the former San Francisco Redevelopment Agency.

Based on the analysis provided by ALH Economics, the relocation of UCSF to Mission Bay will generate additional property tax revenues with an estimated net present value of $16,203,704, which $8,525,476 more to the taxing entities than the net loss to OCII of $7,678,228 under the proposed resolution, as noted above. Therefore, the Budget and Legislative Analyst recommends approval of the proposed resolution.

RECOMMENDATION

Approve the proposed resolution.

Exhibit A



Mission Bay South Location Map