

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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REVISED

July 5, 2012

TO: Budget and Finance Sub-Committee
FROM: Budget and Legislative Analyst
SUBJECT: July 11, 2012 Budget and Finance Sub-Committee Meeting

TABLE OF CONTENTS

Item	File	Page
1	12-0644* Design Agreement Amendment – Laguna Honda Hospital Replacement Program - \$53,980,239	1 - 1
4	12-0581 Agreement – Serco, Inc. – Parking Meter Management System – Not to Exceed \$46,410,974	4 – 1
5	12-0530 Ground Lease – Retention and Expansion of the San Francisco Wholesale Produce Market	5 – 1
6	12-0582 Contract Amendment – Construction Management Services for the Bay Division Region Required for the Water System Improvement Program Projects - \$26,500,000.....	6 – 1
7	12-0611 Funding Agreement to Fund Acquisition of Nolan Ranch Conservation Easement and Endowment Agreement to Fund Compliance Monitoring of the Conservation Easement.....	7 – 1

* Revised – Includes Attachment II

Item 1 File 12-0644	Department: Department of Public Works (DPW)
EXECUTIVE SUMMARY	
<p>Note: On June 12, 2012, the Board of Supervisors approved a resolution (File 12-0476; Resolution 0223-12) which was intended to include the currently proposed Modification No. 19. Due to clerical error, the prior resolution, as approved by the Board of Supervisors, only accounted for Modification No. 18, which increased the not-to-exceed agreement to \$51,276,867. Therefore, the proposed resolution reflects the necessary increase for Modification No. 19 to increase the proposed agreement to \$53,980,239, which was inadvertently omitted from the prior resolution (File 12-0476; Resolution 0223-12).</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • The proposed resolution would authorize the Director of Public Works to execute an amendment for Modification No. 19 to the Design Agreement between the Department of Public Works (DPW) and Stantec for the Laguna Honda Hospital (LHH) Replacement Program to increase the Design Agreement from a not-to-exceed \$51,276,867 to a not-to-exceed \$53,980,239. The term of the agreement will remain unchanged from November 20, 2000 through December 31, 2012. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • The proposed resolution would authorize the Director of Public Works to execute an amendment to the Design Agreement for Modification No. 19 in the amount of \$2,703,372 or 5.3 percent. • The subject amendment to increase the Design Agreement by \$2,703,372 from \$51,276,867 to \$53,980,239 would fund increased design services costs for contractor design services costs associated with additional required repair work and additional construction administration, that was unforeseen, but resulted from the poor condition of the existing LHH facilities. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • The proposed increase for Modification No. 19, in a not-to-exceed amount of \$2,703,372, would increase the existing Design Agreement's not-to-exceed amount from \$51,276,867 to a not-to-exceed amount of \$53,980,239, an increase of 5.3 percent. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT/BACKGROUND**Mandate Statement**

In accordance with Charter Section 9.118, any contract (a) for more than \$10,000,000, (b) that extends for longer than ten years, or (c) with an amendment of more than \$500,000, is subject to Board of Supervisors approval.

Background

The Laguna Honda Hospital (LHH) Replacement Program is a \$584,946,602 project which provides for the demolition, construction, and renovation of a new LHH. The LHH Replacement Program includes construction of new hospital facilities to accommodate 780 beds, and renovation of existing buildings to be used primarily for administrative and support staff. According to Mr. John Thomas of DPH, Program Manager for the LHH Replacement Program, all major work associated with the Replacement Program (including design services and construction work) will be completed by December, 2012, with final demolition of two wings of the original hospital facility in early 2013.

Following a competitive bid process in July of 2000, the Department of Public Works (DPW) entered into an agreement with Stantec, formerly Anshen & Allen /Stantec Architecture (a Joint Venture) and prior to that Anshen & Allen Architects/Gordon H. Chong & Partners.¹ Under this agreement, Stantec, provides design services throughout the planning, design, bid, construction and post construction phases of the LHH Replacement Program. The original agreement was for the period from November 20, 2000 through November 30, 2010 for an initial not-to-exceed amount of \$2,400,352. According to Mr. Thomas, the initial not-to-exceed amount was not intended to cover the entire design cost of the project. Rather, the original amount was intended only to cover conceptual design, with funding for future design tasks to be awarded through amendments to the original Design Agreement. Based on subsequent amendments, the Design Agreement is currently scheduled to expire on December 31, 2012.

Attachment I provided by Mr. Thomas, shows the original Design Agreement for \$2,400,352 and summarizes the prior 18 modifications, including seven modifications which were subject to Board of Supervisors approval. As shown in Attachment I with the proposed Modification No. 19, the subject Design Agreement's total not to exceed amount would be \$53,980,239.

On June 12, 2012, the Board of Supervisors approved a resolution (File 12-0476; Resolution 0223-12) which was intended to include the currently proposed Modification No. 19. Due to clerical error, the prior resolution, as approved by the Board of Supervisors, only accounted for Modification No. 18, which increased the not-to-exceed agreement to \$51,276,867. Therefore, the proposed resolution reflects the necessary increase for Modification No. 19 to increase the proposed agreement to \$53,980,239, which was inadvertently omitted from the prior resolution (File 12-0476; Resolution 0223-12).

¹ The original Design Agreement was awarded in 2000 by DPW to Anshen & Allen Architects/Gordon H. Chong & Partners (a Joint Venture). However, in 2007, Gordon H. Chong & Partners was acquired by Stantec Architecture, such that the Design Agreement was subsequently amended in 2007 to reflect the assignment from Anshen & Allen Architects/Gordon H. Chong & Partners (a Joint Venture) to Anshen & Allen Architects/Stantec Architecture (a Joint Venture). Then in November 2010 Stantec Acquired Anshen + Allen.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Director of Public Works (DPW) to execute an amendment, consisting of Modification No. 19, to the Design Agreement with Stantec for the LHH Replacement Program, in order to increase the Design Agreement by \$2,703,372 from a not-to-exceed \$51,276,867 to a not-to-exceed \$53,980,239. The term of the existing agreement will remain unchanged from November 20, 2000 through December 31, 2012.

Mr. Thomas advised that the subject amendment to increase the Design Agreement by \$2,703,372 would fund increased contractor design services costs associated with additional required repair work and additional construction administration, that was unforeseen, but resulted from the poor condition of the existing structures. In addition, Mr. Thomas explains that the poor condition of the existing LHH building has mandated extensive repairs which must be reviewed by OSHPD (Office of Statewide Health Planning and Development), which has also resulted in additional contractor design services costs.

FISCAL IMPACTS

As shown in Attachment I, the proposed resolution would authorize the Director of Public Works to execute an amendment to the Design Agreement for Modification No. 19 in the amount of \$2,703,372.

Attachment II, provided by Mr. Thomas, identifies the types of design related work to be funded with the proposed increase of \$2,703,372 for Stantec and its subcontractors. The proposed increase for Modification No. 19, in a not-to-exceed amount of \$2,703,372, would increase the existing Design Agreement's not-to-exceed amount from \$51,276,867 to a not-to-exceed amount of \$53,980,239, an increase of 5.3 percent. The total proposed Design Agreement for \$53,980,239 represents 9.2 percent of the total budgeted \$584,946,602 LHH Replacement Program.

As shown in the Table below, the LHH Replacement Program budget remains at \$584,946,602, as previously approved by the Board of Supervisors. The total \$584,946,602 LHH Replacement Program budget is funded with (a) \$322,855,185 of General Obligation Bonds, (b) \$140,992,731 of Tobacco Settlement Revenue (c) \$120,000,000 of Certificates of Participation and (d) \$1,098,686 of grants from the U.S. Health Resources and Services Administration and the U.S. Department of Housing and Urban Development. As also shown in the Table below, as of May 24, 2012, a total of \$559,364,264 has been expended or encumbered on the LHH Replacement Program, leaving a remaining unexpended, unencumbered balance of \$25,582,338. The proposed Modification 19 to the Design Agreement for \$2,703,372 is included in the remaining costs as shown in the Table below.

Total Budget and Expenditures for the Laguna Honda Hospital Replacement Program
as of May 24, 2012

Total Approved Budget	\$ 584,946,602	
Expenditures to Date	\$535,829,327	
Encumbrances to Date	21,805,271	
Additional Allocations	1,729,666	
Total Expenditures, Encumbrances	\$559,364,264	
Funds Remaining		\$25,582,338
Remaining Costs		
<i>Current Construction Contracts</i>		
Remodel (Remaining scope + Change Orders)	\$6,500,000	
New Building Closeout Change Order	\$3,650,000	
		\$10,150,000
<i>Professional Services</i>		
Staff	\$495,827	
Construction Testing Services	\$85,000	
Stantec (Modification 19)	\$2,703,372	
City Attorney	\$1,000,000	
Permits	\$2,000,000	
		\$6,284,199
<i>Future Construction Contracts</i>		
Abatement	\$1,250,000	
Demolition	\$1,250,000	
Final Site Work	\$6,648,139	
		\$9,148,139
Total		\$25,582,338

In addition to the requested Modification 19 for \$2,703,372, Mr. Thomas stated that an additional amendment may be necessary in the future in order to extend the term of the existing Design Agreement or to provide additional funding, since there have been further delays as a result of additional necessary repairs to the LHH roof deck and floor slabs in the old kitchen and freezer areas. As noted above, the existing Design Agreement will expire December 31, 2012.

POLICY CONSIDERATIONS

City Lawsuit Against Stantec For Design Errors and Omissions

According to Ms. Louise Simpson of the City Attorney's Office, in December of 2011, the City filed a lawsuit against Stantec for design errors and omissions committed on the Laguna Honda

Replacement Project. Ms. Simpson advises that this lawsuit relates primarily to the design for construction of three new LHH buildings, which are now completed and occupied. Ms. Simpson further notes that the proposed Modification 19 to the Design Agreement with Stantec relates to the separate remodel of existing LHH buildings.

RECOMMENDATION

Approve the proposed resolution.

Mod. #	Amount	Cumulative	Description	Date Modification Approved
	\$2,400,352	\$2,400,352	Original	
1	\$5,199,365	\$7,599,717	Production of schematic design	7/12/2001
2	\$2,400,000	\$9,999,717	Placement of furniture in rooms; modify typical design for resident units; prepare graphic materials for Civic Design Review; additional geotechnical investigations for construction; document changes to address initial review comments.	1/14/2002
3	\$0	\$9,999,717	Time extension only. No cost.	
4	\$13,662,292	\$23,662,009	To complete all basic design services. No additional services.	4/29/2002
5	\$496,704	\$24,158,713	Increases the encumbrance to accommodate additional services. Traffic calming and ADA modifications at Woodside and Idora; landscaping and irrigation replacement at YGC; develop and supervise structural load tests at C-Wing; Greenhouse Hillside geotechnical borings; extension of project policy for construction through 5/2011; additional contour surveys by Towell; study fume dispersion issues; additional geotechnical consulting and test program planning; load monitoring of existing electrical switchboard; survey remodel electrical distribution and design (N) H-bldg. switchboard; temporary engineering shops at G-2 basement; revise roads project docs for relocated gate and tire shredder; dynamic analysis of remodel structural upgrades; pothole for confirmation of utilities north of H-bldg.; preliminary design and RFP/Design-Build Docs for construction trailers; shoring design @ north end of Link Bldg.; additional site features structural design; modify scale model to indicate final design and mature trees; finish interior renderings + lind perspectives; open space metes and bounds description; sidewalk legislation exhibits for Woodside South Side.	5/27/2003
6	\$7,374,827	\$31,533,540	To accommodate additional services requests and the Construction Phase. Additional geotechnical consulting and test program planning; temporary engineering shops at G-2 basement; additional site features structural design; evaluation of laundry relocation RFP's; revise and improve presentation materials; relocate emergency generator; park/landscape - arborist report; hospital remodel - toilet prototype F3; clinic revisions for Dialysis; Hetch Hetchy metering; East Residence shift south; additional grading design for site retaining walls; revisions at loading docks; revision due to late survey information; hospital remodel - structural engineer consultant; great room at Residents floor; park/landscape - geotechnical late issues; park/landscape - geotechnical CD review; geotechnical consulting; artwork lighting; geotechnical CA utility; structural consulting; additional work for preliminary design and RFP/Design-Build Documents for construction trailers; East entry remodel after hospital decommissioning	12/15/2003
7	\$489,645	\$32,023,185	Provides the architectural design and engineering services needed from the initial planning and design phase through the construction. Temporary parking lot at front lawn; special fire suppression at IT server rooms; activity therapy alterations at resident floors; stairway to Woodside Avenue; toilet modification for ADA grab bars.	9/2/2004
8	\$572,597	\$32,595,782	Locked units and conversion; Division 17 integration of low-voltage systems; floor assembly fire testing; Remodel construction documents and agency review; courtyard redesign for upper floor residents; emergency generator enclosure and flue routing; Increment 1 bidding of additive alternate floors; Increment 2 bidding of additive alternate floors; remodel geotechnical recommendations for soil-nailing.	5/17/2005
9	\$0	\$32,595,782	Adjustment of subcontractor's contract values. No net increase.	
10	\$499,512	\$33,095,294	The State's Office of Healthwide Planning and Development (OSHDP) oversee construction of hospitals. The Architect's contract requires that they provide OSHPD-approved and permitted drawings and specifications. This requirement was met in accordance with the terms of the contract. Because of the unprecedented and unforeseeable bid market conditions, DPW decided to solicit value-engineering proposals from bidding contractors and also to breakup, into smaller packages, the major trade bid packages in order to encourage more competition. The effort resulted in \$4.4M in savings as indicated in the Controller's report. However, the Architect was required to document the revisions to the documents and resubmit them to the State for approval. The cost of the revisions to the documents and re-submittal to the State is included in Modifications 10 and 11 as Additional Service Requests (ASR's) 107, 108 and 109 and represents 75% of the proposed total modification. The remainder of the total proposed modification is for additional services related to planning the procurement of furniture, fixtures and equipment and supporting the ongoing construction work.	9/26/2005
11	\$611,598	\$33,706,892	The State's Office of Healthwide Planning and Development (OSHDP) oversee construction of hospitals. The Architect's contract requires that they provide OSHPD-approved and permitted drawings and specifications. This requirement was met in accordance with the terms of the contract. Because of the unprecedented and unforeseeable bid market conditions, DPW decided to solicit value-engineering proposals from bidding contractors and also to breakup, into smaller packages, the major trade bid packages in order to encourage more competition. The effort resulted in \$4.4M in savings as indicated in the Controller's report. However, the Architect was required to document the revisions to the documents and resubmit them to the State for approval. The cost of the revisions to the documents and re-submittal to the State is included in Modifications 10 and 11 as Additional Service Requests (ASR's) 107, 108 and 109 and represents 75% of the proposed total modification. The remainder of the total proposed modification is for additional services related to planning the procurement of furniture, fixtures and equipment and supporting the ongoing construction work.	10/19/2005
12	\$499,980	\$34,206,872	Additional scope of work assigned to A+A to complete the construction documents for the Remodel of the Existing Building (ASR 110) which represents 57% of Modification No. 12. Additional work as a result of construction change orders (ASRs 128, 132, 133, 136, 137, 139 140, 143) or 22% of the Modification No. 12. Additional services includes anchorage of MEP distribution systems and non-structural components and redesign of Underground Fuel Storage Tanks (UST) due to new code requirements (ASRs 134 and 138).	4/20/2006

Mod. #	Amount	Cumulative	Description	Date Modification Approved
13	\$4,948,303	\$39,155,175	The majority of Modification No. 13 is for additional construction administration services (ASR 100) which account for an extended bidding phase, delay in the start of construction and the escalation in labor costs. It also provides additional field staff not included in the initial proposal. A portion of ASR 100 is reserved for the West Residence Building. Other additional services include anchorage of MEP distribution systems; design utility system schematic drawings; MEP redesign due to substitutions and utilities for the interim loading dock at the existing materials management area. These services represent about 63% of Modification No. 13. About 24% of Modification No. 13 is for atypical services such as the development of a Feasibility Study for Assisted Living, convergent technology project management and LEED documentation services. The remaining services are owner-requested changes, geotechnical services and redesign due to change orders.	2/15/2007
14	\$499,950	\$39,655,125	About 35% of Modification No. 14 is for partial funding for revisions to the Security System (ASR 187). The remainder of the Modification is partial funding additional MEP Staff, Radiology Suites, Structural Revisions due to Contractor errors.	12/24/2007
15	\$4,978,404	\$44,633,529	About 58% of Modification No. 15 is to fund extended construction administration services due to a twelve to fifteen-month delay. Other additional services include redesign of the Connector Building due to the deletion of scope of work for the West Residence Building; Design Assist Program for the Remodel of the Existing Building; and augmentation of architectural staff to expedite answers to RFIs, prepare change orders and to process submittals; owner requested changes and new scope of work.	4/19/2008
16	\$495,572	\$45,129,101	About 45% of this modification is for miscellaneous design revisions to the Remodel of the Existing Hospital and about 35% for Non-structural component anchorage. The remainder of services were for courtyard lighting revisions, woodside ramp landing, anchorage revisions to rooftop mounted mechanical equipment for the Link and the South Residence Buildings.	Not posted.
17	\$5,670,180	\$50,799,281	About 70% of Modification No. 17 is to fund extended construction administration services due construction delays for post occupancy services and for additional architectural, MEP personnel to review and expedite RFIs.	Not posted.
18	\$ 477,586	\$51,276,867	97% of modification 18 was for extended construction administration services.	1/19/2012
19	\$ 2,703,372	\$53,980,239	About 84% of Modification 19 is to fund, additional construction administration staff for remodel and new buildings. 15% is for contractually allowed mark-ups. The remaining funds are to remodel the rooftop and freezer slab. Much of the repair and remodel work was unanticipated and the result of the poor condition of the existing buildings.	
Total	\$53,980,239			

Item 4 File 12-0581	Department: San Francisco Municipal Transportation Agency (SFMTA)
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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the San Francisco Municipal Transportation Agency (SFMTA) to execute a new five-year agreement with Serco Inc. for parking meter collection, counting and related support services for a not-to-exceed \$46,410,974, extending from August 1, 2012 through July 31, 2017, with an option to extend the term for up to an additional four years, or through July 31, 2021.

Key Points

- Based on a competitive Request for Proposal (RFP) process conducted in 2000, the SFMTA entered into an initial five-year agreement with Serco Inc. from June 30, 2002 through July 1, 2007, which was subsequently extended through July 31, 2012, to provide SFMTA with parking meter revenue collection, counting and support services for a ten-year total not-to-exceed \$77,300,000.
- Following a new RFP which was issued on December 7th 2011, although eight vendors attended a pre-proposal conference, five vendors attended a site-visit, and two vendors submitted follow-up questions or requests, only the existing vendor, Serco Inc. submitted a proposal to provide meter revenue collection, counting and support services.
- SFMTA currently has a separate agreement with Serco, under a SFMTA pilot program known as *SFpark*, to process parking meter debit and credit card payments and wireless communication service fees, which totaled \$2,925,882 in FY 2011-12.

Fiscal Impacts

- The proposed five-year agreement with Serco Inc. for a not-to-exceed \$46,410,974 would result in an average annual cost of \$9,282,195, which is \$959,599 or 11.5 percent more than the \$8,322,596 in costs for the comparable services provided to SFMTA in FY 2011-12. However, the proposed new agreement also provides for (a) additional debit and credit card processing and wireless communication fees, which, as noted above, are currently included under a separate Serco agreement and (b) a ten percent contingency to provide for additional parking meters in the City. If these additional services are not included, the costs of the proposed new agreement reflect a decrease from \$5,396,714 under the existing agreement to \$5,258,557 under the proposed new agreement, a reduction of \$138,157 or 2.56 percent.
- SFMTA projects it will realize \$46,900,000 of parking meter revenues in FY 2011-12, approximately 6 percent of the SFMTA's total \$780,567,111 FY 2011-12 operating budget.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT/BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118, any agreement (a) for more than \$10,000,000, (b) that extends for longer than ten years, or (c) with an amendment of more than \$500,000, is subject to Board of Supervisors approval.

Background

Currently, the San Francisco Municipal Transportation Agency (SFMTA) manages approximately 26,000 single-spaced parking meters, of which 5,800 parking meters have been upgraded to accept debit and credit cards under the SFMTA's *SFpark* Program. Additionally, there are approximately 500 multi-space meters, approximately 190 of which currently accept debit and credit card payments. Over the next two years, SFMTA plans to upgrade parking meters Citywide to accept debit and credit cards.

Since 1978, the SFMTA has contracted with outside vendors to provide for the collection and counting of parking meter revenues and related support services. Based on a competitive Request for Proposal (RFP) process conducted in 2000, the SFMTA entered into a five-year agreement with Serco Inc. to provide parking meter revenue collection, counting and support services from June 30, 2002 through July 1, 2007. This agreement was subsequently extended three additional times with Board of Supervisors approval through June 30, 2012, for a total ten year not-to-exceed \$77,300,000 agreement¹. On June 14, 2012, the SFMTA Director approved extending this agreement by one month from July 1, 2012 through July 31, 2012 to allow additional time for the review of the proposed new agreement by the Board of Supervisors. Under the existing agreement, Serco collects, counts and provides related support services for all parking meter revenues realized by the SFMTA, such that the SFMTA has realized an average of \$31,284,143 annually in gross parking meter revenues over the past ten years. Following the issuance of a new RFP for parking meter collection and counting services and related support services on December 7, 2011, the SFMTA held a pre-proposal conference on December 21, 2011. Eight potential vendors attended the pre-proposal conference, five vendors attended a same-day site-visit, and two vendors submitted follow-up questions or requests. Only the existing vendor, Serco Inc. submitted a proposal to SFMTA.

Subsequently, SFMTA and Serco Inc. successfully negotiated the terms of the proposed new agreement and on May 15, 2012 the SFMTA Board of Directors adopted Resolution No. 12-072, authorizing the execution of an agreement between SFMTA and Serco Inc. for parking meter collections, counting and related support services for a term of five years for a not-to-exceed amount of \$46,410,974, with an option to extend for an additional four years.

In addition, the SFMTA currently has a separate agreement with Serco, under a SFMTA pilot program known as *SFpark*, scheduled to extend through the Summer of 2012, to process

¹ This ten-year not-to-exceed \$77,300,000 agreement included approximately \$30 million for a Citywide procurement and installation of electronic parking meters.

parking meter debit and credit card payments and wireless communication fees, which totaled \$2,925,882 in FY 2011-12.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the SFMTA to execute a new five-year agreement with Serco Inc. for parking meter collection, counting and related support services for a not-to-exceed \$46,410,974, extending from August 1, 2012 through July 31, 2017, with an option to extend the term for up to an additional four years, or through July 31, 2021.

The primary services included in the proposed agreement between SFMTA and Serco Inc. include (a) single- and multi-space parking meter collections, counting, maintenance tracking and revenue reconciliation, (b) upgrades to the existing coin sorters for counting purposes, (c) installation of additional cameras on the trucks used to collect the parking meter revenues in order to obtain increased security, (d) purchase of replacement collection vaults, (e) Information Technology support for the electronic meters and for meter collection management, and (f) continued procurement of spare parking meters and spare parts.

In addition, the proposed new agreement also provides for services and costs related to the implementation of parking meters which accept debit and credit cards as a form of payment, including the processing of such debit and credit card payments and wireless communication service fees. The SFMTA anticipates replacing approximately 21,000 ten-year old parking meters with new parking meters that accept various forms of payment, including debit and credit cards in addition to coins. Because the subject agreement is structured to pay for labor based on coin volume, the proposed agreement enables the SFMTA to adjust services as needed in the event that coin usage declines and other payment options (i.e. debit and credit card transactions) increase and/or are implemented. Further, the proposed agreement allows for the coin collection, counting and support services related to an anticipated expansion of approximately 1,000 new parking meters in the Mission Bay area.

FISCAL IMPACTS

Based on a competitive RFP process, the proposed resolution would authorize SFMTA to execute a new agreement with Serco Inc. for five years for a total not-to-exceed \$46,410,974 or an average of \$9,282,195 per year. As shown in Table 1 below, the proposed average annual cost of \$9,282,195 is \$959,599 or 11.5 percent more than the cost of \$8,322,596 for comparable services provided to SFMTA in FY 2011-12, including both the (a) existing Serco agreement, and (b) existing Serco SF*park*, agreement. As shown in Table 1 below, the proposed new agreement provides for a number of additional services and fees that are not included in the existing agreement, such as debit and credit card processing fees and wireless communication service fees (that allow parking meters to communicate with backend software programs that

track maintenance and revenue data), and (c) a ten percent contingency to allow for the expansion of parking meters in the City.

Table 1: Comparison of Current FY 2011-12 Costs to Proposed Agreement's Average Annual Costs

SERCO Services	FY 2011- 12 Annual Amount Under Existing Agreement with Serco	Proposed New Agreement Annual Amount with Serco	Difference in Dollars	% Difference
Coin Collection (Labor)	\$2,256,057	\$2,307,209	\$51,152	2.27%
Coin Counting (Labor)	213,894	156,125	(57,769)	(27.01%)
Management Fees (includes collection vehicles, facility rentals, maintenance agreements, labor and contract management, armored car services and support staff)	1,632,418	1,545,635	(86,783)	(5.32%)
Parking Meter Spare Parts	1,097,928	750,000	(347,928)	(31.69%)
Equipment costs and upgrades	0	327,271	327,271	n/a
Port Meter Collections, Counting and warranties (reimbursed by the Port of San	196,417	172,317	24,100	(12.27%)
Subtotal	\$5,396,714	\$5,258,557	(138,157)	(2.56%)
Debit/Credit Card Processing Fees*	1,083,623	1,280,668	197,045	18.2%
Wireless Communications Fees*	1,842,259	1,892,970	50,711	2.8%
Subtotal Debit/Credit Card & Wireless Fees	2,925,882	3,173,638	247,756	8.5%
10% Contingency: To allow for parking meter expansion	0	850,000	850,000	n/a
Total	\$8,322,596	\$9,282,195	\$959,599	11.5%

*These costs are not included under the existing agreement but are associated with the additional costs of installing meters that accept debit/credit cards. These costs were formerly under the SF *Park* Program.

As noted above, the addition of debit and credit card processing and wireless communication service fees provided under the proposed Serco agreement are currently incorporated under a separate agreement with Serco, which totaled \$2,925,882 in FY 2011-12, under a SFMTA's pilot SF*park* program. As shown in Table 1 above, these new debit and credit card processing and wireless communication fees (formerly under SF*park*) would total \$3,173,638, which is \$247,756 or 8.5 percent more than the current total of \$2,925,882 under a separate agreement with Serco. Ms. Lorraine Fuqua of SFMTA advises that these additional costs are associated with the further adoption and implementation of debit and credit card capable parking meters and the associated wireless communication needs for the additional parking meters. Ms. Fuqua also notes that as debit and credit card payments at parking meters are more utilized by the public, and as the City makes debit and credit card enabled meters universal throughout the

City, additional debit and credit card processing and wireless communication service fees, and the related revenues will be realized by the SFMTA.

In addition, as shown in Table 1 above, the proposed agreement includes a ten percent contingency budget of \$850,000 which would be used to fund collection, counting and support services related to the potential expansion of parking meters into currently unmetered sections of the City. Ms. Fuqua advises that 1,000 new parking meters are anticipated for installation in the Mission Bay area, under the SFpark Program.

As shown in Table 1 above, if the debit and credit card transaction fees, wireless communication service fees as well as the ten percent contingency costs are excluded from the costs under the proposed new agreement, a direct comparison of the costs of Serco's services under the existing agreement with Serco's services under the proposed new agreement reflects a decrease in costs from \$5,396,714 to \$5,258,557, a reduction of \$138,157 or 2.56 percent.

As shown in Table 2 below, over the past ten years, the SFMTA has realized an average of \$31,284,143 annually in revenues from Serco's parking meter collections. In FY 2010-11 SFMTA's parking meter revenues totaled \$40,429,963, which the Department projects to increase to \$46,900,000 in FY 2011-12 and to further increase over the term of the proposed five year agreement, as parking metered areas are expanded. Based on the projected \$46,900,000 of parking meter revenues in FY 2011-12, these revenues represent approximately 6 percent of the SFMTA's total \$780,567,111 FY 2011-12 operating budget.

Table 2: SFMTA Parking Meter Revenue

Fiscal Year	Amount
2002-03	\$14,203,884
2003-04	\$24,107,482
2004-05	\$24,148,426
2005-06	\$29,687,616
2006-07	\$30,916,410
2007-08	\$31,625,512
2008-09	\$32,524,232
2009-10*	\$38,297,900
2010-11	\$40,429,963
2011-12 (<i>projected</i>)	\$46,900,000
Ten-Year Annual Average	\$31,284,143

* Includes revenues from a parking meter rate increase.

POLICY CONSIDERATION

As noted above, although eight potential vendors attended a pre-proposal conference, five attended the same-day site-visit, two submitted follow-up questions or requests, only one vendor submitted a proposal. The sole proposal was submitted by Serco, the existing contractor that provides parking meter collection, counting and related support services for the SFMTA. In addition, Serco is the current contractor for debit and credit card processing of parking meter revenues and wireless communication services. According to Ms. Fuqua none of the potential vendors requested modifications to SFMTA's minimum requirements, changes to the scope of work or filed protests with the SFMTA. Further, Ms. Fuqua notes that the bid by Serco Inc. was submitted with the expectation of competition from other vendors. As a result, as shown in Table 1 above, if the additional services under the proposed agreement are not included, a comparison of the costs of Serco's services under the existing agreement with Serco, with the costs under the proposed agreement with Serco reflects a decrease in costs from \$5,396,714 to \$5,258,557, a reduction of \$138,157 or 2.56 percent.

RECOMMENDATION

Approve the proposed resolution.

Item 5
File 12-0530

Department:
Real Estate

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would authorize the execution of a 60-year ground lease, from February 1, 2013 through January 31, 2073 between the City, as lessor, and the San Francisco Market Corporation, as lessee, for the lease of the real property and improvements known as the San Francisco Wholesale Produce Market (SFWPM), a central distribution center for approximately 30 wholesale produce businesses and produce distributors. Included under the proposed lease are the SFWPM Main Site and 2101 Jerrold Avenue which comprise the property included in the existing lease and the adjacent City-owned property at 901 Rankin Street.

Key Points

- Included in the proposed lease are tenant capital improvements to the current location of the SFWPM, which the San Francisco Market Corporation would be solely responsible for funding in their entirety. The tenant capital improvements would be conducted under a phased development plan to expand the existing SFWPM.
- The project would be completed in four phases, commencing no later than February 1, 2016 and is anticipated to be completed in full no later than three years from the commencement of the fourth phase, or by February 1, 2036.
- The proposed lease anticipates that the City would vacate certain portions of Jerrold Avenue, Selby Street, and other streets bisecting or adjacent to the SFWPM in order to provide better controls for food safety within the SFWPM site and reduce conflicts between operations on the SFWPM site and vehicles of parties not doing business at the SFWPM site. This street vacation is necessary in order to comply with California Environmental Quality Act (CEQA) requirements and is subject to separate Board of Supervisors approval.

Fiscal Impacts

- In accordance with the existing ground lease, no rent is paid directly by the City and County of San Francisco Market Corporation (CCSFMC) to the City. Under the proposed lease, prior to completion of the tenant capital improvements, the San Francisco Market Corporation would deposit net revenues into a Project Development Account to fund the planned tenant capital improvements. Once the tenant capital improvements, at an estimated cost of \$107,785,000, are completed and net revenues (gross revenues less operating expenses and any debt service payments) are positive for a period of three consecutive months, the San Francisco Market Corporation would pay the City directly, on or before the fifteenth day of each calendar month, monthly rent equal to net revenues for the previous month.
- In addition, the San Francisco Market would pay the City \$11,862 a month, or \$142,344 annually, for the relocation of the Department of Technology and MTA in the form of additional rent for 15 years of the 60-year ground lease, commencing on the date the City delivers the 901 Rankin Street premises to the San Francisco Market Corporation, resulting in a total of \$2,135,160.

- The total estimated cost of the tenant capital improvements is \$107,785,000 over the approximately 20 years of the project. The proposed lease stipulates that financing the tenant capital improvements would be the responsibility of the San Francisco Market Corporation and that the City bears no responsibility for funding those improvements.

Policy Considerations

- The Budget and Legislative Analyst notes that there are various factors pertinent to the tenant capital improvements which are not yet known. These unknown factors include the method of financing for the tenant capital improvements and the costs of the Department of Technology's relocation and rent in its new location. In addition, the rent that the City will receive from the San Francisco Market Corporation, equal to net revenues that the San Francisco Market Corporation receives from the San Francisco Wholesale Produce Market operations, the approximate date that the City will start receiving that rent and the total estimated rent that the City will receive over the proposed 60-year lease are also not yet known. Based on these unknown factors, the decision to approve 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 more is subject to approval by the Board of Supervisors.

Background

San Francisco Wholesale Produce Market

The San Francisco Wholesale Produce Market (SFWPM) is a City-owned facility on 19.6 acres adjacent to Rankin, Toland, Jerrold, and Innes Avenues in the Bayview, which provides a central distribution center for approximately 30 wholesale produce businesses and produce distributors. The SFWPM has operated at its current location since 1963 and currently consists of two subareas, the Main Site and 2101 Jerrold Avenue, with 275,185 square feet of warehouse, dock, and office space.

In 1961, a non-profit corporation, the City and County of San Francisco Market Corporation (CCSFMC), was created to provide financial and other assistance to the City in the acquisition of land and construction of facilities for use as a wholesale produce distribution center, including the issuance of \$4,600,000 in revenue bonds to purchase the property from the U.S. General Services Administration and construct the Wholesale Produce Market. The \$4,600,000 in revenue bonds was fully repaid on August 2, 1983.

In 1963, the City, as lessor, entered into a 50-year ground lease, which expires on January 31, 2013, with the CCSFMC, as lessee, for the SFWPM property. CCSFMC subleases the warehouse, docks and office space to approximately 30 SFWPM merchants¹, primarily produce distributors and grocery/produce stores. Under the provisions of the existing ground lease between the City and the CCSFMC, sublease revenues received by the CCSFMC must be used to pay for the retirement of the (a) \$4,600,000 in revenue bonds (previously noted as paid in full), (b) SFWPM's operating costs, and (c) for repair and replacement of the SFWPM. Under the existing ground lease, no rent is paid directly by the CCSFMC to the City.

In addition, the CCSFMC entered into a separate 50-year management agreement with the San Francisco Produce Association (SFPA)² for operation and management of the Wholesale Produce Market which expires on September 30, 2012. Under that agreement, the CCSFMC has overall responsibility for the improvements and maintenance of the infrastructure of the SFWPM, while the SFPA is responsible for the daily operations and management of the SFWPM and is involved in produce trade issues. Currently, in accordance with the management agreement, the SFPA initially pays for both the CCSFMC's and the SFPA's expenses and then subsequently the SFPA is reimbursed by the CCSFMC for its share of those expenses on a monthly basis. These reimbursements for operating expenses are reviewed and approved by the Controller's Office.

In 1999, \$4,523,000 of additional capital improvements were made to the SFWPM in order to provide for two new SFWPM tenants, Whole Foods and Earl's Organics, at 2101 Jerrold Avenue. The \$4,523,000 was funded through (a) a \$900,000 credit line which was issued to CCSFMC by Bank of America, (2) SFWPM reserves, and (3) SFWPM's annual operating funds. The \$900,000 credit line was fully repaid by CCSFMC to Bank of America on August 21, 2002.

901 Rankin Street

The City owns an adjacent parcel of land, which includes a warehouse with office space at 901 Rankin Street, currently used by two City Departments, the Department of Technology and the Municipal Transportation Agency (MTA). The Department of Technology's Public Safety Communications Division, which repairs and installs mobile data devices in public safety vehicles and maintains the City's emergency communication network and facilities, utilizes the space at 901 Rankin Street for the storage of equipment. MTA houses its Meter and Traffic Signal Divisions at 901 Rankin Street. According to Mr. John Updike, Acting Director of the Real Estate Division, neither City Department pays rent to the City for its use of 901 Rankin Street.

Anticipated Expiration of Ground Lease

In order to meet evolving food industry standards, the age of the SFWPM facilities, and the demand for more space at the SFWPM, the CCSFMC began exploring possible renovations to

¹ According to Mr. John Updike, Acting Director of the Real Estate Division, the average sublease is for a stall containing 2,640 square feet with current rents at \$2,825 per month, or \$1.07 per square foot per month.

² The San Francisco Produce Association (SFPA) is a trade association comprised of the approximately 30 merchants which operate in the Wholesale Produce Market.

the entire SFWPM facility in order to provide a modern facility which both increases available space and meets current food industry standards. In anticipation of the CCSFMC's existing ground lease's expiration on January 31, 2013, the CCSFMC proposed to the City Administrator that a new long-term ground lease be entered into that expands the area to include the existing Main Site and 2101 Jerrold Avenue, as well as 901 Rankin Street and that improvements be made to the SFWPM facility to expand and modernize the facility as well as address various changes in food safety regulations, handling procedures, and food security concerns which have evolved since the SFWPM was originally constructed in 1963. The CCSFMC submitted a report to the Board of Supervisors on the fiscal feasibility of the proposed project on September 9, 2009. On November 3, 2009, the Board of Supervisors determined the proposed project to be fiscally feasible (Resolution No. 434-09).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the execution of a new 60-year ground lease, from February 1, 2013 through January 31, 2073, between the City, as lessor, and the San Francisco Market Corporation, as lessee, for the lease of the real property and improvements known as the San Francisco Wholesale Produce Market (SFWPM). Included under the proposed lease are the SFWPM Main Site, adjacent to Rankin, Toland, Jerrold, and Innes Avenues in the Bayview, and 2101 Jerrold Avenue which comprise the property included in the existing lease and the adjacent City-owned property at 901 Rankin Street. 901 Rankin Street, as previously noted, is office and warehouse space currently occupied by the Department of Technology and MTA.

San Francisco Market Corporation is a new nonprofit corporate entity created in 2012 by existing SFWPM stakeholders separate from the City to operate the SFWPM under the proposed ground lease, which would replace the existing CCSFMC nonprofit organization that currently has overall responsibility for the SFWPM under the existing ground lease³. According to Mr. Updike, this new nonprofit corporate entity was created in order to comply with the current more rigorous standards for corporation entities than existed when the original nonprofit organization, CCSFMC, was created in 1961. Once the existing lease expires, the San Francisco Market Corporation will replace the CCSFMC as lessee and soon thereafter the CCSFMC will no longer exist following completion of transition activities.

In addition, Mr. Updike notes that the relationship between the nonprofit corporate entity, San Francisco Market Corporation under the proposed lease, and the San Francisco Produce Association, which currently has a separate 50-year management agreement with the CCSFMC, which expires on September 30, 2012, for operation and management of the Wholesale Produce Market would likely change substantially under the proposed lease. However, those changes are currently under discussion and have yet to be determined at the time of the writing of this report.

Upon expiration of the existing 50-year lease and enactment of the proposed 60-year lease, the CCSFMC would (a) surrender possession of the SFWPM premises, (b) transfer all of its capital

³ Mr. Updike advises that three of the four initial directors of the nonprofit San Francisco Market Corporation are directors of the existing nonprofit CCSFMC.

accounts, operating accounts, and reserves⁴ to the new nonprofit corporate entity, the San Francisco Market Corporation, (c) transfer all of its other personal or other intangible property, including equipment, supplies, files, books, and records to the San Francisco Market Corporation, (d) assign all maintenance, janitorial, security and other service contracts to the San Francisco Market Corporation, and (e) cooperate with the San Francisco Market Cooperation to recover possession from any existing tenants who have not entered into subleases before the proposed lease's February 1, 2013 commencement date.

Proposed Tenant Capital Improvements

Under the proposed 60-year ground lease, the San Francisco Market Corporation would be solely responsible for funding various tenant capital improvements to the SFWPM. These tenant capital improvements would be conducted under a phased development plan to expand the existing SFWPM. As shown in the image below, the proposed development site is split into three subareas which are outlined with a dotted line: (1) the Main Site in the center, (2) 901 Rankin Street to the east and (3) 2101 Jerrold Avenue to the west.



Under the proposed development scenario⁵, four new warehouse structures on the Main Site and one warehouse on the 901 Rankin Street site would be constructed. No changes would be made to the 2101 Jerrold Avenue subarea. In addition, an operations center of approximately 3,961 square feet would be constructed on the Main Site. These capital improvements would be completed in four phases in order to avoid closure of the SFWPM or displacement of any

⁴ According to the draft financial statement, the CCSFMC's capital assets, of which \$6,129,972 is capital assets and \$5,600,000 is cash or cash equivalent, totaled \$12,107,306 as of December 31, 2011.

⁵ Under the final Mitigated Negative Declaration, published on July 5, 2011, there are two development scenarios, one of which is deemed most probable and is discussed in the proposed report. The second development scenario would renovate rather than reconstruct the improvements.

subtenants, with the first phase of these capital improvements commencing no later than February 1, 2016. As shown on the detailed timeline in Attachment I, all of the improvements would be completed no later than three years from the commencement of the fourth phase, or by February 1, 2036.

As shown in Table 1 below, the three subareas currently comprise a total of 372,889 square feet of space and the proposed tenant capital improvements would result in a total of 525,855 square feet of space, a total increase of 152,970 square feet of space for all of the proposed buildings.

Location	Current Square Feet of Building Space	Square Feet of Building Space After Development	Square Footage Increase
Main Site	275,185	360,557	85,372
901 Rankin Street	46,650	114,248	67,598
2101 Jerrold Avenue	51,050	51,050	0
Total	372,885	525,855	152,970

In addition to the expansion of the three subareas' building space, as shown in Table 2 below, the current 135,910 square feet of parking space would be expanded to 168,990 square feet, an increase of 33,080 square feet.

Location	Current Square Feet of Parking Space	Square Feet of Parking Space After Development	Square Footage Increase (Decrease)
Main Site	96,627	139,149	42,522
901 Rankin Street	32,883	23,441	(9,442)
2101 Jerrold Avenue	6,400	6,400	0
Total	135,910	168,990	33,080

This increased space would allow for existing wholesale merchant subtenants to increase the space that they lease from the SFWPM and allow for new subtenancies, thereby enabling an increase of SFWPM's revenues. SFWPM staff is currently discussing potential expansions of subleased space with existing subtenants and prospective new subtenants.

Under the proposed lease, the new San Francisco Market Corporation would submit design documents⁶ and corresponding budgets to the City Administrator at progressive stages of completion of the tenant capital improvements for the City Administrator to review and approve.⁷ The City Administrator's review of design documents would comprise conformity with the project scope and other project requirements, such as consistency with previously approved submittals and the design of any areas required to be accessible to the public. The City Administrator's review of budgets would be to ensure that the budget is accurate and reliable

⁶ Design documents consist of (a) schematic drawings, (b) design development documents, (c) preliminary construction documents, and (d) final construction documents for each phase of development.

⁷ The City Administrator would designate City staff to conduct review of both the design documents and the budgets for each phase of the project.

relative to the design documents submitted for that phase and that the budget is reasonable in light of the project's goals.

In addition, no later than 90 days before the commencement of construction, the San Francisco Market Corporation would submit to the City Administrator (a) final construction documents consisting of (a) a final budget, (b) a statement indicating that the San Francisco Market Corporation has sufficient funds to complete the tenant capital improvements and service any debt issued in accordance with the budget, (c) a copy of all financing documents for any portion of the budget intended to be borrowed by the San Francisco Market Corporation for that phase, and (d) a copy of the construction contracts. The City Administrator shall notify the San Francisco Market Corporation within 30 days of its approval or disapproval of the submitted documents. The City Administrator would be reimbursed by the San Francisco Market Corporation for the City's costs to review and approve all design, budget, and financing documents.

In addition to these tenant capital improvements, the proposed 60-year ground lease would also require the Board of Supervisors to approve the vacation of certain portions of Jerrold Avenue, Selby Street, and other streets bisecting or adjacent to the SFWPM in order to provide better controls for food safety within the SFWPM site⁸ and to comply with the California Environmental Quality Act (CEQA) requirements. It is estimated that the proposed resolution approving the street vacation will be considered by the entire Board of Supervisors on July 17, 2012, sitting as Committee of the Whole. Portions of Rankin Street, Innes Avenue, and Kirkwood Avenue would be reconfigured and two new street intersections would be created at Toland Street. The proposed lease would restrict the use of these vacated streets to ensure that these streets would be in a suitable condition for the City to re-dedicate them for public street purposes when the proposed lease expires, if the City wishes to do so.

901 Rankin Street Lease Provisions

As previously noted, two City Departments, the Department of Technology and the Municipal Transportation Agency (MTA) use a warehouse with office space at 901 Rankin Street and, under the proposed lease, would need to relocate. Mr. Updike advises that MTA has already begun to implement a relocation plan to move its offices from 901 Rankin Street to other currently MTA-owned facilities. That relocation was approved by the MTA Commission in the adoption of the FY 2012-13 budget and is anticipated to be completed in FY 2012-13. The Department of Technology has begun, with the help of the Real Estate Division, to find alternative locations. Any new lease agreement and funding required for the Department of Technology's relocation from 901 Rankin Street would be subject to future Board of Supervisors approval. For 15 years of the proposed 60-year ground lease, commencing when the City delivers the 901 Rankin Street to the San Francisco Market Corporation, the City would receive a total of \$11,862 a month, or \$142,344 annually, from the San Francisco Market Corporation to address the General Fund impact of the relocation of the Department of Technology in the form of additional rent.

⁸ Federal guidelines dictate that the SFWPM perimeter has controlled access and that any visitors be monitored to ensure food safety.

FISCAL IMPACTS

Base Rent Payments

As noted above, under the existing ground lease, no rent is paid directly by the CCSFMC to the City. Under the proposed lease, prior to the Stabilization Date⁹, which is not yet known, the San Francisco Market Corporation would be required to deposit net revenues¹⁰ for the previous month into a Project Development Account¹¹ to fund the planned tenant capital improvements. Net revenues were equal to \$533,625 in calendar year 2011 and equal to \$502,856 in calendar year 2010.

Subsequent to the unknown Stabilization Date, the San Francisco Market Corporation would be required to pay the City Administrator directly, on or before the 15th day of each month, net revenues for the previous month rather than depositing those net revenues into a Project Development Account. These net revenues would go to the City's General Fund. According to Mr. Updike, revenues paid by wholesale merchant sublessees to the San Francisco Market Corporation are expected to increase as a result of the tenant capital improvements due to the approximately 152,970 square feet (See Table 1 above) of space which would be available for sublease upon completion of the project. However, it is not yet known how that increase in revenues would affect net revenues paid to the City. Mr. Updike advises that it is not possible to estimate future changes in rent (net revenues) to be received by the City.

Under the proposed lease, the San Francisco Market Corporation would be allowed, from "time to time" to prepay some or all of the debt it incurs through the financing of the tenant capital improvements and deduct that amount in total from its net revenues. In addition, as previously noted, the San Francisco Market would pay the City \$11,862 a month, or \$142,344 annually, for the relocation of the Department of Technology and MTA in the form of additional rent for the 15 years of the 60-year ground lease, commencing on the date the City delivers the 901 Rankin Street premises to the San Francisco Market Corporation, resulting in a total of \$2,135,160.

According to Mr. Updike, MTA had anticipated relocating before the plans for the SFWPM tenant capital improvements were finalized in order to consolidate operations in as few locations as possible and therefore the relocations costs should not be considered relevant to the proposed lease costs of the SFWPM. The costs of that relocation were not available at the time of the writing of this report. In addition, the costs of relocating the Department of Technology are not yet known. However, current estimates reflect that the Department of Technology's relocation could cost between \$500,000 and \$800,000 in rent annually, resulting in annual additional costs

⁹ The Stabilization Date is the first day of the first month after completion of all phases of the tenant capital improvements, after which net revenues are positive for a period of three consecutive months.

¹⁰ Net revenues are gross revenues less operating expenses and debt service payments. Net revenues in calendar year 2011 were \$1,037,439 and in calendar year 2010 were \$892,940.

¹¹ A separate San Francisco Market Corporation Project Development Account must be used for the payment of the planned tenant capital improvements and cannot be used for operating expenses, capital repairs and replacements, or for any other purpose without prior written consent of the City.

to the City of between \$357,656 and \$656,656 for the first 15 years of the lease, when accounting for the annual payment of \$142,344 the City will receive. After those first 15 years, the City will bear the full cost of rent for the Department of Technology's relocation. The relocation costs could also result in an additional \$250,000 to \$500,000 in one-time expenses. However, Mr. Updike also advises that 901 Rankin Street, in its current state, is quite dilapidated and has been an unfunded capital need included in the City's Capital Plan for several years. If the Department of Technology were not to be relocated, 901 Rankin Street would require significant rehabilitation, with the building likely needing to be demolished and reconstructed.

Cost of Tenant Capital Improvements

As previously noted, the tenant capital improvements are planned to take place in four phases. As summarized in Table 3 below and shown in greater detail in Attachment II, the total estimated cost of the tenant capital improvements is \$107,785,000 over an approximately 20 year period, from no later than February 1, 2016 through no later than February 1, 2036.

Table 3: Estimated Costs of Tenant Capital Improvements and Dates of Construction Under Proposed Lease of San Francisco Wholesale Produce Market.	
	Total Cost
Prior to Construction	\$2,717,000
Phase 1 (2/1/2016 – 2/1/2018)*	19,081,000
Phase 2 (2/1/2018 – 2/1/2021)*	5,528,000
Phase 3 (2/1/2023 – 2/1/2026)*	44,081,000
Phase 4 (2/1/2033 – 2/1/2036)*	36,378,000
Total	\$107,785,000

* Dates are estimated by the San Francisco Market Corporation

Financing of Tenant Capital Improvements

The proposed lease stipulates that financing all of these tenant capital improvements would be the responsibility of the San Francisco Market Corporation and Ms. Anita Wood of the City Attorney's Office confirms that the City bears no liability for funding these improvements. According to Mr. Updike, the San Francisco Market Corporation plans to utilize the SFWPM's cash reserves and annual operating funds as well as the funds which have been accumulated in the Project Development Account for the tenant capital improvements. The funds from the Project Development Account are from sublease revenue paid by the wholesale merchants to fund these tenant capital improvements. However, Mr. Updike advises that these SFWPM funds would likely not be sufficient to fully fund the proposed tenant capital improvements. According to Mr. Updike, to date, no additional financing of the tenant capital improvements has been secured, but there are several options being considered by the San Francisco Market Corporation to finance each phase of these tenant capital improvements.

Mr. Updike notes that these options include (a) federal grants, (b) New Markets Tax Credits¹², and (c) a leasehold mortgage¹³. Mr. Updike advises that federal grants are currently being sought from several federal agencies, including the Economic Development Administration, the Food and Drug Administration, and the Department of Transportation. Regarding the New Markets Tax Credits, US Bank and Bank of America have drafted letters of interest to the SFWPM stating interest and consideration of providing New Market Tax Credit financing for the proposed tenant capital improvements. Regarding the leasehold mortgage option, the proposed lease allows the San Francisco Market Corporation to mortgage the proposed City ground lease to an entity in order to finance the tenant capital improvements currently being considered or to finance any other subsequent repairs later found necessary related to the tenant capital improvements currently being proposed. However, the lease stipulates that no financing may be undertaken by the San Francisco Market Corporation which would be a direct or indirect obligation or security of the City.

Mr. Updike advises that there have also been substantive discussions with Bank of America regarding financing and that Bank of America has been actively involved in drafting the proposed lease to ensure that no language is contained in the proposed 60-year ground lease that would preclude such financing from occurring. Bank of America has written a letter of interest indicating its interest in partially financing the proposed tenant capital improvements through a direct loan. Bank of America is currently a subtenant in the existing ground lease and would continue to be a subtenant under the proposed new ground lease. In addition, as noted above, Bank of America financed \$900,000 of the 1999 tenant capital improvements completed by the SFWPM in the form of a line of credit, which was fully repaid on August 21, 2002.

Under the proposed lease, the San Francisco Market Corporation could also elect to finance a portion of the tenant capital improvements with proceeds from issuing Certificates of Participation (COPs).¹⁴ According to Mr. Updike, no COPs are anticipated to be issued at this time. However, Mr. Updike advises that the ability to issue COPs was included in the proposed lease because “this is a project that contemplates phased construction with a final phase to

¹² The New Markets Tax Credit Program was established by Congress in 2000. The New Market Tax Credit Program attracts investment capital by permitting Community Development Entities and their subsidiaries to apply for and receive tax credits that they can then sell to investors. The proceeds from the sale of new market tax credits are loaned to eligible projects in low-income communities as defined by the Community Development Financial Institutions Fund, a branch of the United States Department of the Treasury. The investors use the tax credits to offset their tax burden on their Federal income tax return. According to Mr. Updike, New Market Tax Credits can only fund up to 20 percent of a project phase and cannot be used for street improvements under federal rules. Therefore, such a financing option is not available for the second phase of the proposed tenant capital improvements.

¹³ A leasehold mortgage is an encumbrance or lien on a tenant’s interest in a lease conveyed to a lender as collateral for a loan to the tenant.

¹⁴ COPs are a form of long-term debt which are sold to investors in consideration for a portion of the lease revenues from a specific City-owned property, such that the investors “participate” in receiving lease revenues in the form of debt service payments. Under a typical COP structure, the City leases a City-owned property to a trustee in consideration for a one-time lease payment from the trustee to the City that is equal to the proceeds from the issuance of such COPs. The trustee subsequently subleases the same City-owned property back to the City in return for semi-annual rent payments equal to the debt service (including principal and interest) due on the COPs. This lease-sublease structure is known as an asset transfer model. Under such an asset transfer model, the City-owned property leased to the trustee serves as collateral to the trustee on the issued COPs. After the COPs are fully repaid by the City, the City-owned property, previously leased to the trustee, reverts back to the City.

commence not more than 24 years from now. It would not be prudent to rule out any potential source of funds to the market over the course of the next few decades, and therefore the potential of COPs funds was not precluded.” The issuance of COPs to finance a portion of the SFWPM tenant capital improvements would be subject to Board of Supervisors approval and, if approved, according to Ms. Wood from the City Attorney’s Office, the City would not be responsible for the cost of that issuance under the proposed lease. All debt service and issuance costs would be paid from revenues received by the San Francisco Market Corporation from the operation of the SFWPM.

City Reimbursement by San Francisco Market Corporation

Under the provisions of the proposed 60-year ground lease, the City would be reimbursed by the San Francisco Market Corporation within 60 days following receipt of a written invoice from the City for its costs in connection with the implementation, management or enforcement of the proposed lease. The City would submit an annual estimate of projected annual reimbursable costs in connection with preparation of the San Francisco Market Corporation’s annual operating budget. However, the City’s reimbursement would not be limited by that estimate if costs exceed the submitted estimate for that year. Reimbursable costs include review and approval of all design, budget, and financing documents as well as review of leasing schedules. Mr. Updike estimates that the City would receive between \$25,000 and \$75,000 annually, with higher reimbursements in the early years of the proposed lease based on the City’s need to review and approve design and budget documents related to the proposed tenant capital improvements.

POLICY CONSIDERATIONS

The Budget and Legislative Analyst notes that there are various factors pertinent to the tenant capital improvements which are not yet known. These unknown factors include the method of financing for the tenant capital improvements and the costs of the Department of Technology’s relocation and rent in its new location. In addition, the rent that the City will receive from the San Francisco Market Corporation, equal to net revenues that the San Francisco Market Corporation receives from SFWPM operations, and the approximate date that the City will start receiving that rent and the total estimated rent that the City will receive over the proposed 60-year lease are also not yet known. Based on these unknown factors, the decision to approve 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.

EXHIBIT G-1

SCHEDULE OF PERFORMANCE

The following tables provide the Schedule of Performance for: all Phases as an overview; the Phase I Improvements (901 Rankin); the Phase II Improvements (Surrounding Street Improvements and Traffic, Marshalling Yard and Infrastructure Improvements); the Phase III Improvements (Central Market Site); and the Phase IV Improvements (Central Market Site). Each of these Phases is described in greater detail in the Scope of Development (Exhibit E).

Several principles apply to an effective understanding of this Schedule of Performance: (a) all terms used herein have the same meanings as provided in the Lease; (b) parenthetical numbers are references to sections of the Lease, as the dates and time periods described in this Schedule of Performance are not exhaustive of all dates and time periods described in the Lease; (c) dates and time periods described herein are subject to adjustments as provided in the Lease; and (d) in the event of an inconsistency between this Schedule of Performance and the Lease, the Lease shall prevail.

SCHEDULE OF PERFORMANCE - OVERVIEW

<u>Action</u>	<u>Required Completion Date</u>
Commencement of Construction of Phase I Improvements (901 Rankin)	No later than February 1, 2016
Completion of Construction of Phase I Improvements	No later than February 1, 2018
Commencement of Phase II Improvements (Surrounding Street Improvements and Traffic, Marshalling Yard and Infrastructure Improvements)	No later than February 1, 2018
Completion of Phase II Improvements	No later than February 1, 2021
Commencement of Construction of Phase III Improvements (Central Market Site)	No later than February 1, 2023
Completion of Construction of Phase III Improvements	No later than February 1, 2026
Commencement of Construction of Phase IV Improvements (Central Market Site)	No later than February 1, 2033
Completion of Construction of Phase IV Improvements	No later than February 1, 2036

PHASE I IMPROVEMENTS

(901 RANKIN)

The Phase I Improvements involve the demolition of the existing structures and construction of a new building on the 901 Rankin Premises, together with associated street and streetscape improvements, as described in greater detail in the Scope of Development (Exhibit E).

<u>Action</u>	<u>Required Completion Date</u>
Tenant shall prepare and submit an updated Development Plan to City for review (Section 5.2).	Approximately one (1) year prior to commencement of construction of Phase I Improvements.
Tenant shall prepare and submit the conceptual Streetscape Plan associated with Phase I Improvements to City for review and approval (Section 5.1(b) and Exhibit I-2).	One (1) year prior to commencement of construction.
Tenant shall prepare and submit Schematic Drawings and Budget to City for review and approval.	No later than 150 days prior to submittal of the Design Development Documents and Budget.
City shall approve, disapprove or approve conditionally the Schematic Drawings and Budget (Section 5.5(b)).	Within 15 business days after complete submittal thereof.
Tenant shall prepare and submit the Design Development Documents and Budget to City for review and approval.	No later than 150 days prior to submittal of the Preliminary Construction Documents and Budget.
City shall approve, disapprove or approve conditionally the Design Development Documents and Budget (Section 5.5(b)).	Within 15 business days after complete submittal thereof.
Tenant shall prepare and submit the Preliminary Construction Documents and Budget to City for review and approval.	No later than 120 days prior to submittal of the Improvements Final Construction Documents and Budget.
City shall approve, disapprove or approve conditionally the Preliminary Construction Documents and Budget (Section 5.5(b)).	Within 15 business days after complete submittal thereof.
Tenant shall prepare and submit the Final Construction Documents and Budget to City for review and approval (Section 5.7(a)).	No later than 90 days prior to commencement of construction.

<u>Action</u>	<u>Required Completion Date</u>
City shall approve, disapprove or approve conditionally the Final Construction Documents and Budget (Section 5.7(b)).	Within 30 days after complete submittal thereof.
Tenant shall submit to City evidence of adequate financing, including a bonafide commitment of institutional lender and statement of sources and uses of funds and Construction Contract (Section 5.7(a)).	No later than 90 days prior to commencement of construction.
City shall approve or disapprove the evidence of adequate financing and Construction Contract (including the reasons for disapproval) in writing (Section 5.7(b)).	Within 30 days after complete submittal thereof.
Tenant shall have obtained all Regulatory Approvals required to commence construction (Section 15.2).	Prior to the commencement of construction.
Commencement of Construction of Phase I Improvements.	No later than February 1, 2016.
Completion of Construction of Phase I Improvements.	No later than 24 months after commencement of construction.
Tenant shall furnish City As-Built Documents (Section 5.10(a)).	Within 90 days after Completion of the Phase I Improvements.
Tenant shall furnish Certified Construction Costs to the City (Section 5.10(b)).	Within 90 days after Completion of the Phase I Improvements.

**PHASE II IMPROVEMENTS
(SURROUNDING STREET IMPROVEMENTS AND
TRAFFIC, MARSHALLING YARD AND INFRASTRUCTURE IMPROVEMENTS)**

The following provides the Schedule of Performance for the Phase II Improvements (Surrounding Street Improvements and the Traffic, Marshalling Yard and Infrastructure Improvements), as those portions of the Project are described in greater detail in the Scope of Development (Exhibit E). The Surrounding Street Improvements and the Traffic, Marshalling Yard and Infrastructure may or may not be completed within a single period of construction. If built separately, the below Schedule of Performance shall apply to each separate period of construction, provided the entire Phase II Improvements shall have commenced construction no later than February 1, 2018.

<u>Action</u>	<u>Required Completion Date</u>
Tenant shall prepare and submit an updated Development Plan to City for review (Section 5.2).	Approximately one (1) year prior to commencement of construction of Phase II Improvements.
Tenant shall prepare and submit the conceptual Streetscape Plan associated with Phase II Improvements to City for review and approval (Section 5.1(b) and Exhibit I-2).	One (1) year prior to commencement of construction.
City shall approve, disapprove or approve conditionally the Schematic Drawings and Budget (Section 5.5(b)).	Within 15 business days after complete submittal thereof.
Tenant shall prepare and submit the Design Development Documents and Budget to City for review and approval.	No later than 150 days prior to submittal of the Preliminary Construction Documents and Budget.
City shall approve, disapprove or approve conditionally the Design Development Documents and Budget (Section 5.5(b)).	Within 15 business days after complete submittal thereof.
Tenant shall prepare and submit the Final Construction Documents and Budget (Section 5.7(a)).	No later than 90 days prior to commencement of construction.
City shall approve, disapprove or approve conditionally the Final Construction Documents and Budget (Section 5.7(b)).	Within 30 days after complete submittal thereof.

<u>Action</u>	<u>Required Completion Date</u>
Tenant shall submit to City evidence of adequate financing, including a bonafide commitment of institutional lender and statement of sources and uses of funds and Construction Contract (Section 5.7(a)).	No later than 90 days prior to commencement of construction.
City shall approve or disapprove the evidence of adequate financing and Construction Contract (including the reasons for disapproval) in writing (Section 5.7(b)).	Within 30 days after complete submittal thereof.
Tenant shall have obtained all Regulatory Approvals required to commence construction (Section 15.2).	Prior to the commencement of construction.
Commencement of Construction of Phase II Improvements.	No later than February 1, 2018.
Completion of Construction of Phase II Improvements.	No later than February 1, 2021.
Tenant shall furnish City As-Built Documents (Section 5.10(a)).	Within 90 days after Completion of Phase II Improvements.
Tenant shall furnish Certified Construction Costs (Section 10(b)).	Within 90 days after Completion of Phase II Improvements.

**PHASE III IMPROVEMENTS
(CENTRAL MARKET SITE)**

The Phase III Improvements consist of the construction and/or renovation and enlargement of two (2) of the four (4) structures on the Central Market Site, as described in greater detail in the Scope of Development (Exhibit E). The two (2) structures may or may not be completed within a single period of construction. If built separately, the below Schedule of Performance shall apply to each structure of the Phase III Improvements, provided the entire Phase IV Improvements shall have commenced construction no later than February 1, 2023.

<u>Action</u>	<u>Required Completion Date</u>
Tenant shall prepare and submit an updated Development Plan to City for review (Section 5.2).	Approximately one (1) year prior to commencement of construction of Phase III Improvements.
Tenant shall prepare and submit Schematic Drawings and Budget to City for review and approval.	No later than 150 days prior to submittal of the Design Development Documents and Budget.
City shall approve, disapprove or approve conditionally the Schematic Drawings and Budget for each structure (Section 5.5(b)).	Within 15 business days after complete submittal thereof.
Tenant shall prepare and submit the Design Development Documents and Budget to City for review and approval.	No later than 150 days prior to submittal of the Preliminary Construction Documents.
City shall approve, disapprove or approve conditionally the Design Development Documents and Budget (Section 5.5(b)).	Within 15 business days after complete submittal thereof.
Tenant shall prepare and submit the Preliminary Construction Documents and Budget to City for review and approval.	No later than 120 days prior to submittal of the Final Construction Documents and Budget.
City shall approve, disapprove or approve conditionally the Preliminary Construction Documents and Budget (Section 5.5(b)).	Within 15 business days after complete submittal thereof.
Tenant shall prepare and submit the Final Construction Documents and Budget to City for review and approval (Section 5.7(a)).	No later than 90 days prior to commencement of construction.
City shall approve, disapprove or approve conditionally the Final Construction Documents and Budget. (Section 5.7(b)).	Within 30 days after complete submittal thereof.

<u>Action</u>	<u>Required Completion Date</u>
Tenant shall submit to City evidence of adequate financing, including a bonafide commitment of institutional lender and statement of sources and uses of funds and Construction Contract (Section 5.7(a)).	No later than 90 days prior to commencement of construction.
City shall approve or disapprove the evidence of adequate financing and Construction Contract (including the reasons for disapproval) in writing (Section 5.7(b)).	Within 30 days after complete submittal thereof.
Tenant shall have obtained all Regulatory Approvals required to commence construction (Section 15.2).	Prior to the commencement of construction.
Commencement of Construction of Phase III Improvements.	No later than February 1, 2023.
Completion of Construction of the Phase III Improvements.	No later than 36 months from the Commencement of Construction of the Phase III Improvements.
Tenant shall furnish City As-Built Documents (Section 5.10(a)).	Within 90 days after Completion of the Phase III Improvements.
Tenant shall furnish Certified Construction Costs to the City (Section 5.10(b)).	Within 90 days after Completion of the Phase III Improvements.

**PHASE IV IMPROVEMENTS
(CENTRAL MARKET SITE)**

The Phase IV Improvements consist of the construction and/or renovation and enlargement of the remaining two (2) structures on the Central Market Site, as described in greater detail in the Scope of Development (Exhibit E). The two (2) structures may or may not be completed within a single period of construction. If built separately, the below Schedule of Performance shall apply to each structure of the Phase IV Improvements, provided the entire Phase IV Improvements shall have commenced construction no later than February 1, 2023.

<u>Action</u>	<u>Required Completion Date</u>
Tenant shall prepare and submit an updated Development Plan to City for review (Section 5.2).	Approximately one (1) year prior to commencement of construction of Phase IV Improvements.
Tenant shall prepare and submit Schematic Drawings and Budget to City for review and approval.	No later than 150 days prior to submittal of the Design Development Documents and Budget.
City shall approve, disapprove or approve conditionally the Schematic Drawings and Budget for each structure (Section 5.5(b)).	Within 15 business days after complete submittal thereof.
Tenant shall prepare and submit the Design Development Documents and Budget to City for review and approval.	No later than 150 days prior to submittal of the Preliminary Construction Documents.
City shall approve, disapprove or approve conditionally the Design Development Documents and Budget (Section 5.5(b)).	Within 15 business days after complete submittal thereof.
Tenant shall prepare and submit the Preliminary Construction Documents and Budget to City for review and approval.	No later than 120 days prior to submittal of the Final Construction Documents and Budget.
City shall approve, disapprove or approve conditionally the Preliminary Construction Documents and Budget (Section 5.5(b)).	Within 15 business days after complete submittal thereof.
Tenant shall prepare and submit the Final Construction Documents and Budget to City for review and approval (Section 5.7(a)).	No later than 90 days prior to commencement of construction.
City shall approve, disapprove or approve conditionally the Final Construction Documents and Budget. (Section 5.7(b)).	Within 30 days after complete submittal thereof.

<u>Action</u>	<u>Required Completion Date</u>
Tenant shall submit to City evidence of adequate financing, including a bonafide commitment of institutional lender and statement of sources and uses of funds and Construction Contract (Section 5.7(a)).	No later than 90 days prior to commencement of construction.
City shall approve or disapprove the evidence of adequate financing and Construction Contract (including the reasons for disapproval) in writing (Section 5.7(b)).	Within 30 days after complete submittal thereof.
Tenant shall have obtained all Regulatory Approvals required to commence construction (Section 15.2).	Prior to the commencement of construction.
Commencement of Construction of Phase IV Improvements.	No later than February 1, 2033.
Completion of Construction of the Phase IV Improvements.	No later than 36 months from the Commencement of Construction of the Phase IV Improvements.
Tenant shall furnish City As-Built Documents (Section 5.10(a)).	Within 90 days after Completion of the Phase IV Improvements.
Tenant shall furnish Certified Construction Costs to the City (Section 5.10(b)).	Within 90 days after Completion of the Phase IV Improvements.

WORKING DRAFT

Table 2.
Development Cost Budget
SF Wholesale Produce Market
 (000's)

	<u>Predev</u>	<u>Phase 1</u>	<u>Phase 2</u>	<u>Phase 3</u>	<u>Phase 4</u>	<u>Total</u>
Direct Costs						
Demolition		\$422		\$987	\$935	\$2,344
Offsites		\$231		\$180	\$236	\$647
Onsites		\$1,903		\$3,434	\$1,860	\$7,197
Road Improvements			\$4,200			\$4,200
Buildings						
901 Rankin		\$10,503				\$10,503
Building 1				\$11,800		\$11,800
Building 2				\$12,376		\$12,376
Operations Center				\$1,253		\$1,253
Building 3					\$10,776	\$10,776
Building 4					\$10,824	\$10,824
Subtotal		\$13,059	\$4,200	\$30,030	\$24,631	\$71,920
Tenant Improvements		\$253	\$0	\$680	\$544	\$1,477
Subguard Insurance		\$131	\$42	\$300	\$246	\$719
Builder's Risk Insurance		\$137	\$44	\$315	\$259	\$755
General Conditions		\$653	\$210	\$1,502	\$1,232	\$3,596
Subtotal		\$921	\$296	\$2,117	\$1,736	\$5,070
Liability Insurance		\$140	\$45	\$321	\$264	\$770
Overhead & Profit		\$424	\$136	\$974	\$799	\$2,333
Performance Bond		\$196	\$63	\$450	\$369	\$1,079
Construction Contingency		\$653	\$210	\$1,502	\$1,232	\$3,596
Subtotal		\$1,412	\$454	\$3,247	\$2,664	\$7,778
Indirects/Construction Subtotal		\$2,333	\$750	\$5,365	\$4,400	\$12,848
Design Contingency		\$1,045	\$0	\$2,402	\$1,970	\$5,418
Total		\$16,689	\$4,950	\$38,477	\$31,546	\$91,662
Indirect Costs						
A & E	\$601	\$849	\$273	\$1,952	\$1,601	\$5,276
Construction Mgt.		\$196	\$63	\$450	\$369	\$1,079
Permits & Fees	\$297	\$588	\$189	\$1,351	\$1,108	\$3,533
Leasing Commissions		\$0	\$0	\$440	\$575	\$1,015
Misc. Prof. Services	\$1,819	\$542	\$0	\$901	\$739	\$4,001
Indirect Contingency		\$217	\$53	\$509	\$439	\$1,219
Total Indirect Costs	\$2,717	\$2,392	\$578	\$5,604	\$4,832	\$16,122
Total Costs	\$2,717	\$19,081	\$5,528	\$44,081	\$36,378	\$107,785

Item 6 File 12-0582	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would (1) authorize the first amendment to the Public Utilities Commission (PUC) agreement with Jacobs Engineering Group, Inc. (Jacobs Engineering) for construction management services, increasing the agreement by an amount not-to-exceed \$1,500,000, for a total agreement amount of not-to-exceed \$26,500,000, and (2) adopt findings pursuant to the California Environmental Quality Act (CEQA). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The PUC entered into an agreement with Jacobs Engineering in 2008, as the result of a competitive Request for Proposal (RFP) process, for construction management and related services for the seismic upgrades, repair, and reconstruction of the Bay Division Region of the Hetch Hetchy Regional Water System, to be implemented under the Water System Improvement Program (WSIP). The original agreement, as previously approved by the Board of Supervisors, was for 4 years and 10 months, from approximately December 2008 through September 2013, in an amount not-to-exceed \$25,000,000. • The PUC is requesting the first amendment to the agreement to increase the not-to-exceed amount by \$1,500,000, from \$25,000,000 to \$26,500,000 due to unforeseen archeological and paleontological (or pre-historical) site mitigation costs. These mitigation costs are due to: (1) the need for preconstruction archeology and paleontology services for the seismic upgrade of the Bay Division Pipeline (BDPL) Nos. 3 and 4 project at the crossing of the Hayward Fault in the East Bay; (2) construction management services for the construction of a pipeline tunnel, rather than an open-pit pipeline, to circumvent an ancient burial site along the Cordilleras Creek site of the BDPL No. 5 on the Peninsula; and (3) other archeology services required for multiple site discoveries along the BDPL No. 5 on the Peninsula. • The proposed first amendment does not change the term of the original agreement. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • According to Mr. Carlos Jacobo, PUC Budget Manager, funding for the proposed first amendment of \$1,500,000 would come from existing project Water Revenue Bond funds, previously appropriated by the Board of Supervisors. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

Under Charter Section 9.118(b), any contracts or agreements entered into by a department, having a term of more than 10 years or requiring anticipated expenditures by the City of ten million dollars or more, or the modification or amendments to such contract or agreement having an impact of more than \$500,000, are subject to Board of Supervisors approval.

Background

The San Francisco Public Utilities Commission (PUC)'s Water System Improvement Program (WSIP) consists of 86 projects organized into 11 project regions to repair, replace, and seismically upgrade the Hetch Hetchy water system's aging pipelines, tunnels, pumps, tanks, reservoirs and dams. PUC commenced the WSIP in FY 2002-03 and is scheduled to complete all projects by the end of July 2016. The approved WSIP project budget is \$4,113,856,261, plus \$471,700,000 in financing costs, for a total cost of \$4,585,556,261. WSIP is funded with PUC Water Revenue Bonds, which will be repaid from water rate revenues paid by PUC water customers.

On November 18, 2008, the Board of Supervisors authorized the General Manager of the San Francisco Public Utilities Commission (PUC) to enter into a professional services agreement with Jacobs Engineering Group Inc. (Jacobs Engineering), for an amount not-to-exceed \$25,000,000 over a period of no more than 58 months (four years and ten months)¹, to provide construction management services for three projects in the Bay Division Region of WSIP. Jacobs Engineering was selected based on a competitive Request for Proposals (RFP) process.

Under the agreement, Jacobs Engineering has provided the PUC with construction management and related services for three projects for the WSIP Bay Division Region:

- (1) The construction of the pipeline portion of the Bay Division Pipeline (BDPL) No. 5;
- (2) The construction of three new crossover pipelines between BDPL Nos. 3 and 4; and
- (3) Phase II of the Supervisory Control and Data Acquisition System (SCADA).

According to the PUC at the time of approval of the original agreement, a contractor was necessary to provide the construction management services because the PUC's in-house construction management staff did not have the expertise for the complex construction management services required by these three projects.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the first amendment to the PUC contract with Jacobs Engineering for construction management and related services for the WSIP Bay Division Pipeline project, increasing the agreement by an amount not-to-exceed \$1,500,000, from \$25,000,000 to not-to-exceed \$26,500,000, and adopting findings pursuant to the California Environmental Quality Act (CEQA).

¹ The original agreement was from approximately December 2008 through September 2013.

According to the PUC, the proposed increased contract amount is due to the following:

1. Seismic Upgrades of BDPL Nos. 3 and 4

The PUC has added a task order to the agreement with Jacobs Engineering to provide preconstruction archeological and paleontological (or pre-historical) evaluation services for the seismic upgrade of the BDPL Nos. 3 and 4 project at the crossing of the Hayward Fault, as required by the CEQA Mitigation, Monitoring, and Reporting Program. The task order includes, among other things, an archeological and paleontological testing program and data recovery, analysis, reporting, as well as the associated environmental, public outreach, and permitting activities.

2. Peninsula BDPL No. 5 Tunnel

Under the original agreement, the Peninsula segment of the BDPL No. 5 was to be constructed as an open-cut pipeline in its entirety. However, the PUC separately bid construction of the Cordilleras Creek segment of the BDPL No. 5 as a tunnel instead of an open-cut pipeline, due to the discovery of an archaeological burial site. The new tunnel extended the construction phase for the project, and increased the need for construction management services provided by Jacobs Engineering.

3. Additional Peninsula BDPL No. 5 Environmental, Biological and Archaeological Monitoring

In addition to the archaeological site at Cordilleras Creek, three other significant archaeological finds were discovered along the Peninsula BDPL No. 5 after PUC entered into the original agreement with Jacobs Engineering. All of these finds required increased archeological support, including full-time archaeologists and full-time representatives of the most likely descendants of the archaeological burial site to be present during excavation, preparation of technical memoranda to address findings and recommendations, attendance at multiple agency meetings, and removal of human remains by archaeologists and the representatives of the most likely descendants.

According to the May 22, 2012 memorandum to the Public Utilities Commission, prepared by PUC staff, amending the existing agreement between PUC and Jacobs Engineering is more cost effective than issuing an RFP to select a new engineering consultant. The amended services will use existing skills and knowledge of current staff resulting in time and cost savings.

FISCAL IMPACTS

The requested \$1,500,000 in increased agreement not-to-exceed amount would be allocated for construction management services as shown in Table 1 below.

Table 1. Proposed Increase in the Agreement between PUC and Jacobs Engineering for Construction Management Services

Project	Original Amount	Proposed Increase/ (Decrease)	Proposed Contingency (1.1%)	Total Proposed Increase/ (Decrease)	Total Proposed Amount
BDPL No. 5 East Bay	\$7,778,251	\$31,749	\$0	\$31,749	\$7,810,000
BDPL No. 5 Peninsula	11,471,790	1,506,393	291,227	1,797,620	13,269,410
BDPL No. 3 and 4 Crossover	5,249,369	(799,368)	0	(799,368)	4,450,001
SCADA	500,590	0	0	0	500,590
Seismic Upgrade	0	470,000	0	470,000	470,000
Total	\$25,000,000	\$1,208,774	\$291,227	\$1,500,000	\$26,500,000

According to Mr. Carlos Jacobo, PUC Budget Manager, funding for the proposed first amendment would come from existing Water Revenue Bond funds, previously appropriated by the Board of Supervisors.

RECOMMENDATION

Approve the proposed resolution.

Item 7 File 12-0611	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize (a) a Funding and Acquisition Agreement between (i) the City, through the PUC, (ii) The Nature Conservancy and (iii) Santa Clara County, under which the City would contribute one-third of the funds, up to \$900,000, for Santa Clara County to acquire the Nolan Ranch and create a conservation easement to which the City would be a third party beneficiary; (b) an Endowment Agreement between (i) the City, through the PUC, and (ii) The Nature Conservancy, under which the City would provide a permanent endowment of \$125,000 to The Nature Conservancy to monitor compliance with the conservation easement; and (c) the PUC General Manager to execute documents, make certain modifications and take certain actions in furtherance of this proposed resolution. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Nature Conservancy is a nonprofit organization, which entered into an option agreement to purchase the 1,157 acre Nolan Ranch, located in the Arroyo Hondo Watershed in Santa Clara County, for a purchase price of \$2,600,000. • In addition, Santa Clara County also has an interest in purchasing the subject Nolan Ranch property, as part of Santa Clara County's Joseph D. Grant Park, which is located immediately adjacent and contiguous to the Nolan Ranch property. • The PUC also has an interest in purchasing the Nolan Ranch, because the subject property contains approximately two miles of Smith Creek and Sulphur Creek, both tributaries of the Arroyo Hondo Watershed, which drains into the Calaveras Reservoir, which is a significant part of the PUC's overall Alameda Creek Watershed and regional water system. <p style="text-align: center;">Fiscal Impacts</p> <ul style="list-style-type: none"> • The privately-owned Nolan Ranch, has a total purchase price of \$2,600,000, which would be equally divided among the three parties, such that the PUC, Santa Clara County and The Nature Conservancy would each pay approximately \$866,666. In addition, the acquisition costs are estimated at \$40,000, or approximately \$13,333 for each of the three parties. Therefore, the PUC's total purchase and acquisition costs are estimated at \$879,999. • Hulberg & Associates, Inc., a private appraiser, determined that the subject 1,157 acre Nolan Ranch property has a market value of \$2,777,000 based on its current condition, which is \$177,000 or 6.8 percent more than the proposed purchase price of \$2,600,000. Hulberg & Associates also determined that the subject property, with a permanent conservation easement, was valued at \$1,157,000, such that the proposed conservation easement is valued at \$1,620,000 (\$2,777,000 total market value less \$1,157,000 value with easement). • In addition, the PUC would contribute a one-time \$125,000 permanent endowment fund to The Nature Conservancy to monitor and protect the property easement in perpetuity. <p style="text-align: center;">Recommendation</p> <p style="text-align: center;">Approve the proposed resolution.</p>	

MANDATE STATEMENT/BACKGROUND

Mandate Statement

In accordance with Charter Section 9.118, any contract (a) for more than \$10,000,000, (b) that extends for longer than ten years, or (c) with an amendment of more than \$500,000, is subject to Board of Supervisors approval.

Background

In FY 2005-06, in parallel with the development of the Public Utilities Commission's (PUC's) Water System Improvement Program (WSIP), the PUC adopted the Water Enterprise Environmental Stewardship Policy and initiated a Watershed and Environmental Improvement Program (WEIP) to allocate \$50 million over ten years in order for the PUC to more proactively manage, protect and restore environmental resources critical to or affected by the PUC's operations. Of the total \$50 million commitment, (a) the WSIP, as previously approved by the Board of Supervisors, includes approximately \$20 million of revenue bonds, which have been previously appropriated by the Board of Supervisors, and (b) a total of approximately \$30 million from the PUC's annual operating budget from FY 2005-06 through FY 2012-15, is being appropriated to support this WEIP commitment. As part of the WEIP, the PUC is specifically looking for opportunities to restore and protect the critical watershed lands within the Alameda Creek Watershed, which is shown in the map in the Attachment to this report.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize

- (a) a Funding and Acquisition Agreement between (i) the City, through the PUC, (ii) The Nature Conservancy and (iii) Santa Clara County, under which the City would contribute one-third of the funds, up to \$900,000, for Santa Clara County to acquire the Nolan Ranch and create a conservation easement to which the City would be a third party beneficiary;
- (b) an Endowment Agreement between (i) the City, through the PUC, and (ii) The Nature Conservancy, under which the City would provide a permanent endowment of \$125,000 to fund The Nature Conservancy's monitoring of compliance with the conservation easement; and
- (c) the General Manager of the PUC to execute documents, make certain modifications and take certain actions in furtherance of this proposed resolution.

The Nature Conservancy is a nonprofit organization whose purpose is to conserve lands and waters on which all life depends. On February 2, 2011, The Nature Conservancy entered into an option agreement with the private owner of the Nolan Ranch, Mr. Owen Nolan, to purchase the

1,157 acre Nolan Ranch, located in the Arroyo Hondo Watershed in Santa Clara County, for a purchase price of \$2,600,000. The Nolan Ranch property is outlined on the map in the Attachment to this report. The Nature Conservancy's option agreement to purchase the Nolan Ranch expires on August 1, 2012.

Currently, Santa Clara County also has an interest in purchasing the subject Nolan Ranch property to manage as part of Santa Clara County's Joseph D. Grant Park, which is located immediately adjacent and contiguous to the Nolan Ranch property. The Nature Conservancy is proposing to assign their option to purchase the Nolan Ranch to Santa Clara County, on behalf of the Santa Clara County Parks and Recreation Department.

In addition, the PUC has an interest in purchasing the Nolan Ranch property, because according to Mr. Tim Ramirez, Natural Resources and Lands Management Division Manager for the PUC, the subject Nolan Ranch property contains approximately two miles of Smith Creek and two miles of Sulphur Creek, both tributaries of the Arroyo Hondo Watershed, which drains into the Calaveras Reservoir, which is a significant part of the PUC's overall Alameda Creek Watershed and regional water system. Mr. Ramirez advises that the proposed purchase of the Nolan Ranch is intended to be part of the PUC's overall strategy to, in perpetuity, proactively protect natural areas and open space from development and/or activities that would otherwise degrade water quality within the Alameda Creek Watershed.

Under the proposed resolution, The Nature Conservancy and Santa Clara County would work cooperatively with the City and County of San Francisco, acting through the PUC, to (a) jointly fund Santa Clara County's acquisition of the privately-owned Nolan Ranch property for a shared purchase price of \$2,600,000, (b) grant a permanent conservation easement to The Nature Conservancy to protect the watershed and other natural resources on the land in perpetuity, (c) preserve the property in its current open space condition to allow the Santa Clara County Parks and Recreation Department to conduct the necessary planning process and environmental reviews for a proposed management plan for use of the Nolan Ranch property as a park for low-impact public recreation purposes, such as hiking, and (d) grant the City, through the PUC, a third-party beneficiary of the easement, which provides the City the same rights as The Nature Conservancy to enforce certain provisions of the conservation easement.

Under the proposed Funding and Acquisition Agreement between the PUC, The Nature Conservancy and Santa Clara County,

- The (a) PUC, (b) The Nature Conservancy, and (c) Santa Clara County would each pay approximately \$866,666 toward Santa Clara County's purchase of the Nolan Ranch property, for a total purchase price of \$2,600,000. Including other acquisition costs, such as environmental remediation, appraisal, closing and title insurance, and related staff and attorney fees, the PUC would pay a not-to-exceed \$900,000.
- In addition to purchase and closing costs, the Nature Conservancy will contribute \$50,000 toward Santa Clara County's cost to (a) repair or install boundary fencing and (b) create a baseline property conditions report.

- Immediately after acquiring the subject Nolan Ranch property, Santa Clara County would place the entire property under permanent conservation easement, such that this easement would be attached to the title on the property and would restrict and protect any future use of the property in perpetuity.
- The City, through the PUC, would be granted third-party beneficiary rights to the permanent easement.
- A copy of the proposed Board of Supervisors approved resolution would be attached as part of the Funding and Acquisition Agreement.

Under the proposed Endowment Agreement between the PUC and The Nature Conservancy,

- The City, through the PUC, will pay a one-time \$125,000 for a permanent endowment fund to The Nature Conservancy to monitor and protect the property easement in perpetuity.
- The Nature Conservancy will deposit, maintain, manage and administer the one-time \$125,000 permanent endowment funds paid by the City, through the PUC, including all interest earnings, to pay direct costs for perpetual monitoring and stewardship of the easement for protection of conservation values.
- The Nature Conservancy will submit an annual compliance monitoring and financial report to the PUC by March 1st of each year.
- The term of the proposed Endowment Agreement is in perpetuity, unless The Nature Conservancy and/or the City, through the PUC, terminates that Agreement.

On April 4, 2012, the proposed acquisition of the Nolan Ranch property and creation of the conservation easement were determined to be exempt from the California Environmental Quality Act (CEAQ).

Under the proposed resolution, the Board of Supervisors would authorize the General Manager of the PUC, in consultation with the City Attorney, to enter into any future amendments to the subject Funding and Acquisition Agreement and Endowment Agreement that are in the best interests of the City, do not materially increase the City's obligations or liabilities or materially diminish the benefits to the City. In addition, the proposed resolution authorizes City staff to proceed with the actions necessary to implement the proposed (a) Funding and Acquisition Agreement and (b) Endowment Agreement to implement the City's third party beneficiary rights.

FISCAL IMPACTS

Under the proposed Funding and Acquisition Agreement for the privately-owned Nolan Ranch, the total purchase price of \$2,600,000 would be equally divided among the three parties, such that the PUC, Santa Clara County and The Nature Conservancy would each pay approximately

\$866,666. The proposed resolution authorizes the PUC to contribute a not-to-exceed \$900,000, in order to cover additional acquisition costs such as environmental remediation, appraisal, closing fees, title insurance fees and staff and attorney costs. According to Ms. Carla Schultheis, PUC's Watershed and Environmental Improvement Program Coordinator, the total additional acquisition costs are estimated at \$40,000 or approximately \$13,333 for each of the three parties in the proposed purchase. Therefore, the PUC's \$866,666 purchase price plus \$13,333 in additional related acquisition costs are estimated to total approximately \$879,999.

On February 1, 2012, Hulberg & Associates, Inc., a private appraiser, determined that the subject 1,157 acre Nolan Ranch property had a market value of \$2,777,000 based on its current condition, which is \$177,000 or 6.8 percent more than the proposed purchase price of \$2,600,000. Hulberg & Associates also determined that the subject 1,157 acre Nolan Ranch property, with the proposed permanent conservation easement was valued at a reduced \$1,157,000, such that the proposed permanent conservation easement was valued at the difference of \$1,620,000 (\$2,777,000 total market value less \$1,157,000 value with easement). Mr. John Updike, the City's Acting Director of Property advises that he has reviewed and approved the subject final appraisal confirming the market value of \$2,777,000 for the Nolan Ranch.

As noted above, under the proposed Endowment Agreement, the PUC will also pay a one-time \$125,000 for a permanent endowment fund to The Nature Conservancy to provide compliance monitoring in order to protect the permanent conservation easement in perpetuity. Under the proposed Endowment Agreement, The Nature Conservancy will be responsible for managing the one-time \$125,000 permanent endowment funds paid by the PUC, including all interest earnings, to pay all direct costs for perpetual monitoring and stewardship of the easement for protection of conservation values. Under the proposed Endowment Agreement, The Nature Conservancy would be specifically limited to expending an initial \$10,000, such that the remaining \$115,000 would be available to generate interest earnings, which could also be expended by the Nature Conservancy. The Nature Conservancy currently estimates that the cost to monitor the proposed easement would be \$5,168 annually.

The Water System Improvement Program's (WSIP) revenue bonds dedicated for the Watershed and Environmental Improvement Program is the PUC's source of funding for both the estimated costs of \$879,999 and the \$125,000 for the permanent endowment to fund compliance monitoring for the Conservation Endowment, which has been previously appropriated by the Board of Supervisors.

POLICY CONSIDERATION

The Nolan Ranch in Santa Clara County is not located contiguous to any land that is currently owned or managed by the PUC. However, according to Mr. Ramirez, the PUC has an ongoing interest in protecting the water quality and related natural resources within the PUC's regional water system watershed lands, such that the direct purchasing of land and/or conservation

easements is a high priority for the WEIP. Therefore, Mr. Ramirez advises that the PUC's decision to purchase land and/or conservation easements are determined on a case-by-case basis.

As discussed above, the Nolan Ranch is contiguous with Santa Clara County Parks and Recreation Department property. In addition, the Nature Conservancy, which currently has an option to purchase the Nolan Ranch, has experience managing conservation easements, including property in the Arroyo Hondo Watershed. Therefore, the PUC is recommending that the Santa Clara County Parks and Recreation Department purchase the subject Nolan Ranch property, and the Nature Conservancy directly manage the conservation easement on this property in perpetuity, to be jointly funded by the PUC, Santa Clara County and The Nature Conservancy.

Mr. Ramirez notes that this partnership among the PUC, Santa Clara County and The Nature Conservancy allows the PUC to leverage the PUC's funding and ultimately protect more watershed lands than would otherwise be possible if the PUC were to purchase the land and/or easements alone.

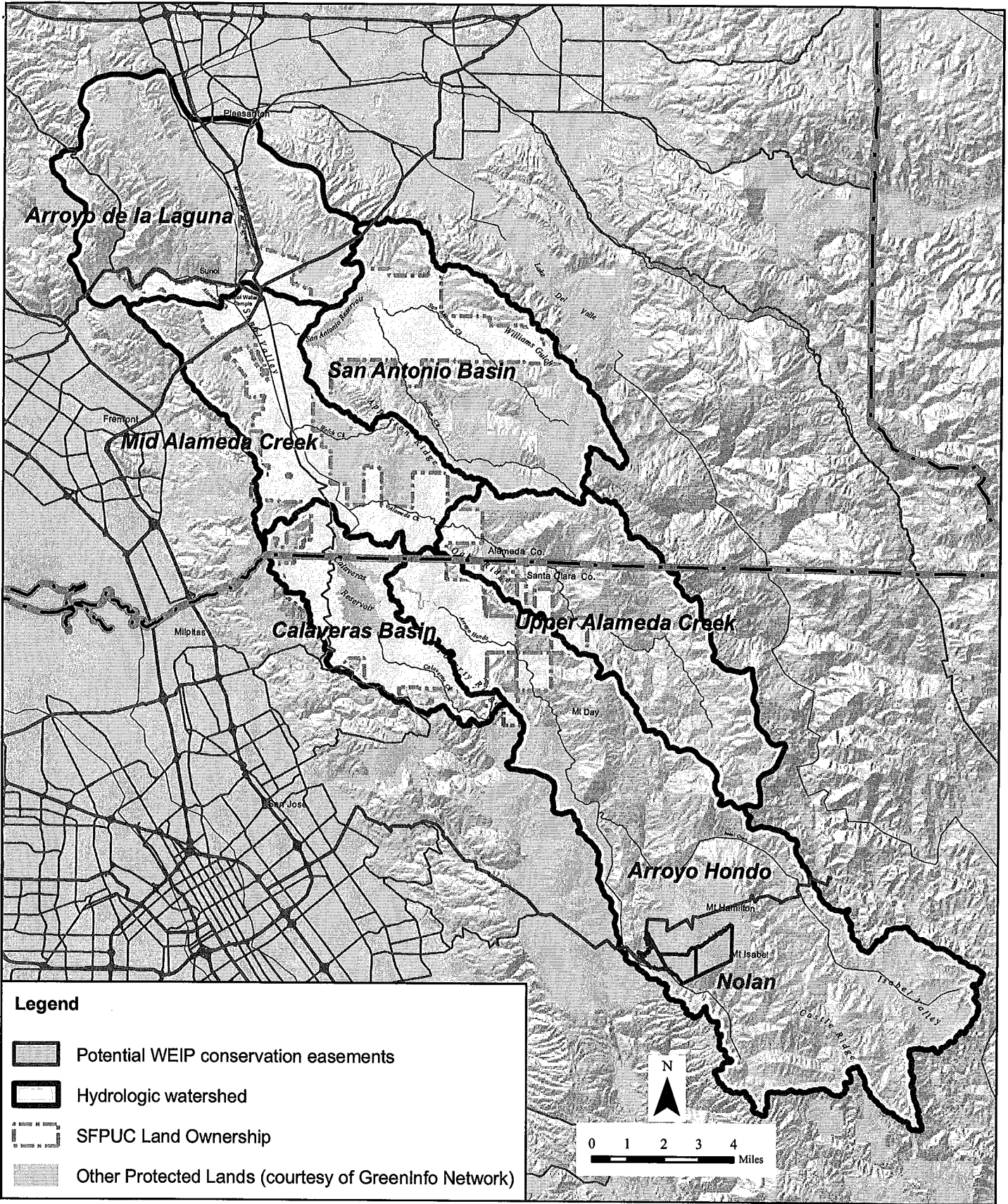
RECOMMENDATION

Approve the proposed resolution.



Harvey M. Rose

cc: Supervisor Chu
Supervisor Avalos
Supervisor Kim
President Chiu
Supervisor Campos
Supervisor Cohen
Supervisor Elsbernd
Supervisor Farrell
Supervisor Mar
Supervisor Olague
Supervisor Wiener
Clerk of the Board
Cheryl Adams
Mayor Lee
Controller
Kate Howard



**Hetch Hetchy
Regional Water System**
Services of the San Francisco Public Utilities Commission

Alameda Watershed

Nolan Property