

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

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

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Item 2
File 12-1185

Departments:
San Francisco Municipal Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objective

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

Key Points

- The San Francisco Municipal Transportation Agency (SFMTA) has an existing month-to-month lease with the Uptown Parking Corporation for the Sutter Stockton Garage. SFMTA proposes to terminate the existing lease and enter into a new lease in order to (a) incorporate provisions of the July 2012 SFMTA Parking Revenue Bonds, (b) standardize provisions of SFMTA's leases with parking garage corporations (Uptown Parking Corporation – Sutter Stockton Garage and Union Square Garage and Japan Center Garage Corporation – Japan Center Garage, File 12-1184), and (c) improve operational requirements.

Fiscal Impact

- The FY 2013-14 Sutter Stockton Garage budget includes expenditures of \$5,073,705 and revenues of \$12,416,000, resulting in estimated net revenues to SFMTA of \$7,342,295. The proposed lease contains the following changes as compared to the existing lease: (a) annual expenditures of \$22,060 for the Sutter Stockton Garage share of debt service on \$5,000,000 of the \$43,050,000 SFMTA Parking Revenue Bonds, which are allocated to the capital assessment of SFMTA public parking facilities; (b) discontinuation of the annual set aside of 15 percent of net income for capital improvements that is replaced by an annual set aside of \$550,000 for capital improvements beginning in the fourth year of the proposed lease.

Policy Consideration

- Although the Controller's June 9, 2011 finding that "leasing garages to nonprofit corporations is unnecessarily costly to the City", SFMTA is proposing to enter into new garage leases with two nonprofit corporations (Uptown Parking Corporation and Japan Center Garage Corporation, File 12-1184). According to SFMTA, the provisions in the proposed lease to address specific recommendations that the Controller made in its report, including (a) the option to terminate the lease with a 90-day notice for convenience and (b) the incorporation of updated SFMTA parking facility operation and management regulations which govern all day-to-day garage operations administered by the SFMTA.
- Given that (a) the Controller's June 9, 2011 report found that "leasing garages to nonprofit corporations is unnecessarily costly to the City", (b) Uptown Parking Corporation would be one of two remaining nonprofit corporations managing City-owned garages, and (c) SFMTA reports that the actual value of the corporation oversight is difficult to quantify, approval of the proposed resolution is a policy decision for the Board of Supervisors.

Recommendation

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

MANDATE STATEMENT / BACKGROUND

Mandate Statement

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

Background

The Sutter Stockton Garage (Garage) is a City-owned off-street parking facility under the jurisdiction of the San Francisco Municipal Transportation Agency (SFMTA), located at 444 Stockton Street. The Sutter Stockton Garage has approximately 1,865 parking spaces and provides over 30,000 square feet of retail space, currently leased to various tenants.

The Uptown Parking Corporation a non-profit corporation, has managed the Sutter Stockton and Union Square Garages for decades, which primarily requires oversight of a day-to-day parking operator agreement, including ensuring that the operator is providing sufficient staffing and cleanliness levels, and that all equipment is in proper working order. The Uptown Parking Corporation currently contracts with Central Parking SF to provide day-to-day parking garage operations at the Sutter Stockton and Union Square Garages.

The Uptown Parking Corporation was formed in 1956 for the sole purpose of assisting the City with the design and construction of the Sutter Stockton Garage through the sale of bonds. In 1959, the City leased the Garage to the Uptown Parking Corporation through a lease agreement, which was subsequently amended and extended in 1973 for garage expansion with an expiration date of 2023 or upon repayment of debt¹. Under the lease, the Corporation managed the day-to-day operations of the Garage with oversight and policy direction from the SFMTA. In April 2001, a second amendment and extension of the lease was approved by the Board of Supervisors to allow the Uptown Garage Corporation to issue \$19,000,000 in parking revenue bonds to finance the renovation of the Union Square Garage and Plaza, which expired on the earlier of either (a) May 5, 2035 or (b) full repayment, retirement, or earlier redemption of the debt. The lease stipulated that the City has “buyback” rights, such that the City may pay off the bonds for the Union Square Garage. In accordance with this lease provision, if the City exercises these buyback rights, the leases between Uptown Parking Corporation and the City for the Sutter Stockton and the Union Square Garages would terminate, and Uptown Parking Corporation must vacate the premises of each garage within 90 days.

In June 2012, in advance of the July 2012 SFMTA issuance of \$43,050,000 in Parking Revenue Bonds for the SFMTA public parking facility portfolio, the Corporation’s Board of Directors executed an amendment to the lease with the SFMTA for the Sutter Stockton Garage to continue the term of the lease on a month-to-month basis following the retirement of the parking revenue bonds until the City and Uptown Parking Corporation either (a) execute a new lease to replace the existing lease, or (b) terminate the lease and create a new advisory body in place of Uptown Parking Corporation. Under the existing lease amendment, “the City’s redemption and/or defeasance of the Bonds shall not effect a termination of the Lease or require the Corporation to

¹ Repayment of debt not only includes debt of the Union Square Garage but also the Downtown Parking Corporation’s debt from the Fifth & Mission Garage.

vacate the premises”, as was required under the previous lease. Rather, under the existing lease amendment, upon payment and retirement of the bonds, the term of the lease would continue on a month-to-month basis unless and until terminated by agreement of the parties or replacement by approval and execution of a new lease.

In July 2012, the SFMTA issued \$43,050,000 in Parking Revenue Bonds for the SFMTA public parking facility portfolio to refinance the existing garage debt and to perform necessary garage capital improvements. According to Mr. Steven Lee, Manager, SFMTA Financial Services/SFpark, of the \$43,050,000 Parking Revenue Bonds issued by SFMTA, \$15,905,000 was allocated to retire Uptown Parking Corporation’s outstanding debt for the Union Square Garage and \$5,000,000 was allocated for a capital improvement assessment of the SFMTA public parking facilities. This assessment will be used to determine the size of the next bond issuance for the actual capital improvement work anticipated to begin in FY 2013-14.

The existing month-to-month lease between the City and the Uptown Parking Corporation for the Sutter Stockton Garage requires that the Uptown Parking Corporation pay the SFMTA \$1 in annual rent and requires an annual set aside of 15 percent of the Garage’s net income for capital improvements. The Uptown Parking Corporation historically collected all garage revenue on behalf of SFMTA and then deducted the annual expenses of operating and managing the Sutter Stockton Garage from those revenues. The remaining net income was remitted by Uptown Parking Corporation to SFMTA. As shown in Table 1 below, the Uptown Parking Corporation paid the SFMTA \$6,573,668 that represents the net income (revenues less expenditures from the Sutter Stockton Garage in FY 2011-12.

Table 1: Sutter Stockton Garages Actual Expenditures & Revenues for FY 2011-12

Expenditures	Actual
Operating Expenses	\$2,408,878
Parking Tax	2,235,009
Corporation Expense	32,800
Total Expenditures	\$4,676,687
Revenue	
Parking Revenue	\$11,463,038
Non-Parking Revenue	947,376
Total Revenues	\$12,410,414
Net Income	\$7,733,727
15% retained by corporation for capital improvements	\$1,160,059
Total Balance Paid to SFMTA	\$6,573,668

Mr. Lee advises that the Uptown Parking Corporation is reimbursed for its actual costs to manage the Sutter Stockton Garage. As shown in Table 2 below, Uptown Parking Corporation incurred management costs of \$154,500 in FY 2011-12 for the Sutter Stockton Garage, which are included in the \$2,408,878 in operating expenses (See Table 1).

**Table 2: Uptown Parking Corporation's FY 2011-12 Management Costs
For the Sutter Stockton Garage**

Corporation Expenditures	Savings
Corporate Manager*	\$72,000
Attorney Fees	32,000
Corporation Accounting Staff*	47,000
Corporate D&O Insurance*	3,500
TOTAL Estimated	\$154,500

*Attributed to Sutter Stockton Garage, includes 50 percent of total expenditures for the Uptown Parking Corporation.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new lease agreement between the City and County of San Francisco and Uptown Parking Corporation to continue to manage the garage operations for the Sutter Stockton Public Parking Garage, with an initial term of ten years with two five-year options to extend. The proposed lease requires that the Uptown Parking Corporation pay the SFMTA \$1 in annual rent and requires an annual set aside of \$550,000 for capital improvements beginning in the fourth year of the initial ten-year term. The proposed lease incorporates updated SFMTA parking facility operation and management regulations which govern all day-to-day garage operations administered by the SFMTA. Additionally, under the proposed lease, both the City and the Uptown Parking Garage Corporation can terminate the lease with a 90-day notice.

FISCAL IMPACTS

Currently, Uptown Parking Corporation pays \$1 in annual rent to SFMTA for the Sutter Stockton Garage and would continue to be required to pay the \$1 in annual rent to SFMTA under the proposed lease. In addition, as discussed above, the Uptown Parking Corporation currently collects all garage revenues on behalf of SFMTA and then deducts the annual expenses of operating and managing the Sutter Stockton Garage, with the remaining balance of net income being remitted to SFMTA.²

² According to Mr. Lee, the Sutter Stockton Garage had a Capital Improvement Account balance of \$1,600,000 that was previously transferred to SFMTA.

As shown in Table 3 below, the FY 2013-14 Sutter Stockton Garage budget, which is the first full year of the proposed new lease, includes expenditures of \$5,073,705 and revenues of \$12,416,000, resulting in estimated net revenues to SFMTA of \$7,342,295³. The proposed new lease contains the following changes as compared to the existing lease:

- (a) Annual expenditures of \$22,060⁴ share of debt service on \$5,000,000 of the \$43,050,000 SFMTA Parking Revenue Bonds, which are allocated for the capital assessment of SFMTA's public parking facilities; and
- (b) Discontinuation of the annual set aside of 15 percent of net income for capital improvements to be replaced by an annual set aside of \$550,000 for capital improvements beginning in the fourth year of the initial ten-year term of the proposed new lease.

Table 3: Budgeted Sutter Stockton Garages Expenditures & Revenues for FY 2013-14

Expenditures	Budgeted
Operating Expense	\$2,800,585
Parking Tax	2,227,600
Corporation Expense	23,460
Debt Service ¹	22,060
Total Expenditures	\$5,073,705
Revenue	
Parking Revenue	\$11,446,000
Non-Parking Revenue ²	970,000
Total Revenues	\$12,416,000
Total Balance Paid to SFMTA	\$7,342,295

¹ The Sutter Stockton Garage's share of debt service on \$5,000,000 of the \$43,050,000 SFMTA Parking Revenue Bond that was allocated to the capital assessment of SFMTA's public parking facilities.

² Non-parking revenues are from retail leases and concessions located in the Sutter Stockton Garage.

³ The FY 2012-13 Sutter Stockton Garage budget, which includes approximately 5 months of the proposed, includes expenditures of \$4,942,930 and revenues of \$12,265,000, resulting in net revenues to SFMTA of \$7,322,070.

⁴ Annual debt service is expected to increase to \$28,222 in Fiscal Year 2022-23, the final year of the initial term of the proposed lease.

The Uptown Parking Corporation's management costs are \$141,070, or 2.8 percent, of the FY 2013-14 expenditure budget of \$5,073,705. According to Mr. Lee, Uptown Parking Corporation's management costs allocated to the Sutter Stockton Garage are 2.8 percent of operating expenses, compared to Japan Center Garage Corporation's management costs allocated to the Japan Center Garage, of 11.4 percent (File 12-1184), because the Uptown Parking Corporation's management costs are distributed between the Sutter Stockton and Union Square Garages, resulting in greater efficiencies. Also, according to Mr. Lee, the Japan Center Garage has an extensive validation program that requires higher than usual accounting oversight.

POLICY CONSIDERATIONS

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

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

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

The leases of the other two non-profit corporations, (a) Ellis O'Farrell Parking Corporation which manages the Ellis O'Farrell Garage, and (b) Downtown Parking Corporation, which manages the Fifth & Mission Garage, whose debt was redeemed in July 2012, have been terminated as their leases required. In contrast, the SFMTA is requesting that the Uptown Parking Corporation⁵ and the Japan Center Garage Corporation be the only two nonprofit corporations that would continue to manage City-owned garages, on behalf of the SFMTA, even though these two garages have no outstanding debt. According to Mr. Lee, when considering alternatives to day-to-day management by non-profit corporations, the actual value of the corporation board oversight is difficult to quantify.

Given (a) the Controller's June 9, 2011 report findings, (b) and that the Uptown Parking Corporation would be the only nonprofit corporation whose bonds were redeemed which would continue in its current role of managing City-owned garages and be one of two remaining nonprofit corporation to continue to manage City-owned garages on behalf of the SFMTA, and

⁵The proposed lease between SFMTA and Uptown Parking Corporation for the Union Square Garage, which is located on Recreation and Park Department property, is expected to be heard by the Recreation and Park Commission, and subsequently sent to the Board of Supervisors if approved.

(c) that SFMTA reports that the actual value of the corporation board oversight is difficult to quantify, approval of the proposed resolution is a policy decision for the Board of Supervisors.

RECOMMENDATION

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