

# **San Francisco International Airport**

## **PLOT 700 DEVELOPMENT**

*Fiscal Feasibility Study*

December 2013



## I. Introduction

The City and County of San Francisco owns and operates San Francisco International Airport (SFO), which is the primary commercial service airport for the San Francisco Bay Area. The Airport serves the Bay Area with domestic and international passenger flights as well as all-cargo flights. SFO is one of the busiest airports in the United States and provides economic benefits to the City of San Francisco and the entire Bay Area. According to Airport Council International (ACI) data, SFO was ranked 7<sup>th</sup> in the United States in terms of total passengers with 44,399,885 and ranked 19<sup>th</sup> in terms of air cargo in calendar year (CY) 2012<sup>1</sup>. SFO is one of the country's principal international gateways for Pacific Rim traffic, it serves as a hub for United Airlines, and it is Virgin America's primary base of operations.

San Francisco International Airport occupies approximately 5,171 acres of land, of which the Plot 700 Lot (Plot 700) comprises approximately 6 acres. Due to a recent modification to lease terms with United Airlines, Plot 700 was turned over to the Airport and is currently used as an employee overflow parking lot as need arises. The lot is bounded by North Access Road on the north, North Field Road on the east, United Airlines Maintenance and Operations Center (UAMOC) on the south, and United Airlines Employee Parking on the west.

The existing Ground Transportation Unit (GTU) facilities are located along South McDonnell Road in the South Field Area and were originally developed for temporary rental car operations during construction of the Airport Rental Car Center. The main building was redeveloped in 1999 to house two SFO agencies, the GTU and Radio Shop, in the existing structure with interior modifications and the addition of a 4-Bay Inspection Garage and Radio Repair Shop. The remaining car wash rack and vehicular fuel station became Commission-use only and are operated and maintained by the SFO Auto Shop staff.

The existing Bus Maintenance Facility (BMF) is located along North McDonnell Road adjacent to the *Clean Energy* CNG fueling station. The original maintenance bays were constructed in 1992, also as a temporary building with the expectation that AirTrain would be extended to the Long Term Parking lot. Trailers were added to accommodate increasing demand for office and storage space approximately 15 years later. The facilities are occupied and operated by SFO Shuttle.

The GTU functions as the permitting and inspection agency for all passenger carrying Airport vehicles operating at SFO; the Radio Shop repairs and maintains radios, transponders and antennas for all Airport operated vehicles, including the Airport SF Fire Department and Airport SF Police Department; and the BMF services and repairs the SFO Shuttle Bus fleet. All are essential facilities; however they are considered back of house operations and are more appropriately located away from SFO's main frontage road. The recent reassignment of Plot 700 provides the ideal opportunity for relocation and much needed replacement of these deficient facilities.

Pursuant to Chapter 29 of the San Francisco Administrative Code, prior to submitting an environmental application form to the Department of City Planning for environmental review of

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<sup>1</sup> 2012 Airports Council International (ACI) and Airports Council International- North America (ACI-NA) Airport Statistics

a proposed project, as defined by the California Environmental Quality Act, which is estimated to have implementation and/or construction costs greater than \$25 million and use more than \$1 million in public monies, the project must be submitted to the Board of Supervisors to determine whether the plan for undertaking and implementing the project is fiscally feasible and responsible. The proposing City department must prepare a feasibility study and submit it to the Board of Supervisors prior to submitting the project to the Planning Department for environmental review.

The Airport is submitting this fiscal feasibility study to the Board of Supervisors to comply with Chapter 29 of the Administrative Code, since the total project cost for the Plot 700 Redevelopment project is in excess of \$25 million and the project will require a CEQA review.

## **II. San Francisco International Airport**

San Francisco International Airport is owned and operated by the City and serves as the primary airport for the Bay Area. The Airport is governed by the Airport Commission, as outlined in the City Charter. The five-person Airport Commission is primarily a policy-making body, establishing the policies by which the Airport operates. The Airport Director oversees the operation and management of the Airport. SFO also operates under the regulations of the FAA and the Transportation Security Administration (TSA). The Airport's mission is to provide safe and secure facilities for airlines, tenants, employees, and the traveling public and to be fiscally prudent and contribute to the health of the local economy<sup>2</sup>. The Plot 700 Development project will significantly enhance safety and efficiency for SFO employees and patrons of the GTU, Radio Shop and BMF.

## **III. Project Overview**

The purpose of this project is to relocate and rejuvenate the existing GTU, Radio Shop and BMF facilities to Plot 700, an available back of house location. As the structures were originally intended for temporary use, the existing facilities do not adequately accommodate the current organizational functions and are inefficient for safe operations.

An estimate of probable construction costs is provided in the table below. More details regarding the project costs are shown in Appendix I.

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<sup>2</sup> San Francisco International Airport, "Strategies and Goal 2007 – 2012", pg. 3.

**Table 1**  
**Plot 700 Development Construction Costs<sup>3</sup>**

<b>Plot 700 Development Project Component</b>	<b>Amount</b>
Ground Transportation Unit Relocation	\$14,444,931
Bus Maintenance Facility Relocation	\$10,975,456
<b>TOTAL</b>	<b>\$25,420,387</b>

The Plot 700 Development project components are diagrammed in Appendix II, and include:

- **Ground Transportation Unit (GTU) Relocation**—This component will include relocation of the GTU office building and inspection bays, as well as the collocated Radio Shop, car wash rack and vehicular fuel station, to Plot 700.
- **Bus Maintenance Facility (BMF) Relocation**—This component will include relocation of the BMF offices and maintenance bays to Plot 700 and will provide on-site CNG fueling for the SFO Shuttle Bus fleet.

## IV. Environmental Review

An Environmental Evaluation Application for environmental review has yet to be filed with the City and County of San Francisco’s Environmental Planning Department (SFEP), the lead agency under the California Environmental Quality Act (CEQA). Once the Board of Supervisors approves the fiscal feasibility study, Airport staff will submit the Environmental Evaluation Application for the current project proposal to SFEP for review of potential environmental impacts for each of the 17 resource categories, conducted according to the procedural requirements of CEQA (California Public Resources Code Section 21000 et seq.), State CEQA Guidelines (California Administrative Code Title 14 Section 15000 et seq.) and Chapter 31 of the San Francisco Administrative Code. Airport staff will submit an Initial Study at a future date, which will include environmental analyses of the CEQA resource categories; staff anticipates the SFEP Environmental Review Officer will issue a (Mitigated) Negative Declaration rather than requiring preparation of an Environmental Impact Report.

The environmental permitting process will be conducted concurrently with the environmental review process to expedite the project. Such permits must be coordinated with the design process to ensure final key design conforms to the conditions and analyses provided in the permit applications to various federal, state, and local regulatory agencies. Staff anticipates permits will be required from the San Francisco Bay Regional Water Quality Control Board (RWQCB), Bay Area Quality Management District, San Mateo County Environmental Health Department, and the City and County of San Francisco. Airport staff estimates completion of the environmental review and permitting process for this project within 12 - 18 months from the start of the environmental process.

<sup>3</sup> The cost estimates presented here are based on planning-level requirements and design drawings and are preliminary in nature as developed by SFO. Final cost estimates will be prepared once the environmental process is complete and detailed design drawings are prepared.

## V. Fiscal Feasibility Analysis

Under the provisions of the San Francisco Administrative Code §29.2 there are five criteria to evaluate the project's fiscal feasibility. The five criteria to study the fiscal feasibility are as follows:

- (1) Direct and indirect financial benefits of the project to the City, including to the extent applicable cost savings or new revenues, including tax revenues generated by the proposed project;
- (2) The cost of construction;
- (3) Available funding for the project;
- (4) The long-term operating and maintenance cost of the project; and
- (5) Debt load to be carried by the City department or agency.

The fiscal feasibility of the Plot 700 Development project is analyzed based on the five criteria below.

### (1) Financial Benefits to the City

The Airport provides both direct and indirect financial benefits to San Francisco, including employment and tax revenues. The project plans to redevelop Plot 700 and relocate the Bus Maintenance and GTU operations are critical operational elements in the overall airport operation. Failure to implement this project could potentially result in a reduction in customer service accommodations by not providing sufficient shuttle bus operations and could result in the failure to meet the increased demand in permit requests for passenger carrying Airport vehicles operating at SFO. In addition, the existing Shuttle Bus Maintenance Facility was designed in 1980s for maintenance of 10 buses and with the increased passenger traffic the bus fleet is now over 30 buses.

#### Direct Financial Benefits

The City receives numerous direct financial benefits resulting from the operation of the Airport in the most efficient and effective manner possible. The Plot 700 Development Project is critical to ensure customer satisfaction with sufficient bus operations and safe operations of the passenger vehicles operating at the Airport. These functions will ensure the City continues to receive the maximum financial benefits including tax revenue generated by visitors, job creation benefits, and the Airport's annual service payment into the General Fund. The Airport's economic activity also provides financial benefits to the entire Bay Area economy.

#### City Revenue

Under the current Lease and Use Agreement between the Airport and the airlines, SFO provides 15% of gross concession revenues to the City's General Fund. These General Fund revenues can be applied to any use determined by policy makers. Without undertaking this mandated project, aircraft operations, passenger volumes, and concession revenues could be reduced, and the City's General Fund could see a loss in revenue due to potential reductions in annual service payments.

The annual service payments provided by the Airport to the City’s General Fund over the previous five fiscal years totaled \$155.6 million. In FY 2013, the Airport transferred \$36.5 million in revenue to the City. The five-year breakdown of the annual service payments is shown in the table below.

**Table 2**  
**Annual Service Payment**  
**FY 2005 to FY 2013**  
**(in millions)**

<b>Fiscal Year</b>	<b>Annual Service Payment</b>
FY 2009	\$ 26.8
FY 2010	\$ 28.1
FY 2011	\$ 30.2
FY 2013	\$ 34.0
FY 2013	<u>\$ 36.5</u>
<b>Total</b>	<b>\$ 155.6</b>

*Source: San Francisco International Airport Annual Financial Statements*

The average annual payment received by the City over the most recent five fiscal years was \$31.1 million and have increased by over 35% over the past five-years. The current Lease and Use Agreement between the Airport and signatory airlines operating at the Airport includes the annual service payments through FY 2021. The Airport expects the annual service payments to continue to increase with passenger volumes and concession spending during that period.

### Direct Employment

San Francisco International Airport is an economic driver for the City and County of San Francisco and also the entire Bay Area. A key measure of economic activity is the direct employment based on activities related to the Airport. These are jobs that would not exist without the Airport, and they would be impacted by any reduced airport activity. These jobs are within the aviation sector, transportation, professional services, or construction services.

According to Economic Development Research Group, Inc., a total of 33,580 direct jobs are dependent on the activity of SFO. These jobs would be discontinued immediately if airport activity ceased. Also these jobs would be impacted as a result of changes in number of flights and passenger levels.”<sup>4</sup> The table below provides a breakdown of the types of direct jobs by category created by the Airport.

<sup>4</sup> Economic Development Research Group, Inc., “2013 Economic Impact Study of San Francisco International Airport”, May 2013, pg. 11.

**Table 3<sup>5</sup>**  
**Direct Job Impacts from SFO for 2012**

<b>Job Category</b>	<b>Direct Jobs</b>	<b>Percent</b>
Passenger Airlines	14,520	43.2%
Airport Retail & Concessions	3,987	11.9%
Limos/Buses	2,961	8.8%
FBOs & General Aviation & Aviation. Services	2,104	6.3%
City of San Francisco Airport Commission	1,528	4.6%
Vans/Transit	1,409	4.2%
Security Firms	1,362	4.1%
Federal Government	1,191	3.5%
Capital Construction	949	2.8%
Taxi Cabs	948	2.8%
Freight Airlines & Couriers	875	2.6%
Rental Car	725	2.2%
State/Local Government	571	1.7%
Other	450	1.3%
<b>Total</b>	<b>33,580</b>	<b>100.0%</b>

*Source: Economic Development Research Group, Inc., May 2013*

Failure to proceed with this project may impact passenger levels at SFO that could in turn impact the number of direct jobs. The total payroll from direct jobs in Fiscal Year 2012 is \$2.1 billion. These jobs provide tax revenue to the City and County of San Francisco and throughout the Bay Area.

The shuttle bus operations at the Airport, provided by a third party, provide direct employment for 98 people. The GTU operations are performed by Airport employees. In addition to the jobs directly associated with the activities of SFO, the Plot 700 Development construction project will employ significant staff. Based on the construction costs of the project an estimated 227 jobs would result from this project in the City and County of San Francisco, including 158 construction jobs.

<sup>5</sup> Economic Development Research Group, Inc., “2013 Economic Impact Study of San Francisco International Airport”, May 2013, pg. 26.

**Table 4**  
**Plot 700 Development Project Job Impact**

<b>Plot 700 Development Project Component</b>	<b>Amount</b>	<b>Construction Jobs Impact</b>	<b>Total Job Impact</b>
Ground Transportation Unit Relocation	\$14,444,931	90	129
Bus Maintenance Facility Relocation	\$10,975,456	68	98
<b>TOTAL</b>	<b>\$25,420,387</b>	<b>158</b>	<b>227</b>

*Source of employment impacts: Regional Economic Models, Inc. (REMI).*

The construction impact is a one-time job creation impact for the City and County of San Francisco, but the project duration spans several years.

### **Indirect Financial Benefits**

The indirect impact of jobs resulting from the economic activity of the Airport is significant:

- A total of 10,831 of indirect jobs are generated in the local economy from purchases of goods and services by firms completely dependent upon activity of SFO<sup>6</sup>.
- A total of 15,586 jobs are induced in the region from purchases of goods and services by the 29,555 direct jobs created by activity at SFO.

In addition to the indirect job impact, activities from SFO generate significant tax revenues for San Francisco and the Bay Area. State and local taxes linked to the Airport are estimated at \$2.5 billion in 2012<sup>7</sup>.

## **(2) Costs of Construction**

The Airport projects that the total cost is \$30.2 million for the entire Plot 700 Development project. This amount includes construction costs, internal costs for Airport staff, external professional services to provide project management and construction management support, and associated design and engineering work for the project. The full breakdown of the project costs including construction costs and soft costs are shown in the table below.

<sup>6</sup> Ibid. pg. 27

<sup>7</sup> Ibid, pg 2.



**Table 5**  
**Plot 700 Development Total Project Costs**

<b>Plot 700 Development Project Component</b>	<b>Total Amount</b>	<b>Construction Costs</b>	<b>Soft Costs*</b>
Ground Transportation Unit Relocation	\$17,491,733	\$14,444,931	\$3,046,802
Bus Maintenance Facility Relocation	\$12,713,196	\$10,975,456	\$1,737,740
<b>TOTAL</b>	<b>\$30,204,929</b>	<b>\$25,420,387</b>	<b>\$4,784,542</b>

\* Soft costs include project management, design, inspection, and construction management.

Source: SFO

Detailed construction cost estimates are included in Appendix I. The direct construction costs are \$25.4 million and the construction costs related to the project include site work to bring utility services to Plot 700; foundation installation; new structures erection and equipment installation; mechanical, electrical, and plumbing system installation; and the incorporation of sustainability elements. Standard general conditions and design contingency allowances for the conceptual design stage are also shown.

### **(3) Available Funding**

The Airport anticipates having sufficient funding for the Plot 700 Redevelopment project. The Airport's Plan of Finance and the Airport's Five-Year and 10-Year Capital Improvement Plan (CIP) includes these projects for the Airport. The Airport anticipates funding this project with internal sources.

As a large-hub airport with a robust capital improvement program, the Airport included the costs of the project into the annual 5- and 10-year capital plan. The Airport currently has remaining appropriation from the \$502.2 million supplemental appropriation for capital projects. The Airport will utilize debt financing through General Aviation Revenue Bonds (GARBs) to fund the project. The Airport will likely seek additional bond appropriation authority from the Mayor and the Board of Supervisors when the project expenditures peak in calendar year 2014.

### **(4) Project Long-term Operating and Maintenance Costs**

The long-term operating and maintenance costs from the proposed project are minimal. These activities will be performed by SFO Maintenance and/or SFO Shuttle staff and include typical costs to upkeep Commission buildings. Because of the age of the existing facilities, the current costs required to maintain these facilities exceed any new maintenance costs.

The Plot 700 facilities will be designed to LEED Gold standard at minimum. In addition, facilities will comply with or exceed all other applicable Federal, State, and City and County of San Francisco sustainability standards. Due to this, future operations and maintenance costs are expected to be equivalent or less than costs associated with the current facilities.

## **(5) Debt Load Carried by the Airport**

The Airport will have to finance the construction costs associated with this project, and thus will incur additional debt. The Airport has an active debt finance department to fund capital projects that also manages the Airport's \$4.3 billion debt portfolio.

The amount of the Plot 700 Redevelopment funded by debt would be \$30,204,929 based on project budget. The issuance of debt for the project matching funds would result in debt service payments of approximately \$2.4 million per year or a total of \$72.5 million over the 30-year term of the bonds<sup>8</sup>.

The debt service costs associated with this project will not impact the General Fund. Rather, the debt service payments will increase the costs borne by the airlines doing business at the Airport, through the rates and charges they pay the Airport. The Airport anticipates debt requirements for the project will be spread out of multiple years, and as a result, it is likely that the full debt service amounts will not impact the Airport's budget until FY 2017.

## **VI. Conclusion**

Implementing this proposed Plot 700 project is essential to improving SFO's Ground Transportation, Radio Shop, and Bus Maintenance operations. Existing facilities are outdated, unsafe, and inefficient. The Airport believes this project is fiscally responsible and fiscally feasible. The project will enable the City of San Francisco to maintain a world class airport and continue to be the airport of choice for the Bay Area. The project will continue to provide the City and the entire Bay Area region with significant economic benefits.

If the Plot 700 Development project is not implemented, the Airport will need to relocate all GTU and BMF operations offsite until another relocation opportunity is available. Consequently, the Airport would incur significant operational and cost impacts, as a result of offsite operations. This could in turn adversely affect Airport revenue, reduce annual service payments by the Airport to the City's General Fund, reduce employment provided from Airport activities, and impact the City's economy.

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<sup>8</sup> This assumes an all-in true interest cost of 5.15% and a 12 month capitalized interest period.

## Appendix I Detailed Plot 700 Development Construction Costs

	Site Work	Foundations and Structural Work	Buildings and Equipment	Mechanical, Electrical, and Plumbing Systems	Sustainability	General Conditions	Design Contingency*	Total Construction Cost
<b>Ground Transportation Unit Relocation</b>	\$ 3,120,575.00	\$ 2,297,212.00	\$ 2,095,591.00	\$ 2,217,553.00	\$ 573,000.00	\$ 1,733,000.00	\$ 2,408,000.00	\$ 14,444,931.00
<b>Bus Maintenance Facility Relocation</b>	\$ 3,924,000.00	\$ 1,365,350.00	\$ 1,099,406.00	\$ 1,004,700.00	\$ 436,000.00	\$ 1,317,000.00	\$ 1,829,000.00	\$ 10,975,456.00
<b>Total Plot 700 Development Construction Costs</b>	\$ 7,044,575.00	\$ 3,662,562.00	\$ 3,194,997.00	\$ 3,222,253.00	\$ 1,009,000.00	\$ 3,050,000.00	\$ 4,237,000.00	\$ 25,420,387.00

**Notes**

\* Design contingency amount is consistent with industry standard of approximately 20% at conceptual design stage.

## Appendix II Plot 700 Development Project Overview

