CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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January 25, 2019

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: January 30, 2019 Budget and Finance Committee Meeting

TABLE OF CONTENTS

TABLE OF CONTENTS (continued)

Items 1 and 2 Files 19-0021 and 19-0024	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve retail concession leases between San Francisco International Airport (Airport) as landlord and the following tenants: The Marshall Retail Group, LLC (File 19-0021); and Paradies Lagardere @ SFO 2018, LLC (File 19-0024). Resolutions approving three other retail concession leases in Terminal 1 are pending before the Board of Supervisors. L'Occitane Airport Venture, LLC (File 19-0019); Skyline Concessions, Inc. (File 19-0022); RAKH, Inc. (File 19-0023)

Key Points

- The five retail concession tenants were selected in response to a Request for Proposals (RFP) for retail concession leases in Terminal 1, including: (i) a newsstand; (ii) a bath and beauty store; (iii) a newsstand and convenience store; (iv) a sunglass store; and, (v) a newsstand. The proposed newsstand lease with Skyline Concessions was designated as a Small Business Set-Aside. According to Airport staff, the set-aside is in order to encourage small business participation within the retail program, which has much less small business participation at the Airport than the food and beverage program.
- Each of the five concession tenants pays rent equal to the greater of the minimum annual guarantee (MAG) or percentage rent. The Marshall Retail Group lease for a newsstand and convenience shop in Terminal 1 is for 10 years. The other four retail concession leases are for an initial term of seven years with two (2) one-year options to extend, totaling nine years.
- Terminal 1 is currently undergoing a significant renovation project, and the renovated terminal will be opened in phases. Two concessions (Skyline Concessions and Paradies Lagardere) are expected to open in the Phase 1 opening on July 23, 2019 and two others (L'Occitane and RAKH) are expected to open with the Phase 2 opening on March 24, 2020. The Marshall Retail Group lease is expected to open in 2022. The retail concession tenants will pay 50 percent of MAG rent between the date that their concession opens for business and the Phase 3 opening of Terminal 1, expected in May 2021.

Fiscal Impact

- The MAG paid to the Airport by the five concession tenants over the initial terms of the leases is at least $11,100,068. If the Airport chooses to exercise the options to extend for an additional two years, it would receive at least $2,362,000 in additional MAG rent, for a grand total of $13,462,068.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In December 2017, the San Francisco International Airport (Airport) Commission authorized Airport staff to issue a Request for Proposals (RFP) for seven retail concession leases in Terminal 1, including the following five leases:[1]

Lease 2: Newsstand
Lease 4: Bath and Beauty Store
Lease 5: Newsstand and Convenience Store
Lease 6: Sunglass Store
Lease 7: Newsstand

After issuing the RFP and conducting an informational meeting, Airport staff gathered feedback and made changes to some of the business terms. On March 20, 2018, the Airport Commission authorized staff to accept proposals. On May 2, 2018, the Airport received 13 proposals that met the minimum qualifications for the five leases. A four-member panel reviewed the proposals and scored them as shown in Table 1 below.

Table 1: Proposals and Scores for Terminal 1 Retail Concession Lease RFP

Proposer	Concept Name	Score
Lease 2: Newsstand (File 19-0024)		
Paradies Lagardere @ SFO 2018, LLC	Mills Cargo	87.96
The Marshall Retail Group, LLC	The Well	81.96
HG SFO Retailers 2018 JV	Ghirardelli Square	78.00
Pacific Gateway Concessions, LLC	New Stand	74.95
Lease 4: Bath and Beauty (File 19-0019)		
L'Occitane Airport Venture, LLC	L'Occitane	91.25
Lease 5: Newsstand and Convenience (File 19-0021)		
The Marshall Retail Group, LLC	Departures / 7X7	88.98
Paradies Lagardere @ SFO 2018, LLC	Mills Cargo / 7-11	80.49
HG SFO Retailers 2018 JV	Bay Market / Hudson	78.00
Pacific Gateway Concessions, LLC	New Stand / Where Traveler Marketplace Café	75.81

[1] The Airport Commission also authorized RFPs for Lease 1 (Electronics Store) and Lease 3 (Specialty Retail). The Airport Commission has approved Lease 1, which is pending Board of Supervisors approval. Lease 3 originally received no proposals, and the Airport Commission authorized a new RFP in June 2018. The lease was awarded to Emporio Rulli, Inc. in December 2018.

Lease 6: Sunglasses (File 19-0023)		
RAKH, Inc.	NYS Collection	81.25
FaceTime	RDG Concessions, LLC	74.00
Air Sun JV	Sunglass Hut	57.25
Lease 7: Newsstand, a Small Business Set-Aside (File 19-0022)		
Skyline Concessions, Inc.	Skyline News and Gifts	72.00

The following were determined to be the highest scoring responsive and responsible proposers: (1) L'Occitane Airport Venture, LLC; (2) Skyline Concessions, Inc.; (3) RAKH, Inc.; (4) Paradies Lagardere @ SFO 2018, LLC; and, (5) The Marshall Retail Group, LLC. On July 10, 2018, the Airport Commission approved the leases.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions approve leases for retail concessions in Terminal 1 between the Airport as landlord and the following concession tenants:

- The Marshall Retail Group, LLC (File 19-0021) for a newsstand and convenience store.
- Paradies Lagardere @ SFO 2018, LLC (File 19-0024) for a newsstand; and,

Resolutions approving three other retail concession leases in Terminal 1 are pending before the Board of Supervisors.

- L'Occitane Airport Venture, LLC (File 19-0019) for a bath and beauty shop;
- Skyline Concessions, Inc. (File 19-0022) for a newsstand;
- RAKH, Inc. (File 19-0023) for sunglasses concession;

Each tenant would pay the greater of the Minimum Annual Guaranteed (MAG) rent or percentage rent based on gross revenues. The key provisions of the leases are shown in Table 2 below.

Table 2: Key provisions of Proposed Leases

Tenant	L'Occitane (File 19-0019)	Marshall Retail (File 19-0021)	Skyline Concessions (File 19-0022)	RAKH (File 19-0023)	Paradies Lagardere (19-0024)
Term [a]	7 years	10 years	7 years	7 years	7 years
Options to Extend	2 one-year options	None	2 one-year options	2 one-year options	2 one-year options
Square Footage	494 square feet	1,683 sq. ft. (2 sites)	595 square feet	310 square feet	1,459 square feet
Anticipated Rent Commencement Date	March 24, 2020	November 1, 2022	July 23, 2019	March 24, 2020	July 23, 2019
Initial MAG Rent[2]	$135,000	$440,000	$220,000	$126,000	$700,000
MAG Adjustment	Annually based on Consumer Price Index (CPI)				
Percentage Rent (of Gross Revenues)	12% up to $500,000; 14% from $500,000 - $1,000,000; 16% over $1,000,000				
Minimum Investment	$700 per square foot				
Interim Rent During Construction	16% of gross revenues				
Deposit	Equal to ½ of initial MAG (subject to mid-term adjustment)				
Early Termination	Airport may terminate with 6 months written notice, if space is needed for Airport's Five-Year or Ten-Year Capital Plan				
Infrastructure Fee	$8,175 (one-time fee)				
Promotional Charge	$1 per square foot per year				
Pest Control Fee	$75 per month				

[a] The lease term begins with the rent commencement date.

Phased Opening

Terminal 1 is currently undergoing a significant renovation project, and the renovated terminal will be opened in phases. According to Ms. Mamaril, two concessions (Skyline Concessions and Paradies Lagardere) are expected to open in the Phase 1 opening on July 23, 2019 and two others (L'Occitane and RAKH) are expected to open with the Phase 2 opening on March 24, 2020.

Because Terminal 1 will not be fully open prior to completion of Phase 3 construction, according to the proposed leases for these five tenants, the MAG rent is reduced by 50 percent for the period between the earlier of the Phase 1 opening and July 23, 2019, and the earlier of

[2] The Airport sets MAG rents for retail lease sites at approximately 75 percent of projected percentage rent.

the Phase 3 opening and May 1, 2021. Skyline Concessions and Paradies Lagardere, which are scheduled to open in Phase 1, would pay 50 percent MAG rent between Phase 1 and Phase 3.[3] L'Occitane, Marshall Retail, and RAKH, which are scheduled to open in Phase 2, would pay 50 percent MAG rent between Phase 2 and Phase 3.[4]

Four tenants – Skyline Concessions, Paradies Lagardere, L'Occitane, and RAKH –would pay full MAG rent beginning with the Phase 3 opening but no later than May 1, 2021. The fifth concession in this report, Marshall Retail, is expected to open one store in Phase 2 and the other in Phase 4 and would be subject to the full MAG at the time that the concession opens.

FISCAL IMPACT

Each of the five proposed leases sets the initial MAG rent for each of the concessions, which increases annually by the CPI, as shown in Table 2 above. Each of the concession tenants would pay 50 percent of the MAG from the date of the opening of the concession to the opening of Phase 3, as discussed above. The MAG paid to the Airport by the five concession tenants over the initial terms of the leases is at least $11,100,068. This includes the phased opening periods of approximately one year and nine months (for Skyline Concessions and Paradies Lagardere) and one year and one month (for L'Occitane and RAKH), in which MAG rents are reduced by 50 percent, as shown in Table 3 below. If the Airport chooses to exercise the options to extend for an additional two years, it would receive at least $2,362,000 in additional MAG rent, for a grand total of $13,462,068.

Table 3: MAG Rents Paid by Tenants

	Skyline	Paradies	L'Occitane	RAKH	Marshall	Total
Initial Lease Term						
Phases 1 to 3	1 year 9 mos.	1 year 9 mos.	1 year 1 mos.	1 year 1 mos.	1 year 1 mos.	
Phase 3	5 years 3 mos.	5 years 3 mos.	5 years 11 mos.	5 years 11 mos.	8 years 11 mos.	
Total	7 years	7 years	7 years	7 years	10 years	
MAG						
Phases 1 to 3	192,500	612,500	73,125	68,250	122,211	1,068,586
Phase 3	1,155,000	3,675,000	798,750	745,500	3,657,232	10,031,482
Total	**$1,347,500**	**$4,287,500**	**$871,875**	**$813,750**	**$3,779,443**	**$11,100,068**

[3] As noted above, the reduction in MAG would begin on the date of the Phase 1 opening, but no later than July 23, 2019, and would end on the Phase 3 opening but no later than May 1, 2021.

[4] According to the proposed leases with L'Occitane and RAKH, the 50 percent reduction in MAG is in effect between the earlier of the Phase 1 opening and July 23, 2019, and the earlier of the Phase 3 opening and May 1, 2021. However, L'Occitane and RAKH will pay rent equal to 16 percent of gross revenues during the construction of tenant improvements and will not begin paying MAG rent until construction is completed and the concession is open. At that time (approximately March 2020), the tenants will begin paying MAG rent, which will be reduced by 50 percent until the opening of Phase 3.

Each of the leases provides for the tenant to pay the greater of the MAG or percentage rent. According to Ms. Mamaril, the Airport expects to receive percentage rent, which would exceed the MAG.

RECOMMENDATION

Approve the proposed resolutions.

Items 3, 4 & 5 **Files 18-1176, 18-1177, & 18-1178**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve three retail concession leases between San Francisco International Airport (Airport) as landlord and InMotion Entertainment Group, LLC as tenant for locations in (i) Terminal 1, with Minimum Annual Guaranteed (MAG) rent of $405,000 (File 18-1176); (ii) Terminal 3, with MAG rent of $500,000 (File 18-1177); and (iii) the International Terminal, with MAG rent of $340,000 (File 18-1178). The leases would each have terms of ten years with no options to extend.

Key Points

- In December 2017, the Airport Commission authorized Airport staff to issue a Request for Proposals (RFP) for six retail concession leases in Terminal 1, including an electronics store. InMotion Entertainment Group, LLC was the only proposer and was deemed responsive and responsible by the evaluation panel. In July 2018, the Airport Commission approved the lease.
- In March 2018, the Airport Commission authorized Airport staff to issue an RFP for electronics store leases in Terminal 3 and the International Terminal. InMotion Entertainment Group, LLC was the only proposer for each lease and was deemed responsive and responsible by the evaluation panel. In August 2018, the Airport Commission approved the leases.
- The proposed resolutions would approve three leases with InMotion for terms of ten years and cumulative MAG rent of $1,245,000.

Fiscal Impact

- Over the ten year terms of the leases, the Airport would receive at least $12,450,000 in MAG rent. The Airport expects to receive percentage rent, which would exceed the MAG.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

On December 5, 2017, the San Francisco International Airport (Airport) Commission authorized Airport staff to issue a Request for Proposals (RFP) for six retail concession leases in Terminal 1 (Boarding Area B), including an electronics store. On March 20, 2018, the Airport Commission approved revised minimum qualification requirements for the leases and authorized Airport staff to accept proposals. InMotion Entertainment Group, LLC was the only proposer for the electronics store lease, and was deemed by an evaluation panel to be responsive and responsible. On July 10, 2018, the Airport Commission approved the lease.

On March 6, 2018, Airport Commission authorized Airport staff to issue an RFP for electronics store leases in Terminal 3 (Boarding Areas E and F) and the International Terminal (Boarding Area A). On May 15, 2018, the Airport Commission approved revised minimum qualification requirements for the leases and authorized Airport staff to accept proposals. InMotion Entertainment Group, LLC was the only proposer for each lease,[1] and was deemed by an evaluation panel to be responsive and responsible. On August 7, 2018, the Airport Commission approved the leases.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve retail concession leases between the Airport as landlord and InMotion Entertainment Group, LLC for locations in Terminal 1 (File 18-1176), Terminal 3 (File 18-1177), and the International Terminal (File 18-1178). Each lease would have a term of ten years with no option to extend. Under each lease, InMotion would pay the greater of the Minimum Annual Guaranteed (MAG) rent or percentage rent based on gross revenues. The key provisions of the leases are shown in Table 1 below.

[1] According to Mr. John Reeb, Airport Senior Principal Property Manager, the Airport typically advertises concession lease RFPs by sending notifications to a list of interested parties that is approximately 1,000 contacts long. Additionally, the Airport uses an agency that distributes advertisements to local news agencies and industry publications. According to Mr. Reeb, the limited interest in the three leases may be due to some consolidation within the electronics retail industry, as InMotion has bought out some of its past competitors. Brookstone, which has made proposals on past Airport electronics concession leases, is currently undergoing bankruptcy proceedings.

Table 1: Key Provisions of Proposed InMotion Leases

Lease	**Terminal 1 (File 18-1176)**	**Terminal 3 (File 18-1177)**	**International Terminal (18-1178)**
Term	10 years	10 years	10 years
Option to Extend	None	None	None
Square Footage	2,457 square feet	Two locations comprising 1,762 square feet	1,456 square feet
Initial MAG Rent[2]	$405,000	$500,000	$340,000
MAG Adjustment	Adjusted annually based on Consumer Price Index (CPI)		
Percentage Rent (of Gross Revenues)	8% of licensed electronic products and hardware products, 12% of other retail products up to $500,000, 14% from $500,000-$1,000,000, 16% over $1,000,000		
Minimum Investment	$700 per square foot of the premises	$650 per square foot of the premises	$650 per square foot of the premises
Mid-Term Refurbishment	Tenant must refurbish, redecorate, and modernize the retail area of the premises after 5 years. Tenant must invest 35% of minimum investment amount.		
Interim Rent During Construction	16% of gross revenues		
Deposit	Equal to one half of initial MAG (subject to mid-term adjustment)		
Early Termination	Airport may terminate with 6 months written notice, if space is required for Airport's Five-Year or Ten-Year Capital Plan		
Promotional Charge	$1 per square foot per year		
Pest Control Fee	$75 per month		

According to Ms. Cheryl Nashir, Airport Director of Revenue Development and Management, the Terminal1 and Terminal 3 leases are expected to commence on September 20, 2019, and the International Terminal lease is expected to commence on January 1, 2020.

FISCAL IMPACT

Over the ten year terms of the leases, the Airport would receive at least $12,450,000 in MAG rent. The rents paid by each tenant are shown in Table 2 below.

Table 2: Total MAG Rent for Three Leases

Lease	**MAG Rent**	**Total Rent (10 Years)**
Terminal 1 (File 18-1176)	$405,000	$4,050,000
Terminal 3 (file 18-1177)	500,000	5,000,000
International Terminal (File 18-1178)	340,000	3,400,000
Total	**$1,245,000**	**$12,450,000**

[2] The Airport sets MAG rents for retail lease sites at approximately 75 percent of projected percentage rent.

According to Ms. Nashir, the Airport expects to receive percentage rent, which would exceed the MAG.

RECOMMENDATION

Approve the proposed resolutions.

Item 6 File 19-0020	Department: San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a wellness retail concession lease between San Francisco International Airport (Airport) as landlord and Spa BR SFO, LLC dba Be Relax as tenant for a term of ten years and minimum annual guaranteed (MAG) rent of $250,000.

Key Points

- In March 2018, the Airport Commission authorized Airport staff to conduct a Request for Proposals (RFP) for three retail concession leases, including a wellness concession lease with locations in Terminal 3 and the International Terminal. The Airport received three proposals and an evaluation panel determined Spa BR SFO, LLC dba Be Relax to be the highest scoring responsive and responsible proposer. In August 2018, the Airport Commission approved the lease.
- The proposed resolution would approve a lease with Spa BR for a term of ten years and no options to extend. Spa BR would pay the greater of the MAG or percentage rent based on gross revenues.

Fiscal Impact

- Over the ten-year term of the lease, the Airport would receive at least $2,500,000 in MAG rent. The Airport expects to receive percentage rent, which would exceed the MAG.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten years or more or that has revenue to the City of $1 million or more is subject to Board of Supervisors approval.

BACKGROUND

In March 2018, the San Francisco International Airport (Airport) Commission authorized Airport staff to conduct a Request for Proposals (RFP) for three retail concession leases, including a wellness concession lease with locations in Terminal 3 and the International Terminal. After issuing the RFP and conducting an informational meeting, Airport staff gathered feedback and made changes to some of the business terms. In May 2018, the Airport Commission authorized Airport staff to accept proposals. In June 2018, the Airport received three proposals in response to the RFP for the wellness concession lease. A four-member panel reviewed the proposals and scored them as shown in Table 1 below.

Table 1: Proposals and Scores for Wellness Concession Lease

Proposer	Concept Name	Score
Spa BR SFO, LLC dba Be Relax	Be Relax/Chiroport	89.33
XpressSpa S.F. International, LLC	XpressSpa	86.67
Minute Suites Travelers Oasis SFO, LLC	Minute Suites	81.67

Spa BR SFO, LLC dba Be Relax was deemed the highest scoring responsive and responsible proposer. In August 2018, the Airport Commission approved the lease.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a wellness concession lease between the Airport as landlord and Spa BR SFO, LLC dba Be Relax as tenant, for a term of ten years and no options to extend. Spa BR would pay the greater of the Minimum Annual Guaranteed (MAG) rent or percentage rent based on gross revenues.

Spa BR would operate two locations, one in Terminal 3 and the other in the International Terminal. Each location would include massage, hair, nail, and chiropractic services, as well as wellness and travel accessory retail.

The key provisions of the lease are shown in Table 2 below.

Table 2: Key Provisions of Spa BR Lease

Term	Ten years
Options to Extend	None
Square Footage	Approximately 1,320 square feet in Terminal 3 and 797 square feet in the International Terminal
Initial MAG Rent[1]	$250,000
MAG Adjustment	Annually based on Consumer Price Index (CPI)
Percentage Rent (of Gross Revenues)	12% up to $500,000; 14% from $500,000 - $1,000,000; 16% over $1,000,000
Minimum Investment	$650 per square foot of the premises
Mid-Term Refurbishment	Tenant shall refurbish the premises after 5 years, investing 35% of minimum investment amount
Interim Rent During Construction	16% of gross revenues
Deposit	Equal to ½ of initial MAG (subject to mid-term adjustment)
Early Termination	Airport may terminate with 6 months written notice, if the space is required for Airport's Five-Year or Ten-Year Capital Plan
Promotional Charge	$1 per square foot per year
Pest Control Fee	$75 per month (subject to adjustment)

FISCAL IMPACT

Under the terms of the lease, Spa BR would pay the greater of the MAG rent or rent equal to a percentage of gross revenues. Over the ten-year term of the lease, the Airport would receive at least $2,500,000 in MAG rent, as shown in Table 3 below.

Table 3: MAG Rent Paid to Airport

MAG Rent	Years	Total MAG Paid
$250,000	10	$2,500,000

According to Mr. John Reeb, Airport Senior Principal Property Manager, the Airport expects to receive percentage rent, which would exceed the MAG.

RECOMMENDATION

Approve the proposed resolution.

[1] The Airport sets MAG rents for retail lease sites at approximately 75 percent of projected percentage rent.

Item 7 File 19-0011	Department: Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve an emergency declaration of the San Francisco Public Utilities Commission (SFPUC) to repair the Southeast Treatment Plant Final Effluent Force Main, with a total estimated cost not to exceed $5,000,000.

Key Points

- SFPUC Wastewater Enterprise staff detected a potential leak in a pipe carrying treated wastewater into the San Francisco Bay on October 18, 2018, and the SFPUC General Manager declared an emergency on October 22, 2018. The emergency declaration was revised two months later on December 26, 2018 because SFPUC staff identified further deterioration and need for more extensive work.
- SFPUC selected Power Engineering, who was previously selected through a competitive solicitation to work on another vent pipe replacement project within the same outfall system, to perform the work. Construction is expected to begin February 2019.

Fiscal Impact

- The budget for the repair of the pipes crossing Islais Creek is $4.9 million. According to SFPUC, a specialty engineering consultant provided cost estimates from recent projects that adhere to SFPUC estimating guidelines, as well as cost estimates from vendors to confirm material cost estimates. SFPUC's technical engineering staff has also reviewed the engineer's estimate.
- The project budget has a construction contingency of 50 percent (or $1 million for a $2 million construction budget); according to SFPUC, SFPUC's contracting guidelines allow contingencies of up to 30 percent but higher contingencies are allowed for complex projects. The project has additional contingencies of (a) $200,000 in case the Islais Creek and Illinois Street Bridges (which need to be raised for construction barges to cross) do not open, requiring potential modification of construction methodology, and (b) $450,000 in case contractor bids are high due to the specialized nature of the project and limited number of contractors.

Policy Consideration

- Replacement of the existing pipelines is included SFPUC Wastewater Enterprise Capital Program. The budget for the permanent replacement of the pipelines is currently estimated at approximately $38,700,000 and permanent replacement of the pipelines is scheduled for 2023. The proposed emergency repair work is intended to maintain the existing pipelines until permanent replacement can be completed.

Recommendations

- Amend the proposed resolution to reduce the not-to-exceed amount by $88,000, from $5,000,000 to $4,912,000.
- Approve the proposed resolution as amended.

MANDATE STATEMENT

Administrative Code Section 6.60(d) states that contracts entered into for emergency work that are more than $250,000 are subject to Board of Supervisors approval. Prior to the commencement of emergency work above the $250,000 threshold, the Department must also secure approval in writing from the Mayor, the President of the Board, or the Commission.

According to Administrative Code Section 6.60(d), if the emergency does not permit the required approvals of the emergency determination to be obtained before work begins; the Department head must submit a resolution approving the emergency determination to the Board of Supervisors within 60 days.

BACKGROUND

The San Francisco Public Utilities Commission's (SFPUC) Southeast Treatment Plant, located in Bayview Hunters Point, provides wastewater collection and treatment of approximately 80 percent of the city's flows. The Southeast Treatment Plant treats approximately 57 million gallons of wastewater and 160 wet tons of biosolids per day. Capacity may reach 250 million gallons per day during rainstorms.

On October 18, 2018, SFPUC Wastewater Enterprise staff detected a potential leak in a pipe carrying treated effluent into the San Francisco Bay. The two pipelines that cross Islais Creek – one 36-inch diameter and one 42-inch diameter, conveying treated effluent from the Southeast Treatment Plant to the deep-water outfall located in the San Francisco Bay – appeared to be leaking into Islais Creek rather than the Bay. The leak into Islais Creek could result in substantial regulatory enforcement action and penalties, as well as potential public health risks. On October 22, 2018, the SFPUC General Manager declared an emergency, which was approved by the SFPUC Commission President. The project cost to hire a consultant to inspect and repair and/or bypass the existing pipe was estimated to not exceed $2,000,000.

SFPUC contracted divers who confirmed on November 3, 2018 that the 36-inch diameter pipeline is leaking. On December 26, 2018, or more than two months after the original emergency declaration, the SFPUC General Manager submitted a revised emergency declaration to the SFPUC Commission President, stating that, after further investigating the pipe failure, SFPUC staff determined that the needed work was more specialized and substantial than had been initially estimated. According to the December 26, 2018 memorandum to the SFPUC Commission President, the points of connection for the pipe were further deteriorated than originally estimated. SFPUC estimated that the cost of the work had increased from $2 million to $5 million. SFPUC estimated that the cost of the work had increased from $2 million to $5 million. According to Mr. Christopher Whitmore, SFPUC Policy and Government Affairs, SFPUC needed two months to identify the further deterioration and need for more extensive work because field investigation work required multiple coordinated Southeast Plant shutdowns for confined space entries, physical confirmation of existing conditions due to limited as-built information, accessibility of restricted and difficult pipeline points of entries, discovery of long-lead specialized material and equipment procurement to build the emergency bypass. In addition, Southeast Treatment Plant shutdowns are generally limited to an 8-hour window once a month depending on weather conditions.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve an emergency declaration of the SFPUC to repair the Southeast Treatment Plant Final Effluent Force Main, with a total estimated cost not to exceed $5,000,000.

According to Mr. John Scarpulla, SFPUC Policy and Government Affairs, Power Engineering was identified as the most qualified and available contractor to complete the project. Power Engineering is currently contracted under an existing competitively solicited SFPUC Job Order Contract (JOC) #59, specifically Task Order 15 to work on another vent pipe replacement project within the same outfall system. SFPUC selected Power Engineering to conduct the emergency repair of the Southeast Treatment Plant Final Effluent Force Main without undergoing a competitive solicitation process because its staff is very familiar with plant operational constraints, local tidal influence and impacts on construction, and familiarity with site access constraints. Power Engineering also has personnel and equipment available and capabilities to perform complex construction in marine environments.

Construction is expected to begin February 2019 with substantial completion within nine months. According to Mr. Scarpulla, the project will include installation of a new temporary bypass system at the Southeast Outfall Islais Creek Crossing and tie it to the existing outfall system at Islais Creek. The bypass system will consist of 310 linear feet of pipe, two knife gate valves, and two sets of support systems at the tie-in points.

FISCAL IMPACT

The budget for the repair of the pipes crossing Islais Creek is $4.9 million, as shown in Table 1 below. According to Mr. Whitmore, the specialty engineering consultant provided cost estimates from their experience with projects similar in scope while adhering to SFPUC estimating guidelines. In addition, SFPUC technical staff has reviewed the Engineer's Estimate in detail and independently confirmed material and equipment availabilities and cost from vendors.

Table 1: Project Budget

Item Description	**Cost**
Initial inspection / site exploration	$177,025
Initial design	34,895
Final design estimate	300,000
Construction cost estimate	2,000,000
Contingency (50%)	1,000,000
Bidding climate (additional 15% of construction total)	450,000
Emergency construction management estimate	350,000
Environmental permitting and compliance	200,000
Unforeseeable site condition allowance	200,000
Specialized engineering staff support & augmentation	200,000
Total	**$4,911,920**

The $4.9 million budget for the proposed emergency repair to the pipeline includes contingencies of $1.65 million, or 34 percent of total project costs. These contingencies include (a) $1 million for construction, or 50 percent of the construction budget of $2 million; (b) $450,000 to account for a limited number of potential bids for design work; and (c) $200,000 for unforeseeable site condition allowance.

According to Mr. Whitmore, the project team recommends a 50 percent construction contingency ($2,000,000 construction budget and $1,000,000 contingency) due to unforeseen conditions based on recently completed field evaluations. Staff has identified deteriorated concrete and metal pipes exposed to decades of saltwater and potential corrosion. According to Mr. Whitmore, SFPUC Infrastructure Procedure PD1.10 allows contingencies up to 30 percent at the project's 50 percent design level, unless project complexity warrants a larger contingency. Based on the project's scope and current field findings, a higher contingency of 50 percent is included in the overall project budget.

In addition to the $1,000,000 construction contingency, the project includes $200,000 for unforeseeable site conditions. According to Mr. Whitmore, the project budget has two contingencies for unforeseen site conditions totaling $1,200,000, equal to 60 percent of the $2,000,000 construction budget, because the project requires Islais Creek Bridge and Illinois Street Bridge to be functional for barge access to the construction site. While Public Works and Port staff has confirmed that the bridges are functional, it is unknown when they were last opened. The additional $200,000 allows for potential delays and potential modification of construction methodology in the event that the bridges do not open.

The proposed project budget also includes $450,000 to account the construction bidding climate, which according to Mr. Whitmore, is due to the limited number of construction contractors who are qualified to perform the complex and high-risk scope of work in a marine environment.

Because the project budget of $4,911,920 is approximately $88,000 less than the resolution not-to-exceed amount of $5,000,000, the proposed resolution should be amended to reduce the not-to-exceed amount by $88,000, from $5,000,000 to $4,912,000.

POLICY CONSIDERATION

According to Mr. Whitmore, the existing pipelines crossing Islais Creek are at the end of their useful life. SFPUC staff has not previously conducted inspections of these pipelines because the configuration of the existing pipelines prohibits safe entry for detailed inspection or rehabilitation. Replacement of the existing pipelines is included SFPUC Wastewater Enterprise Capital Program. The budget for the permanent replacement of the pipelines is currently estimated at approximately $38,700,000 and permanent replacement of the pipelines is scheduled for 2023. The proposed emergency repair work is intended to maintain the existing pipelines until permanent replacement can be completed.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not-to-exceed amount by $88,000, from $5,000,000 to $4,912,000.

2. Approve the proposed resolution as amended.

Item 8 File 18-1072	Department: Civil Service Commission (CSC) Office of Labor Standards Enforcement (OLSE)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would fix prevailing wage rates for employees of businesses having City contracts that (1) perform public works and improvement projects, (2) perform janitorial or window cleaning services, (3) work in public off-street parking lots, garages, or storage facilities for vehicles on property owned or leased by the City, (4) engage in theatrical or technical services related to the presentation of shows on property owned or leased by the City, (5) haul solid waste, (6) perform moving services at facilities owned or leased by the City, and (7) perform exhibit, display or trade show work at special events in the City, (8) work in broadcast services on City property, (9) drive, load, or unload commercial vehicles on City property in connection with shows or special events, (10) perform security guard services, and (11) perform motor bus services.

Key Points

- The proposed resolution would establish the following changes to prevailing wage rates: (1) construction employees would receive wage rates that vary by classification, from no change to an increase of $5.63 per hour; (2) janitorial employees would receive a wage rate increase depending on classification ranging from $0.25 to $0.55 per hour, and window cleaners would receive a wage rate increase of $0.65 per hour; (3) garage and parking lot employees would receive a wage rate increase depending on classification from no increase to $0.83 per hour; (4) theatrical employees would receive a wage rate increase depending on classification from $2.21 to $13.15 per hour; (5) solid waste haulers would receive a wage rate increase depending on classification ranging from $0.84 to $1.05 per hour; (6) employees performing moving services would receive a wage rate increase of $0.30 per hour; (7) employees performing trade show work would receive a wage rate increase depending on classification ranging from $1.40 to $1.54 per hour; (8) broadcast employees would receive a wage rate increase depending on classification from $0.89 to $16.27 per hour, (9) loaders and unloaders would receive a wage rate increase of $1.00 per hour, (10) security guards would receive a wage rate increase depending on classification ranging from $1.55 to $1.90 per hour, and (11) motor bus drivers would receive a wage rate increase of $0.75 per hour.

Fiscal Impact

- Potential increased costs to the City depend on future City contractor bids and the extent to which City contractors increase the bids submitted to the City to pay for the costs of the increased prevailing wages rates.

Recommendation

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

MANDATE STATEMENT

Charter Section A7.204 requires contractors that have public works or construction contracts with the City to pay employees the highest general prevailing rate of wages for similar work in private employment. The Charter allows the Board of Supervisors to exempt payment of the prevailing wage for wages paid under public works or construction contracts between the City and non-profit organizations that provide workforce development services.

Administrative Code Sections 6.22(E)(3) and 21C.7(c)(1) require the Board of Supervisors to annually set prevailing wage rates for employees of businesses having City contracts. Table 1 below identifies the (a) specific Administrative Code Sections, (b) the dates each Administrative Code Section was last amended by the Board of Supervisors, and (c) the types of City contracts, leases, and/or operating agreements in which the businesses are required to pay prevailing wages.

Table 1: List of City Contractors Required to pay the Annual Prevailing Wage

Administrative Code	Date of Most Recent Amendment	Type of Contract
Section 6.22 (E)	May 19, 2011	Public works or construction
Section 21.C.1	January 7, 2011	Motor bus services
Section 21C.2	May 28, 2014	Janitorial and window cleaning services
Section 21C.3	May 28, 2014	Public off-street parking lots, garages and vehicle storage facilities
Section 21C.4	February 2, 2012	Theatrical performances
Section 21C.5	February 2, 2012	Solid waste hauling services
Section 21C.6	February 2, 2012	Moving services
Section 21C.8	June 19, 2014	Trade show and special event work
Section 21C.9	February 10, 2016	Broadcast service workers on City property
Section 21C.10	October 14, 2016	Loading, unloading and driving commercial vehicles on City property
Section 21C.11	October 28, 2016	Security guard services in City contracts and for events on City property

BACKGROUND

Businesses that have contracts with the City, lease City property, or have permits for or other access to temporary use of City property must pay prevailing wage rates to employees. Each year, the Board of Supervisors is required to establish the prevailing wage rates for workers engaged in construction, janitorial, parking, theatrical, motor bus, solid waste hauling, moving, trade show, security guard, broadcast services, and loading unloading and driving commercial vehicles on City property.

To assist the Board of Supervisors in determining the prevailing wage rates, the Civil Service Commission is required to furnish the Board of Supervisors, on or before the first Monday of November of each year, relevant prevailing wage rate data. The Civil Service Commission submitted the report to the Board of Supervisors on October 17, 2018.

Administrative Code Section 6.22(E) states that the Board of Supervisors is not limited to the data submitted by the Civil Service Commission to determine the prevailing wage rates for public works construction, but may consider other information on the subject as the Board of Supervisors deems appropriate. If the Board of Supervisors does not adopt the prevailing wage rates, the wage rates established by the California Department of Industrial Relations for the year will be adopted.

The Civil Service Commission's relevant prevailing wage rate data provided to the Board of Supervisors is based on a survey by the City's Office of Labor Standards Enforcement and includes collective bargaining agreements that have recently been negotiated.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would fix prevailing wage rates for employees of private businesses having the following contracts, leases, or operating agreements with the City or perform services on City property:

- Public works and improvement project contracts,
- Janitorial services contracts,
- Public off-street parking lots, garages, or storage facilities for vehicles on property owned or leased by the City,
- Theatrical or technical services related for shows on property owned or leased by the City,
- Hauling of solid waste generated by the City in the course of City operations,
- Moving services under City contracts at facilities owned or leased by the City,
- Exhibit, display or trade work show services at a special event on City-owned property,
- Broadcast services on City property,
- Loading, unloading, and driving of commercial vehicles on City property in connection with shows or special events,
- Security guard services, and
- Motor bus services.

The Administrative Code requires that the Civil Service Commission provide prevailing wage data to the Board of Supervisors that includes both the basic hourly wage rate and the hourly rate of each fringe benefit, including medical and retirement benefits.

- Prevailing wage rates for various crafts and labor classifications under public works projects are established by the California Department of Industrial Relations, usually based on collective bargaining agreements that cover the employees performing the relevant craft or type of work in San Francisco.

- Prevailing wage rates for contracts for other services and classifications covered by the Administrative Code, as recommended by the Civil Service Commission, are based on the collective bargaining agreements that cover work performed in San Francisco between employers and the respective labor unions.

Attachment I to this report provides an alphabetical list of all crafts covered by the City's prevailing wage rate requirements.

FISCAL IMPACT

Attachment II to this report, prepared by the Budget and Legislative Analyst, summarizes (a) the types of contracts, leases, or operating agreements required to pay prevailing wages, (b) the respective collective bargaining agreements and labor unions, (c) the amount of the hourly wage rate increases in 2019 as compared to 2018, (d) the amount of the hourly fringe benefit rate increases in 2019 as compared to 2018, and (e) the proposed prevailing hourly wage rates.

Potential impact on the costs of future contractor bids

Under the proposed resolution, private businesses that have contracts with the City, and perform public works construction, janitorial services, parking, theatrical, moving, solid waste hauling services, trade show work, broadcasting services, loading and unloading, security guard services, and motor bus services in San Francisco, would be required to pay their employees at least the prevailing wage rates as shown in Attachment II of the report.[1] Increases in the prevailing wage rates could result in increased costs of future City contracts. However, any increased contract costs to the City as a result of the proposed prevailing wage rates are dependent on future City contractors' bids, and the extent to which such higher wage rates result in higher bids submitted by City contractors. Therefore, such potential increased costs to the City cannot be estimated at this time.

POLICY CONSIDERATION

Administrative Code Section 21C.7 provides for the Board of Supervisors to approve the prevailing rate of wages for covered classifications each calendar year. While the Civil Service Commission provides prevailing wage data to the Board, the Board of Supervisors is not limited to consideration of the data provided by the Civil Service Commission.

The prevailing wage rates for parking employees, as submitted by the Civil Service Commission, are based on wage rates in the collective bargaining agreement between Teamsters Local 665 and New South Parking, which covers workers at San Francisco International Airport parking facilities. Parking employees at City-owned parking facilities under the jurisdiction of the San

[1] The 2019 prevailing wage rates under S.F. Admin Code 21C no longer include wages for foreperson classifications. According to Mr. Benjamin Weber, Office of Labor Standards Enforcement, the foreperson classifications were removed because they pertain only to union contracts and the distinction is not enforceable from a prevailing wage standpoint. Since the prevailing wage is a minimum wage, the foreperson wage exceeds the prevailing wage and does not prevail.

Francisco Municipal Transportation Agency (SFMTA) are covered under the collective bargaining agreement between Teamsters Local 665 and a consortium of companies that operate parking facilities in San Francisco, including City-owned parking facilities[2], which expired in November 2018. As of the writing of this report, the collective bargaining agreement between Teamsters Local 665 and the consortium of companies operating parking facilities in San Francisco, including City-owned parking facilities is under negotiation.

The prevailing wage rate for parking employees as submitted by the Civil Service Commission would apply to employees of City-owned parking facilities. Even if the wage rate and benefits negotiated by Teamsters Local 665 and the parking consortium are lower than those submitted by the Civil Service Commission.[3] As noted above, the Board of Supervisors has the option to approve the prevailing wage rates as submitted by the Civil Service Commission or consider other data to approve the prevailing wage rates. Therefore, approval of the proposed resolution is a policy matter for the Board of Supervisors.

RECOMMENDATION

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

[2] The operators included in this agreement are ABM Parking Services, IMPARK & IMCO, Standard Parking & Central Parking, City Park, California Parking, Pacific Park Management, Parking Concepts Inc., LAZ Parking of California, Ace Parking Mgt., Inc. ProPark America, Douglas Parking, Portsmouth Sq. Garage, Encore Hospitality Services, Savoy Corporation, Parking Company of America, and R&R Parking.

[3] If the collective bargaining agreement between the Teamsters Local 665 and the parking consortium provides for wage rates and benefits that are higher than the prevailing wage rate, the higher rate would apply. If the collective bargaining agreement provides for wage rates and benefits that are lower than the prevailing wage rate, the prevailing wage rate would apply to parking employees of City-owned or leased facilities but not to parking employees of private facilities under the agreement.

List of the Crafts Covered by Prevailing Wage Requirements

Asbestos Removal Worker (Laborer)
Asbestos Worker, Heat and Frost Insulator
Boilermaker-Blacksmith
Broadcast Services Workers
Brick Tender
Bricklayer, Blocklayer
Building/Construction Inspector
Carpenter and Related Trades
Carpet, Linoleum
Cement Mason
Dredger (Operating Engineer)
Drywall Installer (Carpenter)
Electrical Utility Lineman
Electrician
Elevator Constructor
Field Surveyor
Furniture Movers and Related Classifications
Glazier
Iron Worker
Janitorial Services Worker
Janitorial Window Cleaner Workers
Laborer
Landscape Maintenance Laborer
Light Fixture Maintenance
Loaders and Unloaders
Marble Finisher
Marble Mason
Metal Roofing Systems Installer
Modular Furniture Installer (Carpenter)
Motor Bus Driver
Moving Services
Operating Engineer
Operating Engineer (Building Construction)
Operating Engineer (Heavy and Highway Work)
Painter
Parking and Highway Improvement Painter (Painter)
Parking Lot and Garage Workers
Pile Driver (Carpenter)
Pile Driver (Operating Engineer - Building Construction)
Pile Driver (Operating Engineer - Heavy and Highway Work)
Plaster Tender
Plasterer
Plumber
Roofer
Security Guards
Sheet Metal Worker (HVAC)
Slurry Seal Worker
Solid Waste Hauling Workers
Stator Rewinder
Steel Erector and Fabricator (Operating Engineer - Heavy & Highway Work)
Steel Erector and Fabricator (Operating Engineer - Building Construction)
Teamster
Telecommunications Technician
Telephone Installation Worker
Terrazzo Finisher
Terrazzo Worker
Theatrical Workers
Tile Finisher
Tile Setter
Trade Show and Special Event Workers
Traffic Control/Lane Closure (Laborer)
Tree Maintenance (Laborer)
Tree Trimmer (High Voltage Line Clearance)
Tree Trimmer (Line Clearance)
Tunnel Worker (Laborer)
Tunnel/Underground (Operating Engineer)
Water Well Driller

Type of Contract, Lease, or Operating Agreement	Collective Bargaining Agreement and/or Labor Union	Hourly Wage Rate Increase/ Decrease in 2019 compared to 2018	Hourly Fringe Benefits Rate Increase/ Decrease in 2019 compared to 2018	Proposed Prevailing Wage Rates (Hourly Wage Rate + Hourly Fringe Benefit Rate)
Public Works and Construction	California Department of Industrial Relations	Varies by classification, ranging from no increase for certain roofers, bitumastics, enamelers, pipe wrappers, mastic workers, kettlemen, water well drillers, and pump installers to an increase of $5.63 per hour for cable splicers.	Varies by classification, ranging from a decrease of $1.50 for certain plumbers and air conditioning and refrigeration/HVAC service workers to an increase of $2.15 for sprinkler fitters.	Varies by classification: ·The low wage rate increases from $15.00 to $15.50 per hour for water well driller helpers. ·The high wage is increases from $113.94 to $114.44 per hour for plumbers, steamfitters, and air conditioning and refrigeration/HVAC service workers.
Janitorial Services Contract	Collective bargaining agreement between the San Francisco Maintenance Contractors Association and the Service Employees International Union, Building Services Employees Union, Local 1877, Division 87.	Varies by classification, from an increase of $0.25 per hour to an increase of $0.55 per hour.	Varies by classification, from an increase of $0.36 per hour to an increase of $0.74 per hour.	Varies by classification: -The low wage increases from $24.09 per hour to $24.95 per hour. -The high wage increases from $32.99 per hour to $33.90 per hour.
Window Services Contract	Collective bargaining agreement between the San Francisco Window Cleaning Contractors Association and Window Cleaners Union – Service Employees International Union Local 1877, AFL-CIO	An increase of $0.65 per hour.	Varies by classification, from an increase of $0.91 per hour to an increase of $0.93 per hour.	Varies by classification: -The low wage increases from $37.38 per hour to $38.96 per hour. -The high wage increases from $38.99 per hour to $40.55 per hour.
Public Off-Street Garage Attendants	Collective Bargaining Agreement between New South Parking California and Teamsters Automotive and Allied Workers, Local 665, covering parking employees at San Francisco International Airport.	Varies by classification, from no increase to an increase of $0.83 per hour.	Varies by classification, from a decrease of $0.18 per hour to an increase of $1.89 per hour.	Varies by classification: -The low wage decreases from $19.96 per hour to $19.78 per hour. -The high wage increases from $35.30 per hour to $38.02 per hour.

Type of Contract, Lease, or Operating Agreement	Collective Bargaining Agreement and/or Labor Union	Hourly Wage Rate Increase/ Decrease in 2018 compared to 2017	Hourly Fringe Benefits Rate Increase/ Decrease in 2018 compared to 2017	Proposed Prevailing Wage Rates (Hourly Wage Rate + Hourly Fringe Benefit Rate)
Theatrical Services	2016 Project Collective Bargaining Agreement - International Alliance of Theatrical Stage Employees, Local 16, and Moving Picture Technicians, Artists and Allied Crafts, and Canada Local 16	Varies by classification, from an increase of $2.21 per hour to an increase of $13.15 per hour.	Varies by classification, from an increase of $0.92 per hour to an increase of $5.55 per hour.	Varies by classification: -The low wage increases from $51.66 per hour to $54.79 per hour. -The high wage increases from $306.47 per hour to $325.17 per hour.
Solid Waste Hauling	Collective Bargaining Agreement between Recology Sunset & Recology Golden Gate and Sanitary Truck Drivers and Helpers Union Local 350, IBT	Varies by classification, from an increase of $0.84 per hour to an increase of $1.05 per hour.	Varies by classification from an increase of $4.18 to $4.19 per hour. (Does not include vacation benefits which vary based on length of employment)	Varies by classification: ·The low wage rate increases from $64.04 to $69.07 per hour. -The high wage rate increases from $76.81 to $82.11 per hour.
Moving Services	Collective Bargaining Agreement between the Northern California employers and the Northern California Regional Council of Carpenters and the Carpenters 46 Northern California Counties Conference Board.	An increase of $0.30 per hour	An Increase of $0.37 per hour.	Varies by classification: ·The low wage rate increases from $33.18 to $33.85 per hour. ·The high wage rate increases from $32.45 to $34.12 per hour
Trade Shows	Collective Bargaining Agreement, between the Convention Services Employer and Allied Trades District Council 36 on behalf of Sign Display and Allied Crafts Local Union 510	Varies by classification from an increase of $1.40 per hour to an increase of $1.54 per hour.	Varies by classification from an increase of $1.75 per hour to an increase of $1.76 per hour.	Varies by classification: ·The low wage increases from $63.87 to $67.02 per hour. ·The high wage increases from $68.21 to $71.51 per hour.
Broadcast service workers	Agreement between MIRA Mobile Television Inc. and KELLEYCORE d/b/a SAMMCO, and the International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists, and Allied Crafts, AFL-CIO, CLC, and Local 119/ Bay Area Freelance Association	Varies by classification, from an increase of $0.89 per hour to an increase of $16.27 per hour.	Varies by classification, from an increase of $0.84 per hour to an increase of $1.61 per hour.	Varies by classification: -The low wage increases from $26.09 per hour to $27.82 per hour. -The high wage increases from $96.13 per hour to $101.78 per hour.

Type of Contract, Lease, or Operating Agreement	Collective Bargaining Agreement and/or Labor Union	Hourly Wage Rate Increase/ Decrease in 2018 compared to 2017	Hourly Fringe Benefits Rate Increase/ Decrease in 2018 compared to 2017	Proposed Prevailing Wage Rates (Hourly Wage Rate + Hourly Fringe Benefit Rate)
Loaders and Unloaders	Collective Bargaining Agreement between Freeman Exposition Inc., GES/Global Experience Specialists, Curtin Convention & Exposition Services, Inc., and all other signatory employers within the greater San Francisco Bay Area and Teamsters Local 2785, Local 287 and Local 70	An increase of $1.00 per hour.	Varies by classification, from an increase of $0.66 per hour to an increase of $0.67 per hour.	Varies by classification: -The low wage increases from $61.03 per hour to $62.69 per hour. -The high wage increases from $62.16 per hour to $63.83 per hour.
Security Guard Services	Collective Bargaining Agreement between Security Employers and Services Employees International Union, United Services Workers West	Varies by classification, from an increase of $1.55 per hour to an increase of $1.90 per hour.	Varies by classification, from an increase of $0.81 per hour to an increase of $0.83 per hour.	Varies by classification: -The low wage increases from $18.39 per hour to $20.75 per hour. -The high wage increases from $18.19 per hour to $21.12 per hour.
Motor Bus Services	Collective Bargaining Agreement between Bauer's Intelligent Transportation, Inc. and Teamsters Local Union No. 665	An increase of $0.75 per hour.	An increase of $0.30 per hour.	Varies by classification: -The low wage increases from $25.20 per hour to $26.26 per hour. -The high wage increases from $34.00 per hour to $35.06 per hour.

Item 9 **File 18-1151**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would (1) appropriate $4,000,000 from the 2006 and 2007 Lease Revenue Bond debt service reserves to the Recreation and Park Department to support the Rossi Pool Project, and (2) de-appropriate $4,000,000 of Open Space funding from the Rossi Pool Project, and re-appropriate these funds to the Golden Gate Park Golf Course Clubhouse Project for FY 2018-19.

Key Points

- The Golden Gate Park Golf Course Clubhouse is operated under a lease agreement between the Recreation and Park Department and Golden Gate Park Golf Foundation, a nonprofit organization also known as "First Tee". The Clubhouse was extensively damaged in a fire in July 2018, requiring demolition.
- The Recreation and Park Commission approved $4 million in Open Space Fund monies to rebuild for the Golden Gate Park Golf Course Clubhouse in October 2018. In order to make Open Space Fund monies available for the Clubhouse Project, the Recreation and Park Department plans to transfer $4 million in Open Space Fund monies from the Rossi Pool Project to the Clubhouse Project. The Department would then allocate $4 million in tax-exempt 2006 and 2007 Lease Revenue Bond proceeds, set aside but not needed for a debt service reserve, to the Rossi Pool Project to replace the Open Space Fund monies. The Recreation and Park Department determined that use of tax-exempt bonds was not appropriate for the reconstruction of the Golden Gate Park Golf Course Clubhouse, because it is leased by a private entity.
- The Golden Gate Park Golf Course Clubhouse Project is currently in the design phase, and construction is anticipated to begin in April 2020. The project is expected to be completed in January 2021.

Fiscal Impact

- The $4 million budget for the Golden Gate Park Golf Course Clubhouse project is fully funded by the Open Space Fund allocation. The Recreation and Park Commission approved the use of Open Space Fund monies the Golden Gate Park Golf Course Clubhouse project in October 2018. As mandated by Charter Section 16.107, the Parks, Recreation, and Open Space Advisory Committee (PROSAC), provided review and comment on the addition of the Golden Gate Park Golf Course Clubhouse to the FY 2019-20 Annual Capital Expenditure Plan on January 8, 2019.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

Charter Section 9.105 provides that amendments to the Annual Appropriation Ordinance be subject to Board of Supervisors approval by ordinance, after the Controller certifies the availability of funds.

BACKGROUND

2006 and 2007 Lease Revenue Bond Issuances

Lease revenue bonds are a type of revenue bond used to finance the construction of facilities, including state office buildings, correction facilities, courthouses, and state fire facilities. Lease revenue bonds have a lessee (government agency) that pays rent to use the facility. The rent payments are used to pay back investors who purchased the bonds used to finance the construction of the facility.

Open Space Fund

The voters approved Charter Section 16.107 to establish the Park, Recreation and Open Space Fund in 2000 (Open Space Fund), setting aside property taxes equivalent to $0.025 for each $100 of assessed value. The Charter authorizes the Board of Supervisors to approve revenue bonds, including lease revenue bonds, to be repaid by Open Space Fund revenues, for the acquisition, construction, rehabilitation, and improvement of Recreation and Park property. The Board of Supervisors previously approved issuance of 2006 and 2007 Lease Revenue Bonds, to be repaid by Open Space Fund revenues.

2006 and 2007 Lease Revenue Bond

The Series 2006 and 2007 Lease Revenue Bonds were issued for a total of $66,945,515, and were used to fund various park, playground, and recreation center projects; pool projects; Lake Merced improvements; and the Lincoln Park master plan.

The Board of Supervisors approved refunding of the outstanding balance in Series 2006 and 2007 Lease Revenue Bonds in May 2018 (File 18-0362). Total estimated costs to refund the Series 2006 and 2007 Lease Revenue Bonds, including repayment of the outstanding balance, issuance costs, and the new debt service reserve fund, were $45.6 million. Sources to cover the estimated costs of $45.6 million were refunding bond proceeds and prior debt service reserve funds established under Series 2006 and 2007 Lease Revenue Bonds and not used. According to the Budget and Legislative Analyst report to the May 10, 2018 Budget and Finance Committee, the Office of Public Finance stated that approximately $4,051,000 refunding bond proceeds may be allotted to fund a debt service reserve for the refunding bonds.

According to Mr. Antonio Guerra, Capital Finance Manager for the Recreation and Park Department, the Controller's Office of Public Finance and the City Attorney's Office determined that the debt service reserve for the refunding bonds was not necessary.[1] Therefore, $4 million

[1] According to Ms. Jamie Querubin, Controller's Office of Public Finance, the City achieved savings without an increase in financing costs by structuring its refunding bonds without a debt service reserve. The net present value

previously allocated to the 2018 Refunding Bonds for a new debt service reserve fund are available for other projects.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (1) appropriate $4,000,000 from the 2006 and 2007 Lease Revenue Bond debt service reserves to the Recreation and Park Department to support the Rossi Pool Project, and (2) de-appropriate $4,000,000 of Open Space funding from the Rossi Pool Project, and re-appropriate these funds to the Golden Gate Park Golf Course Clubhouse Project for FY 2018-19.

Rossi Pool Improvement Project

Angelo J. Rossi Playground is located at the corner of Anza Street and Arguello Boulevard. The approximately 300,000 square foot park has a large lawn area for baseball and other field sports, children's play area, pool building, maintenance building, and sport courts. In March 2016, the Recreation and Park Department began the planning and civic design phase of the project, which now includes improved park accessibility and renovation of the pool, pool building, and maintenance storage facility. The Recreation and Park Department is currently soliciting bids for construction, which is set to begin in May 2019. The project is scheduled to be substantially completed April 2020.The Recreation and Park Department has allocated $8,200,000 from the 2012 Clean and Safe Parks Bond and $5,730,000 from the Open Space Continuing Capital Fund, for a total project cost of $13,930,000.

Golden Gate Park Golf Course Clubhouse Project

In July 2018, a two-alarm fire extensively damaged the Golden Gate Park Golf Course Clubhouse (the Clubhouse). Due to the fire damage, the Clubhouse had to be fully demolished. The Recreation and Park Department plans to rebuild the building for an approximate cost of $4,000,000. The project is currently in the design phase, and construction is anticipated to begin in April 2020. The project is expected to be completed in January 2021.

Open Space Fund Approval

According to the Charter Section 16.107, Open Space Fund monies can be used to provide park and recreational facilities, as long as the property is under the jurisdiction of the City. The Recreation and Park Commission approves the annual budget for the fund, and according to Charter Section 4.102.3, approved modifications for the budget. In October 2018, the Recreation and Park Commission approved the transfer of $4 million from the Open Space Fund from the Rossi Pool Project to the Golden Gate Park Course Clubhouse, backfilled by the allocation of $4 million in tax-exempt Series 2006 and 2007 Lease Revenue Bond proceeds to the Rossi Pool Project. The Capital Planning Committee reviewed the proposal and recommended approval of the transfer by the Board of Supervisors on November 5, 2018.

As mandated by Charter Section 16.107, the Parks, Recreation, and Open Space Advisory Committee (PROSAC), provided reviewed and comment on the addition of the Golden Gate Park Golf Course Clubhouse to the FY 2019-20 Annual Capital Expenditure Plan in January 2019.

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of gross debt service savings from the 2006 and 2007 Lease Revenue Bonds refunding is $4.9 million, or 11.0 percent, as opposed to an estimate of $1.9 million, or 4.6 percent, with the funding of a debt service reserve.

FISCAL IMPACT

The proposed re-allocation of $4 million in Open Space Fund revenues from the Rossi Pool Project to the Golden Gate Park Golf Course Clubhouse, to be backfilled by the allocation $4 million in tax-exempt Series 2006 and 2007 Lease Revenue Bond proceeds to the Rossi Pool Project, would result in no net change to the budget of the Rossi Pool Project, but will fully fund the reconstruction of the Golden Gate Park Golf Course Clubhouse.

The First Tee of San Francisco manages the Golden Gate Park Golf Course Clubhouse through a separate 501(c)(3) foundation, the Golden Gate Park Golf Foundation. According to Mr. Guerra, although $4 million in tax-exempt Series 2006 and 2007 Lease Revenue Bond proceeds, set aside but not needed for a debt service reserve, are available, the Recreation and Park Department determined that use of tax-exempt bonds was not appropriate for the reconstruction of the Golden Gate Park Golf Course Clubhouse, which is leased by a private entity. [2] Therefore, the proposed ordinance re-allocates Open Space Fund revenues, which are local revenues generated from a property tax set-aside, from Rossi Pool to the Golden Gate Golf Course Clubhouse, and allocates tax-exempt bond proceeds to the Rossi Pool, which is a public pool operated by the Department, to backfill the loss of Open Space Fund revenues.

The budget for the Golden Gate Park Golf Course Clubhouse project is shown in Table 1 below.

Table 1: Golden Gate Park Golf Course Clubhouse Budget

Construction Contract(s)	$2,100,000
Construction Contingency (13%)	$315,000
Subtotal Construction	**$2,415,000**
Soft Costs *	$1,035,000
Project Management	350,000
Soft Cost Reserve**	200,000
Subtotal Soft Costs	**$1,585,000**
Total Project	**$4,000,000**

*Includes architecture and engineering services, hazmat services, construction management, cost estimators, permit fees, materials and testing, and utility connection fees.

** Five percent of the total project budget is set aside in a reserve for unforeseen complications or delays before a project begins construction, such as unanticipated design problems, permitting, and CEQA delays.

According to Mr. Tokes Ajike, Director of Capital Planning, 60 percent of a project's total budget going to hard costs, and 40 percent going towards soft costs, is typical for Park and Recreation projects. The Recreation and Park Department plans to conduct a public bid process for construction of the building. Construction management will be provided by the City's Department of Public Works construction management team.

RECOMMENDATION

Approve the proposed ordinance.

[2] Under the existing lease between First Tee and the Recreation and Park Department, First Tee is responsible for maintaining the premises in good condition while the City is responsible for all capital repairs and replacement.

Item 12 **File 19-0055**	**Department:** Port Commission (Port)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves the Vertical Disposition and Development Agreement (VDDA) between the Port and TMG Partners/Presidio Bay Ventures, a joint venture, setting the terms for the purchase of the Port-owned Parcel K North.

Key Points

- Parcel K North is adjacent to Pier 70 and slated for development of market rate residential condominiums. The Development and Disposition Agreement (DDA) for the Pier 70 development, previously approved by the Board of Supervisors, required the Port to offer Parcel K North for sale at or above its fair market value. Under the proposed VDDA, TMG Partners/Presidio Bay Ventures will pay the Port $24,350,000 for Parcel K North, which is consistent with the appraised value.
- TMG Partners/Presidio Bay Ventures will construct an estimated 240 to 270 market rate residential condominiums in up to two phases; at least 40 percent of the condominiums must be constructed in the first phase. In addition, TMG Partners/Presidio Bay Ventures must construct public infrastructure improvements, including Michigan Street right-of-way and a public plaza, and a 20th Street public plaza. TMG Partners/Presidio Bay Ventures will be reimbursed for the costs of public infrastructure improvements with tax increment revenues generated by the Infrastructure Financing District (IFD) previously approved by the Board of Supervisors, and special taxes levied by the Community Facilities District (CFD) subject to future Board of Supervisors approval.

Fiscal Impact

- The Port will receive one-time revenues of $24.3 million in sales proceeds and estimated annual revenues of $474,000 from a transfer fee of 1.5 percent for resale of condominiums. The City will receive one-time transfer tax revenues of $720,000 and one-time estimated development impact fees of $19.9 million.
- Parcel K North is expected to generate (i) tax increment from the IFD, estimated at $2.8 million per year, and (ii) special tax revenues from the CFD, estimated at $1.4 million per year. Construction of public infrastructure improvements is estimated to cost $7.7 million.

Policy Consideration

- Although the proposed VDDA does not require that TMG Partners/Presidio Bay Ventures construct the residential condominiums within a timeframe, according to Port staff, TMG Partners/Presidio Bay Ventures has an incentive to construct the project by the third year after execution of the VDDA, at which time they will be liable to pay facilities special taxes levied by the CFD of $1.1 million regardless of whether the project is constructed.

Recommendation

- Because the VDDA, in which TMG Partners/Presidio Bay Ventures would purchase Parcel K North from the Port at the appraised value of $24,350,000, is consistent with the Board of Supervisors prior approval of the Pier 70 DDA, the Budget and Legislative Analyst recommends approval of the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that any sale of real property owned by the City and County of San Francisco is subject to Board of Supervisors approval.

BACKGROUND

Pier 70 is a mixed-use development on the Port's Central and Southern Waterfront, bounded by Mariposa, Illinois, and 22nd Streets. In 2014 Pier 70 was listed as the Union Iron Works Historic District on the National Register of Historic Places. Pier 70 includes the Ship Repair Facility[1], the Historic Core[2], Crane Cover Park[3], and the Waterfront Site for mixed use development.

The Board of Supervisors approved the Development and Disposition Agreement (DDA) between Forest City Development California, Inc. (Forest City) and the Port in November 2017 to develop the Waterfront Site, and authorized the Port Executive Director to execute the master lease with Forest City and ground leases and vertical DDAs with vertical developers without further Board of Supervisors approval (File 17-0986).

Adjacent to the Waterfront Site are two parcels – Parcel K and the Hoedown Yard – which are part of the overall development plan for the site. The Hoedown Yard is owned by PG&E, and the City has the option to purchase the property or sell the option to purchase to a third party but as of January 2019 has not exercised the option. In November 2018 the Board of Supervisors approved establishing an Infrastructure and Revitalization Financing District (IRFD) on the Hoedown Yard (Files 18-0782 and 18-0784). Property tax increment generated by the IRFD is to be used to fund affordable housing development on the Waterfront Site and Parcel K South.

Parcel K

Parcel K is owned by the Port but not part of the public trust[4]. Parcel K South, as noted above, is slated for affordable housing development. Parcel K North is an undeveloped parcel (shown in Exhibit 1 below) located at 20th and Illinois Streets, and is slated for development of market rate condominiums.

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[1] The Port is actively looking for a new operator for the Ship Repair Facility.

[2] The Board of Supervisors approved a 66-year lease with Orton Development in 2014 to rehabilitate six primary buildings and two outbuildings in the Historic Core. The rehabilitation of six of the buildings was completed in 2017 and 2018. Rehabilitation of the Bethlehem Steel Office (Building 101) and Compressor Office (Building 102) is anticipated in 2020 and 2019, respectively.

[3] Crane Cove Park is a 7-acre waterfront park, which is partially funded by 2008 and 2012 Clean and Safe Neighborhood Park bonds, anticipated to be complete in 2020.

[4] The 1968 Burton Act transferred Port lands from the State to the City to be held in public trust. California public trust law generally restrict uses of tidelands and submerged land to water-dependent or water-related uses, and prohibits transfer of tidelands and submerged land to private entities. When the Board of Supervisors approved the DDA between the Port and Forest City, the Board also approved the "Compromise Title Settlement and Land Exchange Agreement for Pier 70" between the Port and the State Lands Commission, which allowed the termination of the trust on Parcel K North in exchange for other parcels to be part of the trust. Parcel K North was removed from the trust in September 2018.

Exhibit 1: Parcel K North, 20th and Illinois Streets

The financing plan for the DDA between Forest City and the Port provided for the Port to sell Parcel K North at market value and use the proceeds to advance funds to the Pier 70 Community Facility District to pay for Pier 70 entitlement costs.[5] The financing plan estimated Parcel K North sale proceeds to be $25 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the Vertical Disposition and Development Agreement (VDDA) between the Port and TMG Partners and Presidio Bay Ventures (TMG Partners/Presidio Bay Ventures), a joint venture, setting the terms for TMG Partners/Presidio Bay Ventures to purchase Parcel K North and develop market rate residential condominium units. The proposed resolution also (a) approves that Pier 70 General Plan is consistent with the City's General Plan, (b) adopts the Pier 70 CEQA Findings and the associated the Mitigation Monitoring and Reporting Program for the Pier 70 Mixed-Use District Project, including the Transportation Demand Management Plan, (c) allows City officials to take the steps necessary to implement the VDDA, and (e) allows the Port to make modifications to the VDDA that do not materially decrease the benefits or increase the obligations to the Port without further Board of Supervisors' approval.

[5] Under the DDA financing plan, community facility districts would be formed for Pier 70, levying a special tax on Pier 70 parcels to finance infrastructure construction and maintenance in accordance with California Mello Roos law.

Purchase of Parcel K North

Under the proposed VDDA, TMG Partners/Presidio Bay Ventures would purchase Parcel K North for $24,000,000. According to the September 2018 appraisal by Cushman & Wakefield, an independent appraiser, the fair market value as-is of Parcel K North is $24,300,000, or $300,000 less than the proposed purchase price (see below). The December 2018 appraisal review by R. Blum + Associates, an independent appraiser, confirmed the appraisal amount of $24,300,000.

Prospective buyers for Parcel K North were solicited through a real estate broker, Collier's International, in a competitive solicitation. Five prospective buyers responded to the solicitation. The Port deemed TMG Partners/Presidio Bay Ventures as the highest qualified bidder in consultation with the City's Real Estate Division and Colliers International. According to Mr. Brad Benson, Director of Special Projects, TMG Partners/Presidio Bay Ventures was selected based on the team's strong development credentials, history of building similar residential projects, and ability to meet the tight timeframe for completing due diligence, negotiating the sales agreement, and closing escrow by February 15, 2019, as evidenced by the amount of diligence and underwriting done to support the purchase offer and demonstrated source of financing to buy the property and build the project.

According to the proposed VDDA, TMG Partners/Presidio Bay Ventures will pay (a) the purchase price of $24,000,000; and (b) the Port's costs to negotiate and implement the agreement up to $350,000. Based on these amounts, the total purchase price to be paid by TMG Partners/Presidio Bay Ventures is $24,350,000 or $50,000 more than the appraised value of $24,300,000.

TMG Partners/Presidio Bay Ventures Development Responsibilities

Parcel K North is currently leased by the Port to a parking lot operator. Parcel K North will be a development of up to 261,700 gross square feet of residential use and 13,200 square feet of ground floor commercial uses. The VDDA requires TMG Partners/Presidio Bay Ventures to construct:

- 240 to 270 residential condominium units, consisting of a mix of studios, 1-bedroom, 2-bedroom, and 3-bedroom units;
- Up to 13,200 square feet of retail/arts/light industrial, and office space;
- 0.6 parking spaces per residential unit and 1 parking space per 1,500 square feet of office space.

Construction of the project may occur in two phases, although at least 40 percent of the residential units must be constructed in the first phase.

In addition, the VDDA requires TMG Partners/Presidio Bay Ventures to construct the following infrastructure:

- Michigan Street right-of-way. The VDDA requires TMG Partners/Presidio Bay Ventures to construct public improvements to Michigan Street between 20th and 21st Streets. These improvements will restore a portion of this segment of Michigan Street, which was vacated to assemble Parcel K North (File 18-0854), to a public right of way. Construction of these improvements is expected to be completed in April 2020.

- Michigan Street and 20th Street plazas. The VDDA requires TMG Partners/Presidio Bay Ventures to construct a (1) raised plaza as part of the Michigan Street right-of-way, and (2) plaza at 20th Street and Illinois Street. Construction of the plazas is expected to be complete in August 2022
- Electricity switchgear facilities, distributing electricity to the Waterfront Site, Historic Core, Shipyard Repair Facility, and Crane Cover Park. The VDDA provides two options for switchgear facilities. The first option is for the San Francisco Public Utilities Commission (SFPUC) to install two pad-mounted switchgear facilities in the Michigan Street plazas and for TMG Partners/Presidio Bay Ventures to construct a decorative enclosure at its sole cost up to $250,000. Costs exceeding $250,000 will be reimbursed by Pier 70 project revenues generated by the Infrastructure Financing District (IFD) and/or Community Facilities Districts as previously approved in the IFD financing plan (see Fiscal Impact below). The second option is for pole-mounted switchgear facilities on another parcel within Pier 70, in which TMG Partners/Presidio Bay Ventures would reimburse SFPUC and PG&E up to $250,000.

The Port's timeline for the sale of Parcel K North to TMG Partners/Presidio Bay Ventures and development of the property is approximately 2 ½ years, as shown below:

Close escrow	Feb 2019
Conceptual Design Application	Spring 2019
Subdivision Map Application	Nov 2019
Start of construction	Fall 2020
Certificate of Occupancy	Fall 2022

Community Facilities District

The Pier 70 Special Use District provides for the formation of a Community Facilities District (CFD) on Parcel K North. The VDDA (a) provides for the levy of a special tax on the condominiums to be constructed on Parcel K North and sold to private property owners to be used for development of infrastructure and for services, and (b) requires TMG Partners/Presidio Bay Ventures to comply with all CFD covenants. The Community Facilities District is subject to future Board of Supervisors approval.

Transfer Fee

In accordance with the VDDA, the purchaser of each condominium unit pays a transfer fee to the Port equal to 1.5 percent of the purchase price. This transfer fee does not apply to the first purchase of the condominium unit but does apply to future purchases when the condominium unit is resold.[6]

[6] If TMG Partners/Presidio Bay Ventures is unable to sell the condominium units due to a downturn in the real estate market, TMG Partners/Presidio Bay Ventures may operate the property as a rental property. The transfer fee is waived for 10 years, and after 10 years, an in-lieu transfer fee is charged to TMG Partners/Presidio Bay Ventures (or other project owner if the project has been transferred to a new owner). When the condominium

FISCAL IMPACT

Revenues to the Port

Sales Proceeds

One time revenues to the Port from the sale of Parcel K North are $24,350,000. As noted above, according to the financing plan in the DDA between the Port and Forest City, the proceeds from the sale of Parcel K North will be used to pay down entitlement costs associated with the Pier 70 Special Use District project. Exhibit 2 below shows the total Pier 70 project sources and uses, including $24,350,000 in proceeds from the sale of Parcel K North.

Exhibit 2: Pier 70 Project Sources and Uses of Funds

Project Sources	
CFD/IFD Bond Proceeds [a]	$169,592,682
IFD Tax Increment	186,861,336
Parcel K North Condominium CFD Special Tax Proceeds [b]	35,378,942
Project Reserve from Seal Level Rise Tax Proceeds	5,316,490
Proceeds from Land Sales and Prepaid Ground Rent [c]	506,670,342
Total Project Sources	$903,819,792
Project Uses: Horizontal Infrastructure Costs	(330,920,391)
Net Sources (Project Profit) [d]	$572,899,401

Source: Financing Plan in the DDA between the Port and Forest City

[a] The Pier 70 Project financing plan provides for the formation of an Infrastructure Financing District (IFD) and of Community Facility Districts (CFD), including the issuance of bonds secured by the IFD tax increment revenue and CFD special tax levies.

[b] The CFD formed in Parcel K North, and the special tax levy on the private condominium development, are estimated to generate $35.4 million in revenue.

[c] Proceeds from Land Sales include $24.35 million from the sale of Parcel K North.

[d] Profits are divided between Forest City as the master developer ($226.8 million) and the Port ($346.1 million).

Estimated Transfer Fees to the Port

Under the VDDA, the Port will receive a transfer fee equal to 1.5 percent of the sales price for the sale of the residential condominium units. This transfer fee does not apply to the initial sale but applies to the resale of the residential condominium units. The Port estimates receiving annual transfer fee revenues of $474,000.

Estimated Revenues to the City

Transfer Taxes

The City will receive one-time real estate transfer tax revenues from the sale of Parcel K North of $720,000. The City will receive additional transfer tax revenues in the future from the sale of the residential condominium units.

units are sold, after having been a rental unit for a period of time, the transfer fee is applied to the first sale of the unit.

Development Impact Fees

The cost to TMG Partners/Presidio Bay Ventures to develop Partial K North is estimated at $287,375,000. The development impact fees to the City are estimated at nearly $20 million, consisting of the affordable housing in-lieu fee, childcare fee, San Francisco Unified School District (SFUSD) fee, and transportation sustainability fee, as shown in Exhibit 3.

Exhibit 3: Development Impact Fees

Affordable Housing In-Lieu Fee	$14,618,562
Childcare Fee	562,655
San Francisco USD Fee	999,710
Transportation Sustainability Fee	3,794,940
Total	**$19,975,867**

Source: Port

Affordable Housing

The Parcel K North development is required to pay an affordable housing in-lieu fee based on 38 percent of the housing units developed on Parcel K North; the affordable housing in-lieu fee revenues are estimated to be $14,618,563 (based upon 2019 fee schedule). The Board of Supervisors approved a Memorandum of Understanding in July 2018 between the Port and the Mayor's Office of Housing and Community Development (MOHCD) describing the terms by which the selected nonprofit housing developer, 88 Broadway Family LP, will construct affordable housing on Port-owned land at 88 Broadway (File 18-0683). California Assembly Bill (AB) 2649 requires the City to pay fair market value for the use of Port property for affordable housing. The fair market value for the 75-year ground lease was appraised at $14,900,000 by Clifford Advisory LLC, an independent appraiser. Estimated affordable housing in-lieu fees of $14,618,563, generated by the Parcel K North are a source of revenue to pay for the 75-year ground lease, which is anticipated to close in mid-2019. At that time, the appraised value ($14,900,000) would become due to the Port from MOHCD. The MOU allows MOHCD to pay this amount to the Port as funds are available. The amount due to the Port, but not yet paid, will increase by 1.5 percent per year during the first two years the amount is outstanding and then increasing by 3 percent each year until the full amount is paid.

Estimated Project Revenues and Expenditures

Property Tax Increment

Parcel K North is part of the Port's Infrastructure Financing District (IFD) Subproject Area G-2, approved by the Board of Supervisors in September 2018 (File 18-0773). Under the IFD, all of the property tax increment generated by development on Parcel K North is allocated to the project area. Estimated annual property tax increment generated by development on Parcel K North is $2,865,000, of which $2,586,000 will be allocated first to development of the 20th Street plaza and then other infrastructure in the Pier 70 Special Use District (92 percent) and $279,000 will be allocated to other Pier 70 infrastructure projects (8 percent).

Community Facility District Special Tax

The proposed CFD to be formed on Parcel K North, subject to future Board of Supervisors approval, will generate an estimated $1,377,310 each year from special taxes levied on the residential condominium units. Of this amount, an estimated $1,049,180 will come from a special tax for facilities to be allocated to Pier 70 improvements, including the Michigan Street right of way and plaza, and an estimated $328,130 will come from a special tax for services to be allocated to maintenance of Michigan Street, 20th Street and Michigan Street plazas, and Crane Cove Park.

Project Expenditures

Under the proposed VDDA, TMG Partners/Presidio Bay Ventures will construct Michigan Street right of way improvements and the Michigan Street plaza, and the 20th Street plaza. The VDDA budget for construction of Michigan Street right of way improvements and the Michigan Street plaza is $4.3 million; TMG Partners/Presidio Bay Ventures will be repaid for construction and related costs from CFD special tax monies. The VDDA budget for the construction of the 20th Street plaza is $3.4 million; TMG Partners/Presidio Bay Ventures will be repaid for construction and related costs from IFD tax increment. Interest on construction costs paid by TMG Partners/Presidio Bay Ventures will accrue at 4.38 percent per year, as shown in Exhibit 4.

Exhibit 4: Michigan Street Right-of-Way/Plaza and 20th Street Plaza Budgets[7]

		Michigan Street Right-of-Way and Plaza	20th Street Plaza
Expected Completion Date		April 2020	August 2022
	Rate		
Construction costs		$2,288,780	$1,744,599
Construction escalation [a]	5%	493,245	482,000
Subtotal		$2,782,025	$2,226,599
Architecture/engineering [b]	10%	278,203	222,660
Bonds & insurance [b]	2.5%	69,551	55,665
Construction management [b]	5.0%	139,101	111,330
Permit fees/special inspection [b]	3%	83,461	66,798
Project contingency [b]	10%	278,203	222,660
Subtotal		$3,630,543	$2,905,711
Annual interest (2.5 years)	4.38%	410,699	328,703
Total Project		$4,041,242	$3,234,414
Development Fee [c]	6%	242,475	194,065
Total		**$4,283,716**	**$3,428,479**
Combined Total			**$7,712,196**

Source: Port

[a] Annual percent increase
[b] Percent of construction costs
[c] Percent of total project costs and development fee

[7] According to the Port, the 4.38 percent interest paid to TMG Partners/Presidio Bay Ventures prior to reimbursement of their costs to construct the projects is based on the bond buyer index rate (average yield of 225 revenue bonds with terms of 30 years). The 6 percent development fee was negotiated between the Port and TMG Partners/Presidio Bay Ventures.

POLICY CONSIDERATION

Potential Project Risks

TMG Partners/Presidio Bay Ventures Development of the Project

As noted above, the Port selected TMG Partners/Presidio Bay Ventures to develop Parcel K North based on their history of building similar residential projects and demonstrated source of financing to buy the property and build the project. Under the proposed VDDA, TMG Partners/Presidio Bay Ventures is responsible for financing and constructing the condominium project. Completion of the first phase of residential condominium construction, including the certificate of occupancy, is scheduled for Fall 2022.

According to Port staff, the public offering documents did not specify a schedule of performance to construct the project, and a performance schedule was not included in the VDDA. However, according to Port staff, TMG Partners/Presidio Bay Ventures has an incentive to construct the project by the third year after execution of the VDDA, at which time they will be liable to pay facilities special taxes levied by the Community Facilities District (CFD).[8] Exhibit G to the VDDA specifies that the facilities special tax is levied on 209,000 square feet even if the property is undeveloped. Therefore, TMG Partners/Presidio Bay Ventures would owe an estimated $1,113,398 in facilities special tax ($5.02 per residential square foot x 209,000 square feet) regardless of whether the condominium project is developed.

Public Facilities Financing

Construction of the Michigan Street right-of-way and plaza, and the 20th Street plaza are the responsibility of TMG Partners/Presidio Bay Ventures, to be reimbursed with special taxes levied as part of the CFD and tax increment generated by the IFD. Because TMG Partners/Presidio Bay Ventures earn 4.68 percent per year on their unreimbursed costs, delays in generating CFD special taxes and IFD tax increment to reimburse TMG Partners/Presidio Bay Ventures will increase the City's overall costs for the construction of the Michigan Street right-of-way and plaza, and the 20th Street plaza.

Conformance to Prior Reports

The Board of Supervisors previously approved the DDA between the Port and Forest City (File 17-0986), which required the Port to offer Parcel K North for sale at or above its fair market value. The proposed VDDA, in which TMG Partners/Presidio Bay Ventures would purchase Parcel K North from the Port at the appraised fair market value of $24,350,000 is consistent with the Board of Supervisors prior approval of the DDA between the Port and Forest City. Therefore, the Budget and Legislative Analyst recommends approval of the resolution.

RECOMMENDATION

Approve the proposed resolution.

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[8] Although the CFD has not yet been formed and approved by the Board of Supervisors, according to Port staff, the CFD special tax rates were negotiated and agreed to by the Port and TMG Partners/Presidio Bay Ventures. These rates are included in Exhibit G to the VDDA. The legislation to approve the CFD for Parcel K North will be submitted to the Board of Supervisors after the Board's adoption of the Final Transfer Map for Pier 70, which is currently scheduled to occur on February 5, 2019.