

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

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November 10, 2016

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** November 16, 2016 Budget and Finance Committee Meeting

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<p><b>Item 1</b>  <b>File 16-1116</b>  <i>(Continued from November 2, 2016)</i></p>	<p><b>Department:</b>                  Treasure Island Development Authority (TIDA)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution approves the Infrastructure Financing Plan for the Yerba Buena Island and Treasure Island Infrastructure and Revitalization Financing District (IRFD).</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The IRFD may use property tax increment financing to pay for public facilities, such as roads, sidewalks and parks. Under the 2011 Disposition and Development Agreement between the Treasure Island Development Authority (TIDA) and the developer, Treasure Island Community Development, LLC (TICD), TICD pays the costs of constructing public facilities and is reimbursed by the IRFD for qualified costs.</li> <li>• Development of Yerba Buena Island and Treasure Island will take place in four major phases between 2016 and 2029; each major phase consists of sub-phases and project areas within the sub-phases. The proposed IRFD initially will consist of five project areas on Yerba Buena Island and the southwestern portion of Treasure Island. Other project areas will be annexed to the IRFD at a later date.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Estimated property tax increment generated by these five projects over 43 years areas is \$1.2 billion. The Office of Public Finance, under separate legislation, will issue up to \$780 million in bonds to reimburse TICD for public improvements (associated with the development of the five project areas) and finance the development by TIDA of 196 affordable housing units. Debt service on the bonds is paid with the property tax increment.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>• The Treasure Island Development Project provides for 27.2 percent of housing to be affordable to moderate and low income households (307 inclusionary below market rate housing units financed by TICD and 1,866 units financed by TIDA through the IRFD and other sources). The estimated cost of the 1,866 affordable housing units is \$968 million in current dollars. According to the Office of Public Finance, federal Low-Income Housing Tax Credits and other non-project sources will cover approximately \$449 million of the cost, resulting in a funding need of \$519 million for all 1,866 units. While project funds, including property tax increment, will fund an estimated \$138 million, the Treasure Island Development Project has an estimated affordable housing funding shortfall of \$381.4 million.</li> <li>• Because the Infrastructure Financing Plan does not identify all of the financing necessary to construct all 1,866 affordable housing units to be delivered by TIDA, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed resolution is a policy matter for the Board of Supervisors.</li> </ul>	

## MANDATE STATEMENT

A city, county, or city and county may establish an Infrastructure and Revitalization Financing District under California Government Code Section 53369 *et seq.* An Infrastructure and Revitalization Financing District is a legally constituted government entity established for the sole purpose of financing public facilities.

## BACKGROUND

The Treasure Island Development Project is an ongoing project to transition Treasure Island and a portion of Yerba Buena Island from a former military base to a new San Francisco residential and commercial development. The project includes the development of 8,000 new housing units (including affordable housing units), 300 acres of parks and open space, 551,000 square feet of retail and office space, up to 500 hotel rooms, and public infrastructure and community facilities.

The Treasure Island Development Authority (TIDA) selected Treasure Island Community Development, LLC (TICD), following a competitive process, in March 2003 to serve as the developer to the Treasure Island Development Project to develop public infrastructure and sell or ground lease parcels to private developers to construct housing, commercial and public facilities. The Board of Supervisors previously approved in 2011 the Development Agreement between the City and TICD (File 11-0226) and the Disposition and Development Agreement between TIDA and TICD (File 11-0291) and other related documents.

### **Yerba Buena Island and Treasure Island Infrastructure and Revitalization Financing District**

Included in the Disposition and Development Agreement approved by the Board of Supervisors in 2011 was the Financing Plan, which obligated the City to provide funding for certain public improvements by:

- Forming Infrastructure and Revitalization Financing District(s), or IRFD(s), to reimburse TICD for qualified project costs through incremental property tax revenue derived in the project area;
- Forming Community Facilities District(s), or CFD(s), to reimburse TICD for qualified project costs, to pay for certain public services necessary to ensure that the shoreline and facilities will be protected should sea levels rise, and to pay for ongoing park maintenance by imposing a special assessment on properties within the CFD; and
- Issuing bonds and other debt for the IRFD(s) and CFD(s).

Several resolutions and an ordinance authorizing various steps in the establishment of an IRFD on Yerba Buena Island and Treasure Island, including the issuance of bonds, are pending before the Board of Supervisors.<sup>1</sup>

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<sup>1</sup> Files 16-1035, 16-1036, 16-1037, 16-1116, 16-1117, 16-1118, and 16-1120

**DETAILS OF PROPOSED LEGISLATION**

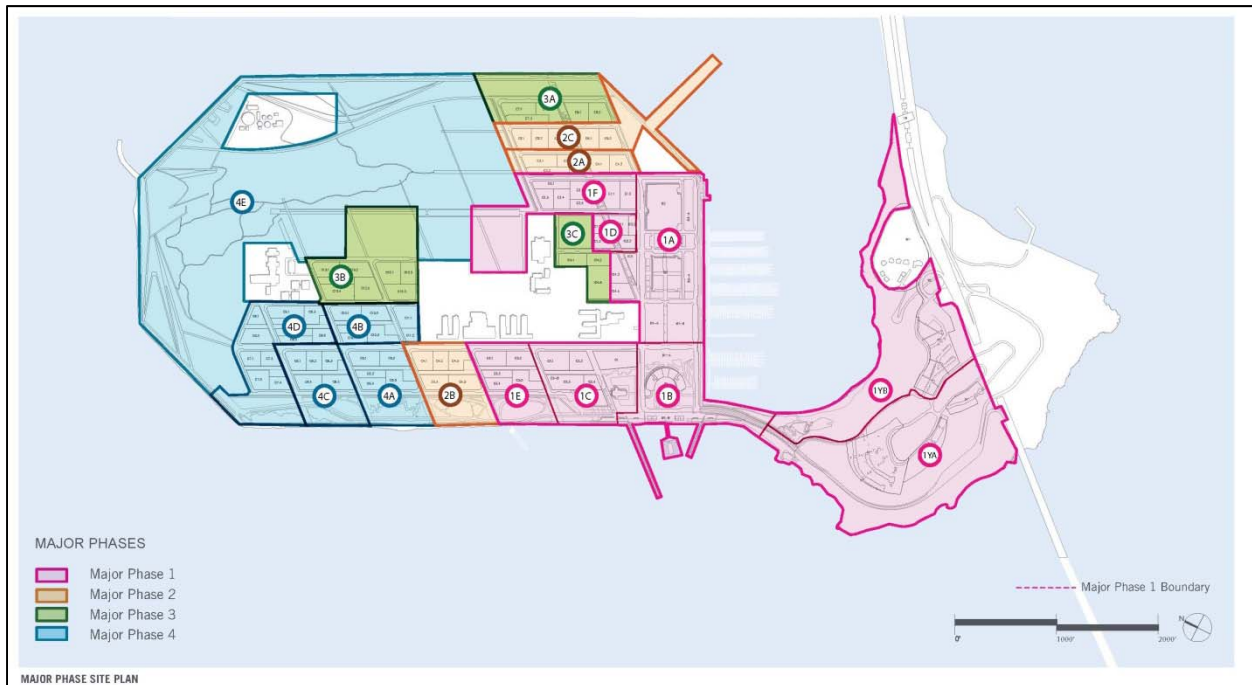
The proposed resolution approves the Infrastructure Financing Plan for the Yerba Buena Island and Treasure Island IRFD and the project areas within the IRFD. If the proposed resolution is approved, the IRFD and associated debt would then be the subject of public hearings before the Board of Supervisors and further Board of Supervisors legislative actions in order to formally establish the IRFD and issue bonds.

**Proposed Boundaries of the IRFD**

*Overview of Treasure Island Development Project*

TIDA has divided development of Treasure Island and Yerba Buena Island into four major phases, shown in Figure 1 below.

**Figure 1: Treasure Island Development Project Major Phases**

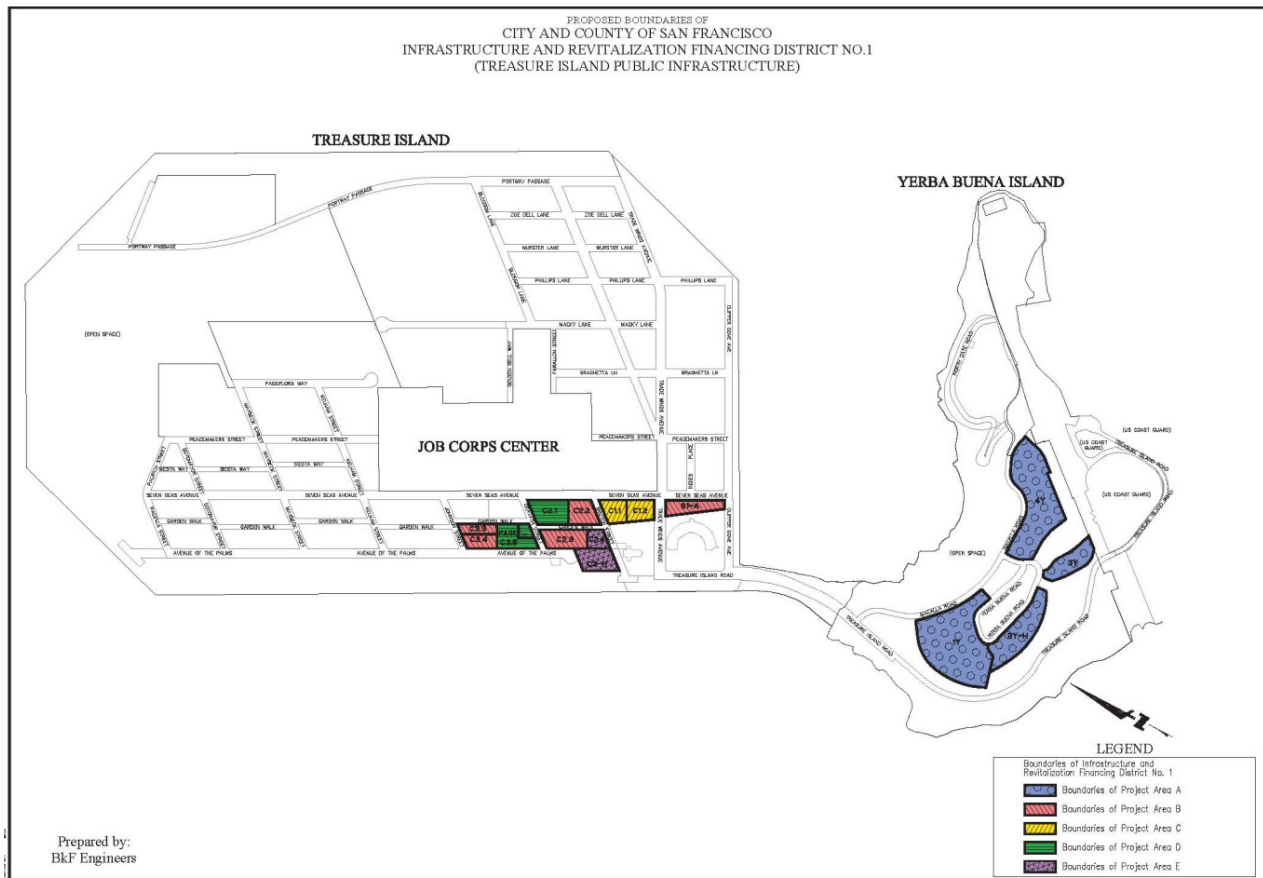


Source: TIDA, Major Phase Application for Major Phase 1

*Initial Project Areas to be Included in the Proposed IRFD*

Treasure Island Development Major Phase 1 consists of a portion of Yerba Buena Island and parcels on the southern and western edge of Treasure Island, as shown in Figure 1 above, and is divided into four stages: Yerba Buena Island and Treasure Island Stages 1, 2, and 3. Two of the four stages, Yerba Buena Island and Treasure Island Stage 1, are included initially in the IRFD. These two stages consist of five project areas—A, B, C, D, and E—and are shown in Figure 2 below. As additional parcels become available for development, they will be annexed into the IRFD, subject to Board of Supervisors approval.

**Figure 2: Map of Proposed Boundaries of Project Areas within IRFD**



Source: TIDA

*Project Areas A, B, C, D, and E Development*

As noted above, the first two development stages—Yerba Buena Island and Treasure Island Stage 1—comprise the initial area of the IRFD. The developer will finance and construct market rate and inclusionary below market rate housing and hotel rooms, as shown in Table 1 below. TIDA will construct affordable housing units, financed by the IRFD.

**Table 1: Initial Development on Yerba Buena and Treasure Island Stage 1**

Development	Market Rate Units	Inclusionary Below Market Rate Units <sup>a</sup>	Affordable Housing Units <sup>b</sup>	Hotel Rooms
Yerba Buena Island (Project Area A)	285	15	0	50
Stage 1 (Project Areas B, C, D, E)	1,825	96	196	200
<b>Total</b>	<b>2,110</b>	<b>111</b>	<b>196</b>	<b>250</b>

Source: Infrastructure Financing Plan

<sup>a</sup> Inclusionary below market rate units are financed by the developer, and would be sold to households with income up to 120 percent of the Area Median Income.

<sup>b</sup> Affordable housing units are financed by TIDA through the IRFD and other sources, and on average are affordable to households at 50 percent of the Area Median Income.

### **Details of the Infrastructure Financing Plan**

The Infrastructure Financing Plan is specific to Project Areas A, B, C, D, and E of Yerba Buena Island and Treasure Island Stage 1. The Infrastructure Financing Plan includes:

- The proposed boundaries of the IRFD, which incorporates Project Areas A, B, C, D, and E, as shown in Figure 2 above.
- A description of the proposed public facilities improvements to be funded by the IRFD, including the proposed location, timing, and costs of improvements. These improvements are for the Treasure Island Development Project as a whole and are not specific to Project Areas A, B, C, D, and E.
- A finding that the public facilities improvements are of community-wide significance;
- A financing section, discussed in detail in the fiscal impact section of this report; and
- A plan providing for the replacement of housing occupied by low- and moderate-income families proposed to be removed or destroyed over the course of development or construction within the IRFD, as discussed further below.

The Infrastructure Financing Plan includes all the required information specified in California Government Code Section 53369.14.

### **Public Improvements Financed by the IRFD**

#### *Developer-Financed Public Improvements*

The 2011 Disposition and Development Agreement between TIDA and the developer, TICD, detailed TICD's responsibility for constructing public facilities infrastructure to support housing and commercial development on Yerba Buena Island and Treasure Island, including site acquisition by TICD, and phasing of construction of the public improvements to correspond to the major phases of the development project.

Public improvements to be constructed by TICD consist of:

- Strengthening the perimeter of Treasure Island;
- Stabilization of the soil and raising the level of Treasure Island;
- Infrastructure, including roads, streets, sidewalks, curbs, storm drains, water and recycled water facilities, fire stations and auxiliary water supply systems, and other public infrastructure;
- Landscaping, open space and parks, and shoreline improvements;
- Ferry Terminal; and
- Improvements specific to the development of housing, hotels, and commercial space.

These public facilities improvements are for the Treasure Island Development Project as a whole and have estimated costs in current dollars of \$1.9 billion, including contingencies<sup>2</sup>. TICD

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<sup>2</sup> The public improvements defined in the Infrastructure Financing Plan are not specific to any project area; therefore, the public improvement costs cannot be allocated to specific project areas.

will be responsible for the construction and related costs of these improvements, and will be reimbursed for the costs by the IRFD.<sup>3</sup>

#### *Affordable Housing Financed by the IRFD*

The Treasure Island Development Project provides for the construction of 1,866 total units of affordable housing by TIDA (of which 196 units are part of Treasure Island Stage 1), with estimated costs in current dollars of \$968 million to be paid by the IRFD and other sources. 70 of the 196 units to be constructed as part of Treasure Island Stage 1 will replace 70 existing, vacant affordable housing units scheduled for demolition, for a net increase of 120 affordable housing units.

#### *Improvements Financed by Other Public Funds*

In addition to public improvements financed by the IRFD, the City is responsible for constructing a wastewater treatment plant on Treasure Island at an approximate cost of \$65 million in current dollars, funded by the San Francisco Public Utilities Commission's Wastewater Enterprise.

TIDA will have ongoing responsibility for public assets, such as parks and open space, historic buildings and piers, including the costs of capital improvements. These public assets will be included in the City's 10-year Capital Plan. According to Mr. Robert Beck, Treasure Island Director, TIDA may use IRFD funds to pay for these capital improvements if IRFD funds are available after the developer, TICD, has been fully reimbursed for public facilities infrastructure which they constructed, and the affordable housing has been fully funded.

#### **Finding of Community-wide Significance**

According to the Infrastructure Financing Plan, the public improvements funded by the IRFD will substantially benefit the City as a whole, as well as Yerba Buena Island and Treasure Island. Commercial and hotel development is intended to draw new visitors to Treasure Island. Housing development on Yerba Buena Island and Treasure Island is intended to absorb a portion of the City's population growth.

### **FISCAL IMPACT**

#### **The Disposition and Development Agreement's Financing Plan**

The 2011 Disposition and Development Agreement between TIDA and TICD, as previously approved by the Board of Supervisors, provided for the formation of the IRFD and an infrastructure financing plan specific to the project areas within the IRFD. The Infrastructure Financing Plan being considered by the Board of Supervisors in this resolution is specific to Project Areas A, B, C, D, and E.

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<sup>3</sup> According to the Disposition and Development Agreement between TIDA and TICD, TICD is to be reimbursed by the IRFD for "qualified project costs". For example, a project must have a useful life of more than 15 years in order for the costs to be "qualified".

The 2011 Disposition and Development Agreement also provided for the issuance of bonds by the IRFD to finance the infrastructure costs. The issuance of \$780,000,000 in IRFD bonds is being considered by separate action of the Board of Supervisors.<sup>4</sup>

### The Proposed Infrastructure Financing Plan

The Infrastructure Financing Plan:

- Defines the property tax allocation to the IRFD,
- Estimates the property tax increment generated by Project Areas A, B, C, D and E, and
- Estimates public infrastructure and affordable housing costs for the Treasure Island Development Project as a whole (but not specifically for Project Areas A, B, C, D, and E) to be paid by the IRFD.

#### *Property Tax Rate*

Prior resolutions approved by the Board of Supervisors pledged all of the City's share of the property tax increment generated by the Treasure Island Development Project to the IRFD. The City's share of the 1.0 percent property tax rate (which does not include debt service on general obligation bonds) is shown in Table 2 below, of which 0.468 percent is allocated to public infrastructure projects, 0.099 percent is allocated to affordable housing, and 0.08 percent is conditional, depending on whether this amount is necessary to pay debt service on any bonds issued by the IRFD.

**Table 2: Share of Property Tax Rate Pledged to IRFD**

<b>Property Tax Revenue Recipient</b>	<b>Share of Total Property Tax Rate</b>
Infrastructure and facilities projects	0.468
Affordable housing	<u>0.099</u>
Subtotal, Treasure Island Development Project	0.567
Conditional City increment	<u>0.080</u>
Total, City share	0.647
Other tax entities' share <sup>a</sup>	<u>0.353</u>
<b>Total Property Tax Rate</b>	<b>1.000</b>

<sup>a</sup> BART, Community College District, San Francisco Unified School District, Bay Area Air Quality Management District, and Education Revenue Augmentation Fund

<sup>4</sup> File 16-1121, pending before the Board of Supervisors, authorizes issuance of not-to-exceed \$780 million in IRFD bonds.



*Estimated Property Tax Increment Generated by Project Areas A, B, C, D, E*

According to the Infrastructure Financing Plan, Project Areas A, B, C, D, and E are expected to generate approximately \$1.9 billion in property tax increment over 43 years from FY 2018-19 through FY 2061-62, of which \$1.2 billion is pledged to the IRFD as shown in Table 3 below.

**Table 3: Estimated Property Tax Increment Pledged to IRFD  
FY 2018-19 through FY 2061-62<sup>5</sup>**

<b>Allocation</b>	<b>Amount</b>
Public Improvements	\$891,690,000
Affordable Housing	<u>189,146,000</u>
Subtotal	\$1,080,836,000
Conditional City increment	152,499,000
<b>Total</b>	<b>\$1,233,335,000</b>

Source: Infrastructure Financing Plan

*Debt Issuance*

Public improvements and affordable housing in Project Areas A, B, C, D, and E will be financed by proceeds from bonds issued by the IRFD and secured by the property tax increment. As noted above, legislation authorizing the IRFD to issue up to \$780 million in bonds is pending before the Board of Supervisors. According to Ms. Nadia Sesay, Director of the Office of Public Finance, no bonds will be issued until funding is needed to reimburse TICD and property tax increment revenues are sufficient to pay debt service on the bonds.

**POLICY CONSIDERATION****Developer Responsibility for Public Improvements**

The Infrastructure Financing Plan estimates that construction of public improvements for the Treasure Island Development Project as a whole will cost \$1.9 billion in current dollars. These public improvements are to be constructed between 2016 and 2029. As noted above, the Infrastructure Financing Plan does not provide a cost estimate for the construction of public improvements that is specific to the Project Areas A, B, C, D and E.

The developer, TICD, will be reimbursed by the IRFD bond proceeds for the qualified project costs to construct public improvements as the costs are incurred. Neither TIDA funds nor the City's General Fund will be used to reimburse TICD for TICD's costs. According to the 2011 Disposition and Development Agreement:

"The Developer acknowledges that in no event may the City's General Fund or any of Authority's general funds be obligated to finance the Qualified Project Costs other than as set forth in this Financing Plan without City's or Authority's express written consent, as applicable."

<sup>5</sup> Estimates in Table 3 are in *nominal* dollars (i.e., the actual dollar value in the year in which property tax increment was generated by the project areas).

### Affordable Housing Funding Shortfall

The Housing Plan in the 2011 Disposition and Development Agreement stated that at least 25 percent of housing on Yerba Buena Island and Treasure Island will be affordable to moderate and low income households. The Treasure Island Development Project provides for 27.2 percent of housing to be affordable to moderate and low income households, as shown in Table 4 below.

**Table 4: Total Treasure Island Development Project Housing Units**

Type of Housing	Number of Units	Percent
Inclusionary Below Market Rate <sup>a</sup>	307	3.8%
Affordable <sup>b</sup>	<u>1,866</u>	<u>23.3%</u>
Subtotal	2,173	27.2%
Market Rate	<u>5,827</u>	<u>72.8%</u>
Total	8,000	100.0%

Source: Infrastructure Financing Plan

<sup>a</sup> Inclusionary below market rate units are financed by the developer, and would be sold to households with income up to 120 percent of the Area Median Income.

<sup>b</sup> Affordable housing units are financed by TIDA through the IRFD and other sources, and on average are affordable to households at 50 percent of the Area Median Income.

The Infrastructure Financing Plan estimates that the cost of construction of the 1,866 affordable housing units is \$968 million in current dollars but does not identify funding sources to pay the \$968 million cost. According to Ms. Sesay, federal Low-Income Housing Tax Credits and other dedicated non-project sources will cover approximately \$449 million of the cost, resulting in a funding need of \$519 million for all 1,866 units. While project funds, including property tax increment, will fund an estimated \$138 million, the Treasure Island Development Project has an estimated affordable housing funding shortfall of \$381.4 million, as shown in Table 5 below.

**Table 5: Financing for TIDA Affordable Housing <sup>6</sup>**

Source of Funds	Amount
Affordable housing funding need	(\$519,000,000)
<b>Project-generated revenue</b>	
Property Tax Increment	70,905,000
TICD Subsidy (per Disposition and Development Agreement)	65,484,000
Job Housing Linkage Fee	<u>1,184,000</u>
Subtotal: Project-generated revenue	\$137,573,000
<b>Funding Shortfall</b>	<b>(\$381,427,000)</b>

Source: Office of Public Finance

<sup>6</sup> Estimates in Table 5 are based on the *present* value of costs and revenues (i.e., these are current dollars in which costs and revenues in future years are discounted to determine the value in the present year). The estimated \$70.9 million in property tax increment allocated to affordable housing is based on the present value of property tax increment generated by Project Areas A, B, C, D and E. Available property tax increment will likely be higher when additional project areas are annexed to the IRFD at a future date.

**Summary**

The proposed Infrastructure Financing Plan conforms to California Government Code requirements, and provides for the developer, TICD, and not the City to incur the risk of constructing public infrastructure. Under the 2011 Disposition and Development Agreement and Infrastructure Financing Plan, the developer, TICD, incurs the costs to develop public infrastructure on Yerba Buena Island and Treasure Island and may be reimbursed from the IRFD to the extent authorized under IRFD law and subject to available IRFD funds. Neither TIDA nor the City's General Fund is obligated to reimburse the developer for these costs in the event that these costs exceed the available IRFD funds.

However, because the Infrastructure Financing Plan does not identify all of the financing necessary to construct all 1,866 affordable housing units to be delivered by TIDA, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

**RECOMMENDATION**

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

<b>Item 4</b> <b>File 16-1096</b>	<b>Department:</b> Port
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objective</b></p> <p>The proposed resolution would endorse the term sheet between the Port and the National Park Service, which sets the terms for a Memorandum of Understanding (MOU) to develop Port property as the exclusive site for ferry service to Alcatraz Island. The MOU would include the terms for (1) a lease between the Port and a private ferry contractor to be selected by the National Park Service for ferry service to be operated from Pier 31 ½ to Alcatraz Island, and (2) a lease between the Port and the Golden Gate National Parks Conservancy (Conservancy) for visitor services and concessions on Piers 31-33.</p> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The National Park Service has operated ferry services from the Port to Alcatraz Island since 1973. In 2009, in order to develop a permanent ferry site at the Port, the National Park Service requested a long term agreement with the Port.</li> <li>• The proposed term sheet provides for the terms of a future Memorandum of Understanding (MOU) between the Port and the National Park Service and two future leases between the Port and a ferry contractor (to be selected by the National Park Service through a competitive process) and the Conservancy. The MOU is for a term of 30 years with two 10-year extensions, totaling 50 years. The lease with the ferry contractor is for 10 years or longer and the lease with the Conservancy is for 30 years.</li> <li>• The proposed resolution exempts the MOU and two leases from the competitive process. The Port is requesting exemption from the City's required competitive process to enter into an MOU with the National Park Service on a sole source basis in order to provide ongoing ferry service to Alcatraz Island, which is owned by the National Park Service</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The Port will make substructure improvements to Pier 31 at an estimated cost of \$5 million. The private ferry contractor and the Conservancy will make improvements with an estimated value of \$20,779,000, and receive rent credits totaling \$3,074,000</li> <li>• Each of the leases pays rent equal to the greater of base rent or percentage rent. Base rent in the first year of the lease with the ferry contractor is \$858,540 and with the Conservancy is \$330,000.</li> <li>• The net present value of the base rents, less the rent credits, over the first ten years of the two leases is approximately \$7,340,000.</li> </ul> <p style="text-align: center;"><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Amend the proposed resolution to specify that the term of the lease between the Port and the private contractor for ferry services will conform to U.S. Government Code 36 Section 51.73, which pertains to National Park Service concession contracts, for a term of 10 years or less, instead of 10 years or longer, unless the Director determines that required construction of capital improvements warrants a longer term.</li> <li>• Approve the proposed resolution as amended.</li> </ul>	

## MANDATE STATEMENT

The Budget and Legislative Analyst recommended in our April 2004 *Management Audit of the Port of San Francisco* that the Board of Supervisors request the Port Commission to submit to the Board for the Board's endorsement, all development negotiation term sheets for projects with development costs greater than \$10 million, and to submit the development agreements to the Board of Supervisors for approval. The Budget and Legislative Analyst's recommendation was accepted by the Board of Supervisors.

## BACKGROUND

The National Park Service has operated ferry services from the Port to Alcatraz Island since 1973. Ferry services are provided by private operators under contract to the National Park Service. Currently, ferry service is provided by Alcatraz Cruises, LLC (an affiliate of Hornblower Yachts, Inc.) from Pier 31 ½, which has operated from that site since 2006. Previously, ferry services were provided by the Blue & Gold Fleet from Pier 41 from 1973 to 2006.

In 2009, in order to develop a permanent ferry site at the Port, the National Park Service requested a long term agreement with the Port. The National Park Service requested a location on the northern water front accessible to visitors; dedicated ferry landing facilities; space for exhibits and concessions; and berthing sites for up to four passenger vessels. The National Park Service identified five sites at the Port that met their criteria: Pier 19 ½, Pier 29 1/2, Pier 31 and 31 ½, Pier 41, and Pier 45, Shed A.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would endorse the term sheet between the Port and the National Park Service, which sets the terms for a Memorandum of Understanding (MOU) to develop Port property as the exclusive site for ferry service to Alcatraz Island. The MOU would include the terms for (1) a lease between the Port and a private ferry contractor to be selected by the National Park Service for ferry service to be operated from Pier 31 ½ to Alcatraz Island, and (2) a lease between the Port and the Golden Gate National Parks Conservancy<sup>1</sup> (Conservancy) for visitor services and concessions on Piers 31-33.

The proposed resolution:

- Exempts the proposed MOU between the Port and the National Park Service from the City's competitive bidding requirements of Administrative Code Section 2.6-1, including (1) the lease between the Port and a private ferry contractor to be selected by the National Park Service through a federally-mandated competitive process, and (2) a lease between the Port and Conservancy;

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<sup>1</sup> The Conservancy is a nonprofit established in 1981 to raise funds for Golden Gate National Park projects. Conservancy board officers are current and retired representatives of Blum Capital Partners, Pisces Foundation, Crosslink Capital, and Orrick, Herrington, and Sutcliffe LLP.

- Endorses the proposed term sheet for the MOU between the Port and the National Park Service;
- States that endorsement of the proposed term sheet does not commit the Board of Supervisors to approve the final MOU between the Port and the National Park Service; and
- Requires Port Commission consideration of findings of the Alcatraz Island Ferry Embarkation site and related facilities pursuant to the California Environmental Quality Act (CEQA) prior to Board of Supervisors approval of the final MOU and associated leases.

The proposed resolution endorses the terms of the proposed MOU between the National Park Service and the Port, which includes the proposed terms of future leases between the Port and the private ferry contractor and between the Port and the Conservancy. The final MOU and the lease between the Port and the Conservancy are subject to future Board of Supervisors approval. The lease between the Port and the ferry contractor, which is a maritime lease, is exempt from future Board of Supervisors approval under Charter Section 9.118(c)

**Proposed MOU between the National Park Service and the Port**

Site and Purpose	<p>Pier 31 ½: ferry embarkation site for ferry excursions to Alcatraz Island and other sites</p> <p>Pier 31: food and beverage service, visitor restrooms, storage</p> <p>Pier 33: visitor center, ticket sales, exhibition space, administrative offices</p>
Term of MOU	<p>30 years with two 10-year options to renew the ferry operations at the discretion of the National Park Service, totaling 50 years</p> <p>MOU may be terminated by the Port or the National Park Service due to sea level rise impacts or catastrophic events</p>
Lease between the Port and the private contractor for ferry services	<p>Attached to the MOU will be the form lease for ferry services</p> <p>Ferry service contractor will be selected by the National Park Service</p> <p>Port will enter directly into 10-year lease or longer with the ferry contractor selected by the National Park Service</p> <p>Lease premises consist of 62,015 square feet of building space and 60,000 square feet of submerged land on Pier 31, Pier 31 ½ and Pier 33</p>
Lease between the Port and the Golden Gate National Parks Conservancy	<p>Attached to the MOU will be the form lease for visitor services and concessions, including standard Port retail provisions</p> <p>Port will enter directly into a 30-year lease with the Conservancy</p> <p>Purpose of lease is for the Conservancy to operate a visitor contact station, and food and beverage services</p> <p>Lease premises consist of 6,200 square feet on Pier 31 and Pier 33</p>

As noted above, under the proposed term sheet, the lease between the Port and the private contractor for ferry services is for 10 years or longer. The Budget and Legislative Analyst recommends amending the proposed resolution to specify that the term of the lease between the Port and the private contractor for ferry services will be awarded in conformance with U.S. Government Code 36 Section 51.73, which pertains to National Park Service concession contracts, for a term of 10 years or less, unless the Director determines that required construction of capital improvements warrant a longer term.

### **Exemption from Competitive Process**

According to Ms. Rebecca Benassini, Assistant Deputy Director of Development at the Port, the Port is requesting exemption from the City's required competitive process to enter into an MOU with the National Park Service on a sole source basis in order to provide ongoing ferry service to Alcatraz Island, which is owned by the National Park Service. The Port is also requesting approval to enter into a lease with the Conservancy on a sole source basis without undergoing the City's required competitive process, because the National Park Service selected the Conservancy as their partner to provide visitor services and amenities, and because the Conservancy has successfully provided these services to the Golden Gate National Recreation Area.

The National Park Service will select the ferry contractor using the federally mandated competitive process.

## **FISCAL IMPACT**

### **Capital Repairs and Maintenance**

The proposed term sheet identifies the Port and ferry contractor's respective responsibilities for repairs and maintenance of the lease site.

The Port will be responsible to invest approximately \$5,000,000 for Pier 31 marginal wharf substructure repairs and upgrades. These substructure repairs and upgrades consist of below deck concrete repairs and pile and cap repairs. According to Ms. Benassini, funds to make these substructure repairs and upgrades were included in the Port's FY 2017-18 capital budget, previously approved by the Board of Supervisors.

According to Ms. Benassini, the Conservancy and the ferry contractor will make facility improvements with an estimated value of \$20,779,000.

The ferry contractor selected by the National Park Service will be responsible for the construction, maintenance and repair to ferry barges, docks and waterside infrastructure, marginal wharf deck surface, and visitor and other facilities used by the ferry contractor. The ferry contractor will be provided a maximum of \$2,520,000 in rent credits for these costs over the initial four years of the lease.

The Conservancy will be responsible for the construction, maintenance and repair on Pier 31 bulkhead improvements and Pier 33 visitor center. The Conservancy will be provided a maximum of \$554,000 in rent credits for these costs over the initial four years of the lease.

The Port will also be responsible to maintain and repair the Pier 31 marginal wharf substructure, Piers 31 and 33 bulkhead substructure and seawall, and the exteriors of Piers 31 and 33 sheds. Ms. Benassini states that the Port is responsible for these maintenance and repair costs because Piers 31 and 33 are multi-tenant sites, of which the ferry contractor and the Conservancy are two of several Port tenants.

### **Base Rent to the Port**

#### *Lease between the Port and the Ferry Contractor*

According to the proposed term sheet, the ferry contractor will pay rent to the Port equal to the greater of (a) base rent of \$696,000 per year, increasing by 2.5 percent per year, or (b) percentage rent. Percentage rent is equal to 7.5 percent of adjusted gross revenues for ferry service, 7.25 percent of adjusted gross revenues for food and beverages<sup>2</sup>, and 8.0 percent of other concession revenue. In addition, the ferry contractor will pay the Port rent of \$162,540 per year, increasing by 3.0 percent per year, for office space on the third floor of the Pier 33 bulkhead. Total base rent paid by the ferry contractor to the Port in the first year of the lease is \$858,540.

According to Ms. Benassini, base rent is based on the Port's parameter rent schedule approved by the Port Commission. Percentage rent is based on rent paid by other ferry excursion operators at the Port.

#### *Lease between the Port and the Conservancy*

According to the proposed term sheet, the Conservancy will pay the Port the greater of (a) base rent of \$330,000 per year, increasing by 2.5 percent per year, or (b) percentage rent equal to 7.5 percent of gross revenues. According to Ms. Benassini, the proposed rent to be paid by the Conservancy to the Port was negotiated, based on rents paid by comparable properties adjacent to the Port.

#### *Estimated Lease Revenues to the Port*

The net present value of the base rents, less the rent credits, to be paid by the Conservancy and the ferry contractor to the Port over the first ten years of the two leases is approximately \$7,340,000.

## **RECOMMENDATIONS**

1. Amend the proposed resolution to specify that the term of the lease between the Port and the private contractor for ferry services will conform to U.S. Government Code 36 Section 51.73, which pertains to National Park Service concession contracts, for a term of 10 years or less, instead of 10 years or longer, unless the Director determines that required construction of capital improvements warrants a longer term.
2. Approve the proposed resolution as amended.

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<sup>2</sup> Adjusted gross revenue equals total revenues, less franchise and other pass-through fees.



<b>Item 7</b> <b>File 16-1198</b>	<b>Department:</b> Office of Public Finance (OPF)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would authorize the City to execute and deliver a not-to-exceed par amount of \$60.5 million in Certificates of Participation (COPs) to finance the design and construction of a new Animal Care and Control facility at 1419 Bryant Street.</li> <li>• The proposed resolution would also authorize the issuance of commercial paper notes in advance of the delivery of the COPs, and approve the leases, agreements, and contracts associated with the issuance of the COPs.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The goal of the Animal Care and Control Facility Project is to construct a new Animal Care and Control facility at 1419 Bryant Street to provide safe, sanitary housing for animals under the care of Animal Care and Control. Construction on the project is scheduled to commence in summer 2018 with a tentative completion date of fall 2020.</li> <li>• In March 2016 the Board of Supervisors approved a resolution that amended the City's Ten Year Capital Plan to provide for the financing of a new Animal Care and Control facility using COPs (File 16-0120). In May 2016 the Board of Supervisors approved an ordinance that appropriated \$60.5 million in COPs to the Department of Administrative Services for the project (File 16-0318).</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The current budget for the Animal Care and Control Facility Project is \$53,760,000, of which \$49,000,000 are proceeds from the COPs and \$4,760,000 are General Fund monies previously appropriated by the Board of Supervisors.</li> <li>• The Board of Supervisors previously appropriated \$60,500,000 in COPs proceeds, of which \$49,000,000 was to fund the Animal Care and Control Facility Project, \$10,580,000 was for debt service, reserves, and financing costs, and \$920,000 was a reserve for market uncertainty (File 16-0318).</li> <li>• The Office of Public Finance anticipates selling \$59,580,000 in COPs through a negotiated sale at a date yet to be determined. The estimated annual principal and interest payments on the COPs are \$5,369,556. Total principal and interest payments over 20 years are \$110,075,900, of which \$59,580,000 is principal and \$50,495,900 is interest.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

**MANDATE STATEMENT**

City Charter Section 9.113(e) provides that the Board of Supervisors has the power to borrow money through the use of commercial paper or other short-term indebtedness. Administrative Code Section 10.62 provides that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt as funding sources for capital projects. Administrative Code Section 10.62(c)(1) also provides that the Director of Public Finance may issue tax-exempt and/or taxable commercial paper to provide interim funds to finance the acquisition, construction, and rehabilitation of capital improvements and capital equipment, after prior approval of the project and financing plan by the Board of Supervisors and the Mayor.

**BACKGROUND**

In April 2015 the Board of Supervisors approved the City's Ten Year Capital Plan (FY 2016-2025), which recommended seismic improvements to or relocation of the Animal Care and Control facility at 1200 15<sup>th</sup> Street. The Capital Plan recommended that \$49 million to seismically retrofit and renovate the City's Animal Care and Control facility be included in a \$311 million Public Health and Safety General Obligation Bond on the June 2016 ballot. However, in January 2016 the City's Capital Planning Committee removed the Animal Care and Control facility from the proposed Public Health and Safety General Obligation Bond. As an alternative, the Capital Planning Committee recommended amending the City's Certificate of Participation program to include construction of a new seismically-safe Animal Care and Control facility.

In March 2016 the Board of Supervisors approved a resolution that amended the City's Ten Year Capital Plan to provide for the financing of a new Animal Care and Control facility using COPs (File 16-0120). According to the resolution, the Animal Care and Control facility would be relocated from its current location at 1200 15<sup>th</sup> Street to a new location at 1419 Bryant Street, a City-owned property, at an estimated cost of \$54 million.

In May 2016 the Board of Supervisors approved an ordinance that appropriated \$60.5 million in COPs to the Department of Administrative Services for the Animal Care and Control Facility Project (File 16-0318).

The goal of the Animal Care and Control Facility Project is to construct a new Animal Care and Control facility at 1419 Bryant Street. The facility will provide safe, sanitary housing for animals under the care of the Animal Care and Control division, even if power and/or water are temporarily interrupted. The facility will also provide improved education and training facilities for the public, animal care staff, and volunteers. Construction on the project is scheduled to commence in summer 2018 with a tentative completion date of fall 2020.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would:

- authorize the City to execute and deliver a not-to-exceed par amount of \$60.5 million in Certificates of Participation (COPs) to finance the design and construction of a new Animal Care and Control facility at 1419 Bryant Street;
- authorize the issuance of commercial paper notes in advance of the delivery of the COPs;
- approve the Trust Agreement between the City and the Trustee, and authorize the Director of Public Finance to select the Trustee;
- approve the Property Lease and the Lease Agreement, each between the City and the Trustee, for the lease and lease back of City property;
- approve the Purchase Contract, Official Notice of Sale, and Notice of Intention to Sell COPs, and direct the publication of the Notice of Intention to Sell COPs;
- approve the Preliminary Official Statement and the Continuing Disclosure Certificate;
- grant general authority to City officials to take necessary actions in connection with the COPs;
- approve modifications to documents and agreements; and
- declare the City's intention to reimburse certain expenditures, and ratify previous related actions taken.

Property Lease and Lease Agreement

Under the Property Lease, the City will lease City-owned properties to a third-party Trustee. Under the Lease Agreement, the City will then lease back the leased properties from the Trustee. According to Ms. Nadia Sesay, Director of the Office of Public Finance, the Office of Public Finance anticipates leasing the Medical Examiner's Office located at 1 Newhall Street, the replacement Animal Care and Control facility at 1401 Bryant Street,<sup>1</sup> and Laguna Honda Hospital Campus at 375 Laguna Honda Boulevard to the Trustee.

The Property Lease and Lease Agreement between the City and the Trustee require the City to make semi-annual base rental payments in an amount equal to principal and interest payments on the COPs when due. The Office of Public Finance's estimates of these payments are summarized in the Fiscal Impact section of this report. When the COPs are paid in full, the Property Lease and the Lease Agreement terminate. Annual principal and interest payments on the COPs are paid from the City's General Fund.

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<sup>1</sup> The proposed resolution states the location of the leased property as 1401 Bryant Street and the location of the new facility as 1419 Bryant Street. According to Ms. Jamie Querubin, Bond Analyst at the Office of Public Finance, 1401 and 1419 Bryant Street are the same project location, and both addresses are intended to reference the new facility.

### Trust Agreement

Under the Trust Agreement between the City and Trustee, the Trustee holds proceeds derived from the sale of COPs and disburses payments for the costs incurred for the new Animal Care and Control facility, as directed by the City. The proposed resolution authorizes the Director of Public Finance to select the Trustee. According to the Office of Public Finance, the Trustee will be selected based on the lowest fees and other considerations under a competitive request for proposal.

### Commercial Paper

The Board of Supervisors previously approved the City's Commercial Paper Program in an amount not-to-exceed \$250 million (File 13-0627). The Office of Public Finance will use commercial paper to finance preliminary design, planning, permitting and other costs related to the new Animal Care and Control facility prior to issuance of the COPs. The proceeds from the COPs will pay back the outstanding commercial paper.<sup>2</sup>

According to Ms. Querubin, as of November 8, 2016 the current outstanding amount of commercial paper is \$165,777,000, resulting in \$84,223,000 available under the \$250 million Commercial Paper Program.

## **FISCAL IMPACT**

The Board of Supervisors previously appropriated \$60,500,000 in COPs proceeds, of which \$49,000,000 was to fund the Animal Care and Control Facility Project, \$10,580,000 was for debt service, reserves, and financing costs, and \$920,000 was a reserve for uncertainty in the interest rate market (File 16-0318), as shown in Table 1 below.

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<sup>2</sup> Commercial paper is short-term interim financing for capital projects that permits the City to pay capital project costs on an ongoing basis. Commercial paper notes are issued and short-term debt is incurred only when needed to pay capital project costs as they are incurred, supported by a letter of credit used by a bank. Commercial paper has a fixed maturity date of up to 270 days (approximately nine months), compared with a fixed maturity date of 20 to 30 years for long-term debt, such as general obligation bonds. On the maturity date, commercial paper may be refinanced for additional periods of up to 270 days. The use of commercial paper can reduce overall borrowing costs associated with the issuance of long-term debt because commercial paper interest rates are typically lower than long-term interest rates.

**Table 1: Sources and Uses of Certificates of Participation (COPs) Funds**

<b>Sources of Funds</b>	
Proceeds from COPs	\$59,580,000
Reserve for Interest Rate Market Uncertainty	920,000
<b>Total Not-to-Exceed Sources</b>	<b>\$60,500,000</b>
<b>Uses of Funds</b>	
Animal Care and Control Facility Project	\$49,000,000
City Services Audit Fee	98,000
Debt Service Reserve Fund	5,409,600
Reserve/Capitalized Interest Fund	3,872,700
Costs of Issuance	603,900
Underwriter's Discount	595,800
Subtotal Reserves and Financing	10,580,000
<b>Total Project, Reserves, and Financing</b>	<b>59,580,000</b>
Reserve for Interest Rate Market Uncertainty	920,000
<b>Total Anticipated Uses</b>	<b>\$60,500,000</b>

Source: Office of Public Finance

The Office of Public Finance anticipates selling \$59,580,000 in COPs through a competitive sale at a date yet to be determined. According to Ms. Sesay, the Office of Public Finance recommends a competitive rather than a negotiated sale of COPs because the competitive sale is expected to provide a lower cost of borrowing.

Based on a conservative interest rate estimate of 6.5 percent and a maturity date of approximately 20 years,<sup>3</sup> the Office of Public Finance estimates annual principal and interest payments on the COPs to be approximately \$5,369,556, on average. Total principal and interest payments over 20 years are \$110,075,900, of which \$59,580,000 is principal and \$50,495,900 is interest.

### City's Debt Policy

The City's policy is to limit General Fund debt service at or below 3.25 percent of discretionary General Fund revenues. The Board of Supervisors approved an amendment to the City's Ten Year Capital Plan in March 2016 (File 16-0120) to allow the use of COPs to finance the Animal Care and Control Facility Project. As a result of a delay in issuance and reduction in the amount of debt to be issued for the Rehabilitation and Detention Facility project to replace County Jails 3 and 4 at the Hall of Justice, the Capital Plan was amended to include COPs for the Animal Care and Control Facility Project while staying within the General Fund debt limit.

## RECOMMENDATION

Approve the proposed resolution.

<sup>3</sup> According to Ms. Sesay, the maturity date could be extended to 30 years if interest rates increase at the time of the sale.