

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

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**TO:** Budget and Finance Sub-Committee

**FROM:** Budget and Legislative Analyst



**SUBJECT:** March 22, 2018 Budget and Finance Sub-Committee Meeting

**TABLE OF CONTENTS**

Item	File	Page
1	18-0160 Accept and Expend Grant - U.S. Department of Homeland Security - 2016 Port Security Grant Program - \$1,059,000.....	1
2	18-0232 Hearing - Release of Reserved Funds - Mayor's Office of Housing and Community Development - Acquisition and Rehabilitation of the Gran Oriente Filipino Hotel - \$5,000,000.....	5
4	18-0240 Master Lease - Shahina Holdings, LLC - 149-6th Street - Supportive Housing - Initial Monthly Base Rent of \$39,000.....	10
5	18-0155 Real Property Lease Renewal and Amendment - HLS 2, LLC. and 716 Sacramento, LLC. - 720 Sacramento Street - Initial Annual Base Rent \$471,750.....	15
6	17-1179 Lease Agreement - Bank of America, N.A. - Automated Teller Machines - \$211,000 Minimum Annual Guarantee.....	19
7	18-0154 Ground Lease - United States Postal Service - Plot 10F - \$1,497,000 Initial Annual Rent.....	22
8	17-0872 Administrative Code - Naming Terminal 1 at the San Francisco International Airport after Harvey Milk .....	26

<b>Item 1</b> <b>File 18-0160</b>	<b>Department:</b> Port Commission (Port)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would authorize the Port to retroactively (i) accept and expend a grant in the amount of \$1,059,000 from FEMA’s Port Security Grant Program, including \$997,500 for the replacement of the San Francisco Police Department (SFPD) Maritime Unit’s dock at Hyde Street Harbor and \$61,500 to upgrade the Port’s DOC video system for the period of September 1, 2016 through August 31, 2019, and (ii) commit the Port and SFPD to providing \$353,000 in matching cash funds over the 36-month duration of the grant agreement. If required, four (4) six-month extensions will be requested to enable all work to be completed by August 31, 2021. The PSGP grant requires a 25 percent cash or in-kind matching funds of \$353,000</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Federal Emergency Management Agency (FEMA), an agency within the Department of Homeland Security (DHS), provides grant funding through the Port Security Grant Program (PSGP) to port areas for the protection of critical port infrastructure and to increase public safety.</li> <li>• In September 2016, FEMA notified the Port of its approval of two PSGP projects: 1) the replacement of the San Francisco Police Department (SFPD) Maritime Unit’s dock located at Hyde Street Harbor, and 2) the upgrade of the Port’s Department Operations Center (DOC) video system. The goal of these projects is to improve Port infrastructure and increase the Port’s ability to successfully recover from natural and human-caused disasters.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The total budget for the replacement of the SFPD Marine Unit dock located at the Hyde Street Harbor and the Pier 1 DOC video wall is \$1,412,000. Of this amount, \$1,330,000 will fund the replacement of the dock located at the Hyde Street Harbor. The PSGP grant will fund \$997,500, or 75 percent of the cost. SFPD will contribute \$250,000 and the Port will contribute \$82,500 for a total of \$332,500, or a combined 25 percent in matching funds.</li> <li>• The remaining \$82,000 will fund the replacement of the Pier 1 DOC video wall. Of this amount, the PSGP grant will fund \$61,500, or 75 percent of the cost. The Port will contribute \$20,500, or 25 percent of the cost, in matching funds.</li> <li>• The source of Port matching funds is capital funding from the FY2017-18 budget, as appropriated by the Board of Supervisors. The source of SFPD matching funds is the SFPD General Fund allocation to capital renewal projects, as appropriated by the Board of Supervisors in the FY2017-18 budget.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of \$100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

## BACKGROUND

The Federal Emergency Management Agency (FEMA), an agency within the Department of Homeland Security (DHS), provides grant funding through the Port Security Grant Program (PSGP) to port areas for the protection of critical port infrastructure and to increase public safety. These funds are primarily intended to assist ports in enhancing risk management capabilities, increasing maritime domain awareness<sup>1</sup>, and improving capabilities for the prevention, detection, response and recovery from attacks involving improvised explosive devices and other nonconventional weapons, and enhancing cybersecurity capabilities.

In September 2016, FEMA notified the Port of its approval of two PSGP projects: 1) the replacement of the San Francisco Police Department (SFPD) Maritime Unit's dock located at Hyde Street Harbor, and 2) the upgrade of the Port's Department Operations Center (DOC) video system. The goal of these projects is to improve Port infrastructure and increase the Port's ability to successfully recover from natural and human-caused disasters.<sup>2</sup> In addition, the Port is implementing a comprehensive program to improve emergency preparedness and physical security through infrastructure improvements and implementation of all-hazards training programs. According to Mr. Ken Tashian, the Port's Homeland Security Program Manager, the Port is increasing maritime domain awareness through improved coordination and information sharing with local and federal partners that provide layered security<sup>3</sup> to the Port, such as the San Francisco Police and Fire Departments, and the U.S. Coast Guard.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Port to retroactively (i) accept and expend a grant in the amount of \$1,059,000 from FEMA's Port Security Grant Program, including \$997,500 for the replacement of the San Francisco Police Department (SFPD) Maritime Unit's dock at Hyde Street Harbor and \$61,500 to upgrade the Port's DOC video system for the period of September 1, 2016 through August 31, 2019, and (ii) commit the Port and SFPD to providing \$353,000 in matching cash funds over the 36-month duration of the grant agreement. If required, four (4) six-month extensions will be requested to enable all work to be completed by August 31, 2021. The PSGP grant requires a 25 percent cash or in-kind matching funds of \$353,000.

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<sup>1</sup> Maritime domain awareness is defined by the International Maritime Organization as the effective understanding of anything associated with the maritime domain that could impact the security, safety, economy, or environment.

<sup>2</sup> The Port submitted its PSGP grant application to FEMA on April 22, 2016.

<sup>3</sup> Layered security describes the practice of combining multiple mitigating security controls to protect resources and data.

The acceptance of the grant is retroactive because the grant period began at the time of FEMA's Notice of Award in September 2016, or approximately 19 months ago. The Port Commission approved acceptance of the grant in August 2017, and design specifications were completed in January 2018. According to Mr. Tashian, no grant funds have yet been spent.

The Port was awarded \$1,059,000 in federal funding as part of FEMA's Port Security Grant Program that when combined with the \$353,000 in required matching funds (\$103,000 from the Port and \$250,000 from the SFPD), will enable the Port and SFPD to fund a total of \$1,412,000 in security infrastructure enhancements, as detailed below:

- \$1,330,000 budgeted for the SFPD Marine Unit Dock Replacement located at Hyde Street Harbor. This funding will support the building of a separate and secure dock for SFPD Marine Unit vessels. This project includes the construction of a floating concrete dock engineered to meet the current and projected needs of the SFPD Marine Unit. In addition, this project includes the installation of required piles, a gangway and all required infrastructure including power, lighting and water.
- \$82,000 budgeted for the Pier 1 DOC Video Replacement. This funding will allow the purchase and installation of a video wall in support of the Port's DOC operation. According to Mr. Tashian, the Port's current video system is over 20 years old, failure prone, and does not support internal or external feeds, including local and national news feeds.

The grant performance period is a maximum of 36 months from September 1, 2016<sup>4</sup> through August 31, 2019, with the possibility of four (4) six-month extensions until September 30, 2021. According to Mr. Tashian, at this time, 2016 PSGP-funded projects must be completed by August 31, 2019.

## FISCAL IMPACT

As previously mentioned, the total budget for the replacement of the SFPD Marine Unit dock located at the Hyde Street Harbor and the Pier 1 DOC video wall is \$1,412,000. Of this amount, \$1,330,000 will fund the replacement of the dock located at the Hyde Street Harbor. The PSGP grant will fund \$997,500, or 75 percent of the cost. SFPD will contribute \$250,000 and the Port will contribute \$82,500 for a total of \$332,500, or a combined 25 percent in matching funds.

The remaining \$82,000 will fund the replacement of the Pier 1 DOC video wall. Of this amount, the PSGP grant will fund \$61,500, or 75 percent of the cost. The Port will contribute \$20,500, or 25 percent of the cost, in matching funds.

The matching funds of \$353,000 were previously appropriated by the Board of Supervisors in the FY 2017-18 Police and Port budgets, as shown in Table 1 below, which summarizes grant funding for the two projects.

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<sup>4</sup> The grant period began at the time of FEMA's Notice of Award in September 2016.

**Table 1: Grant Budget**

Grant Funded Projects	PSGP Funds	Port and SFPD Matching Funds			PSGP Project Total
		FY17-18 Port Match	FY17-18 SFPD Match	SFPD/Port Match	
SFPD Marine Unit Dock Replacement	\$997,500	\$82,500	\$250,000	\$332,500	\$1,330,000
Pier 1 DOC Video Replacement	\$61,500	\$20,500	\$0	\$20,500	\$82,000
<b>Total Funding</b>	<b>\$1,059,000</b>	<b>\$103,000</b>	<b>\$250,000</b>	<b>\$353,000</b>	<b>\$1,412,000</b>

According to Mr. Tashian, project funds will be used for equipment, contracts and, if required, interdepartmental work orders. The Port does not expect to work order funds to other departments at this point in time. However, the Port is utilizing the Department of Technology (DT) contract<sup>5</sup> with an audio visual contractor, Diversified Systems, Inc., to complete the Pier 1 DOC Video Replacement project. The Port is currently in the process of reviewing the SFPD Marine Unit Dock Replacement project's requirements and conducting a site survey to determine an appropriate location for the new dock. When this phase of the project is completed, the Port will implement a competitive Request for Proposals (RFP) process for a contractor and/or subcontractors to perform the final dock design, construction and installation. According to Mr. Tashian, a fixed fee contract will be awarded to a contractor and/or subcontractors that provide the best solution at the lowest cost for the SFPD Marine Unit Dock Replacement project.

The source of Port matching funds is capital funding from the FY 2017-18 budget, as appropriated by the Board of Supervisors. The source of SFPD matching funds is the SFPD General Fund allocation to capital renewal projects, as appropriated by the Board of Supervisors in the FY 2017-18 budget. According to Mr. Tashian, there will likely be nominal equipment repair costs to the video wall system over its useful life. Given that the Pier 1 audiovisual systems will be new, the Port estimates that the annual maintenance cost after the warranty period will be approximately 10 percent of the purchase price of the equipment. Any future maintenance needs will be funded out of the Port's operating budget.

## RECOMMENDATION

Approve the proposed resolution.

<sup>5</sup> Diversified Systems, Inc. has received sole source approval from the Office of Contract Administration (OCA). FEMA has also authorized a sole source deployment.

<p><b>Item 2</b> <b>File 18-0232</b></p>	<p><b>Department:</b> Mayor’s Office of Housing and Community Development</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• MOHCD is requesting the Budget and Finance Committee of the Board of Supervisors to release \$5,000,000 of the total \$10,000,000 placed on reserve by the Budget and Finance Committee.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• On May 11, 2017, the Budget and Finance Committee approved the total requested \$10,000,000 from the Mayor’s Office of Housing and Community Development (MOHCD) South of Market Area (SoMa) Community Stabilization Fund for Small Sites Program loans and placed these funds on Budget and Finance Committee reserve, pending identification of the nonprofit organizations awarded the funds, the site to be purchased, and a description of the project (File 17-0489).</li> <li>• According to MOHCD, the nonprofit Mission Housing Development Corporation (Mission Housing) has been awarded the funds as part of the SoMa Community Stabilization Fund for Small Sites Program.</li> <li>• The site to be purchased as part of the Small Sites Program is the Gran Oriente Filipino Hotel, a 24-unit Single Room Occupancy (SRO) building located at 106 South Park Street in SoMa. Currently, the site serves as low-income SRO housing, but there are no permanent affordability restrictions attached to the property. In addition to preserving and maintaining the building, Mission Housing intends to preserve the cultural history of Gran Oriente in coordination with community-based organizations.</li> <li>•</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• According to MOHCD, the requested release of \$5,000,000 on Budget and Finance Committee reserve would be used for the acquisition and rehabilitation of the Gran Oriente building, which will serve 24 low-income residents by providing permanently affordable SRO housing.</li> <li>• Per the Small Sites Program guidelines, the Gran Oriente site is required to have at least 66 percent of the building’s tenants with an average income at or below 80 percent of the area median income (AMI). The terms of affordability for Small Sites Program properties are for the life of the project, which is accomplished by recording a Declaration of Restrictions on the property. This requirement is also codified in the loan agreement. If the loan is repaid or otherwise satisfied, the affordability restrictions still stay with the property. MOHCD’s asset management team also monitors the property via an Annual Monitoring Report that the sponsor is required to submit.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the requested release of reserved funds.</li> </ul>	

**MANDATE STATEMENT**

City Administrative Code Section 3.3(e) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval.

**BACKGROUND**

On May 11, 2017, the Budget and Finance Committee approved the total requested \$10,000,000 from the Mayor's Office of Housing and Community Development (MOHCD) South of Market Area (SoMa) Community Stabilization Fund for Small Sites Program<sup>1</sup> loans and placed these funds on Budget and Finance Committee reserve, pending identification of the nonprofit organizations awarded the funds, the site to be purchased, and a description of the project (File 17-0489).<sup>2</sup>

**DETAILS OF PROPOSED LEGISLATION**

MOHCD is requesting the Budget and Finance Committee of the Board of Supervisors to release \$5,000,000 of the total \$10,000,000 placed on reserve by the Budget and Finance Committee.

According to MOHCD Project Manager Ms. Caroline McCormack, the nonprofit Mission Housing Development Corporation (Mission Housing) has been awarded the funds as part of the SoMa Community Stabilization Fund for Small Sites Program. MOHCD's Small Sites Program issued a rolling Notice of Funding Availability (NOFA) in July 2014, and applications are received on a first come, first serve basis. Mission Housing applied for funds under the Small Sites Program NOFA in conformance with the program's standards. Mission Housing was established in 1971 as a nonprofit, community-based organization that creates and preserves affordable housing and supportive services for residents of low and moderate incomes in the Mission District and throughout San Francisco. Mission Housing currently serves 3,000 residents in 1,600 units with an additional 1,000 units of 100 percent low to moderate income affordable housing under development.

The site to be purchased as part of the Small Sites Program is the Gran Oriente Filipino Hotel<sup>3</sup>, a 24-unit Single Room Occupancy (SRO) building located at 106 South Park Street in SoMa. The Gran Oriente building was built in 1907 and has been owned and operated by the Gran Oriente Filipino fraternity for over seven decades, originally to provide communal support and living

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<sup>1</sup> The Small Sites Program is an acquisition and rehabilitation loan program administered by MOHCD to protect multi-family rental buildings of 5 to 25 dwelling units in San Francisco as permanent affordable housing.

<sup>2</sup> The Board of Supervisors approved the resolution as amended in the Budget and Finance Committee on May 23, 2017.

<sup>3</sup> According to Ms. McCormack, Mission Housing owns two other sites within a block of Gran Oriente, making it an ideal candidate from a programmatic perspective because of the building operations' efficiencies that the sponsor will achieve between the three properties. The two other sites include the Park View (40-unit SRO for formerly homeless and very low-income adults) and Hotel Madrid (44-unit SRO for formerly homeless and very low-income adults).

quarters for Filipino workers in the shipping and agriculture industries. Currently, the site serves as low-income SRO housing, but there are no permanent affordability restrictions attached to the property. In addition to preserving and maintaining the building, Mission Housing intends to preserve the cultural history of Gran Oriente in coordination with community-based organizations.

According to Ms. McCormack, Mission Housing proposes to acquire the Gran Oriente building and convert it into permanently affordable housing as part of MOHCD's Small Sites Program. Mission Housing is currently conducting community outreach in SoMA to determine the future housing type and additional uses for Gran Oriente.

Per the Small Sites Program guidelines, the Gran Oriente site is required to have at least 66 percent of the building's tenants with an average income at or below 80 percent of the area median income (AMI).<sup>4</sup> According to Ms. McCormack, the terms of affordability for Small Sites Program properties are for the life of the project, which is accomplished by recording a Declaration of Restrictions on the property. This requirement is also codified in the loan agreement. If the loan is repaid or otherwise satisfied, the affordability restrictions still stay with the property. MOHCD's asset management team also monitors the property via an Annual Monitoring Report that the sponsor is required to submit.

The requested \$5,000,000 will be awarded to Mission Housing as a loan for the Gran Oriente site, conforming to the following loan terms as required by the Small Sites Program guidelines:

- 30-year term
- 3 percent simple interest
- Residual receipts split payment<sup>5</sup>

According to Ms. McCormack, there is no commercial debt recorded in the first position for this project. The Declaration of Restrictions will be recorded first, and then the MOHCD mortgage. No debt will be repaid ahead of the residual receipts split payments.

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<sup>4</sup> The 2017 AMI in San Francisco is \$115,300 for a family of four. 80 percent of the AMI for a family of four is \$92,250. The maximum monthly rent for a 1-bedroom unit for a household with 80 percent of the AMI is \$1,790 without utilities.

<sup>5</sup> "Residual receipts" is the remaining annual cash flow after all project expenses, commercial debt, and other fees have been paid. Under the residual receipts split, two-thirds of each project's annual residual receipts are either deposited into the project's replacement reserve account or as debt repayment to the City, and one-third of the residual receipts remain with the project sponsor. Expenses for management and operation of the property will be paid from the property's cash flow; property management and operating expenses will not be subsidized by the City's Local Operating Subsidy Program (LOSP), through which the City pays the difference between the cost of operating housing that serves homeless individuals and families and all other operating revenue for a project.



**FISCAL IMPACT**

According to Ms. McCormack, the requested release of \$5,000,000 on Budget and Finance Committee reserve would be used for the acquisition and rehabilitation of the Gran Oriente building, which will serve 24 low-income residents by providing permanently affordable SRO housing. Table 1 below summarizes the breakdown of MOHCD's requested \$5,000,000 for the acquisition and rehabilitation of the Gran Oriente building.

**Table 1: Sources and Uses of \$5,000,000 Placed on Budget and Finance Committee Reserve**

<b>Source of Funds</b>	
SoMa Community Stabilization Fund	\$5,000,000
<b>Uses of Funds</b>	
<i>Acquisition</i> <sup>6</sup>	
Acquisition cost or value	\$4,500,000
Legal/closing costs/broker's fee	9,700
<i>Construction (Hard Costs)</i> <sup>7</sup>	
Unit construction/rehab	232,376
General contractor overhead and profit	11,619
General contractor general conditions	13,943
<i>Soft Costs</i> <sup>8</sup>	
Architecture and design	25,205
Engineering and environmental studies	4,542
Financing costs	2,500
Legal costs	3,500
Other development costs	73,619
Soft cost contingency	5,468
<i>Reserves</i> <sup>9</sup>	37,528
<i>Developer Costs</i> <sup>10</sup>	<u>80,000</u>
<b>Total</b>	<b>\$5,000,000</b>

According to Ms. McCormack, the remaining \$5,000,000 on Budget and Finance Committee Reserve will be used to acquire and rehabilitate up to 3 additional properties in the SoMa

<sup>6</sup> The costs associated with the actual purchase of the property, including the final sale price and fees associated with the transaction.

<sup>7</sup> The costs associated with the physical construction and improvement of building and the units. In this case, it is the rehabilitation to the structure. All labor and materials required for construction are included under hard costs.

<sup>8</sup> Soft costs are the other costs associated with rehabilitating the building that are not directly labor and materials. This includes items like architectural fees, environmental and structural reports, sewer and termite inspections, legal costs, financing costs, entitlement/permit fees, etc.

<sup>9</sup> In this case, "reserves" refers to an operating reserve, which is a budget set aside to cover unexpected operation costs and/or repairs that the building needs.

<sup>10</sup> "Developer costs" refers to the developer fee. A developer fee is the compensation that the project developer (Mission Housing) receives for the time and resources spent acquiring and rehabilitating the property.

neighborhood. Community groups are currently identifying properties that may be a match for the Small Sites Program; however, specific sites have not yet been selected.

**RECOMMENDATION**

Approve the requested release of reserved funds.

<p><b>Item 4</b> <b>File 18-0240</b></p>	<p><b>Department:</b> Department of Homelessness and Supportive Housing</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would approve a residential master lease between the Department of Homelessness and Supportive Housing as tenant and Shahina Holdings, LLC, as landlord, for the Minna Lee Hotel property located at 149 6th Street, providing 51 units of permanent supportive housing for an initial term of ten years.</li> <li>• The proposed resolution would also find the transaction in conformance with the General Plan, and the eight priority policies of Planning Code, Section 101.1.; and adopting CEQA findings.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Department of Homelessness and Supportive Housing currently operates approximately 7,400 units of permanent supportive with only approximately 800 units becoming vacant each year. The master lease for the Minna Less Hotel would provide an additional 51 units of permanent supportive housing. The initial lease term is for 10 years from approximately May 2018 through April 2028 with two (2) five-year options to extend the lease term through April 2038.</li> <li>• The landlord would make all repairs to the hotel to prepare it for occupancy. The Department expects the hotel to be available for occupancy by summer 2108. The landlord is responsible for other maintenance and repairs defined in the master lease; both the City and the landlord are responsible for extraordinary repairs and maintenance.</li> <li>• The first year rent is \$468,000, adjusted annually based on the Consumer Price Index (CPI). The rent was determined to be below fair market rent, based on an independent appraisal.</li> <li>• The Department of Homelessness and Supportive Housing will pay operating and service costs for the hotel, estimated to be \$1.75 million in the first year.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The estimated potential cost to the City through the General Fund for the lease and operation of the Minna Lee Hotel is \$25,723,856.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

City Administrative Code 23.27 states that any lease with a term of one year or longer or with rent of \$5,000 or more and where the City is the tenant is subject to Board of Supervisors approval. If the base rent is more than \$45 per square foot, the Director of the City's Real Estate Division must obtain an independent appraisal; if the base rent is more than \$60 per square foot, the Director of the City's Real Estate Division must obtain an appraisal review.

## BACKGROUND

Since 2016, the Department of Homelessness and Supportive Housing provides assistance and support to homeless and at-risk youth, adults and families to prevent imminent episodes of homelessness and end homelessness. The Department currently operates approximately 7,400 units of permanent supportive housing for chronically homeless adults, youth and families with only approximately 800 units becoming vacant each year.

Minna Lee Hotel is an 11,160 square foot building located at 149 6<sup>th</sup> street in South of Market that contains 51 single resident occupancy (SRO) units, lower-level operational support space, and commercial space. The Department of Public Health learned in early 2015 that the Minna Lee Hotel property, owned by Shahina Holdings, LLC, was potentially available for a master lease,<sup>1</sup> and informed the Real Estate Division. The Real Estate Division and Shahina Holdings, LLC entered into formal negotiations in the summer of 2015. The Department of Public Health was initially intended to master lease the hotel for supportive housing; however, with the formation of the Department of Homelessness and Supportive Housing, new negotiations began in June 2017 in which the Department of Homelessness and Supportive Housing would master lease the hotel.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the execution and acceptance of a residential master lease between the City and County of San Francisco as tenant and Shahina Holdings, LLC, as landlord, for the Minna Lee Hotel property located at 149 6th Street, providing 51 units of permanent supportive housing. The master lease would be for an initial term of ten years.

The proposed resolution would also find the transaction in conformance with the General Plan, and the eight priority policies of Planning Code, Section 101.1.; and adopting CEQA findings.

### **Residential Master Lease**

The terms of the proposed lease are summarized in Table 1 below.

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<sup>1</sup> Since 2001, the City has had a master lease with Shahina Holdings, LLC, at another residential hotel called the Star Hotel.

**Table 1: Proposed Lease Provisions**

	<b>Proposed Lease Provisions</b>
Lease term	Approximately May 1, 2018 through April 30, 2028 (120 months)
Square feet	51 residential units; approximately 2,100 square feet of commercial space plus basement.
Base rent paid by City	\$31.20 per square foot per year, \$765 per unit per month, \$468,000 per year
Options to extend	Two (2) five-year options to extend through April 30, 2038
Rent on exercise of option	Greater of 95 percent of fair market rent or a three percent increase of previous year's rent
Annual rent adjustments to base rent	60 percent of CPI (minimum of 2 percent, maximum of 6 percent per year)
Tenant improvements paid by City	None
Estimated operations and services in first full year paid by City	\$1,753,405

*Leasehold Improvements*

According to the lease, the landlord is obligated at its sole cost to make repairs to the premises. Appendix C of the proposed lease defines the repairs to be made by the landlord and the schedule for making the repairs. These include cleaning the premises, removing plywood from windows, installing and repairing lavatories, provide replacement of light fixtures, and repairing walls, floors and ceilings. Real Estate Division and the Department of Homelessness and Supportive Housing estimate the value of this work to be approximately \$25,000. In addition, Appendix C lists the metal bed frames, mattresses, dressers, night tables, and chairs to be provided by the landlord.

*Lease Term and Timeline*

The lease is expected to commence on May 1, 2018. The rent will commence after the City has (a) begun using the premises or (b) substantial completion of the landlord's work, which must be completed 90 days after May 1, 2018. The Department of Homelessness and Supportive Housing expects to begin moving people into the Minna Lee Hotel in the summer of 2018.

The two (2) five-year options to extend the lease through 2038 are subject to future Board of Supervisor approval. At that time, the rent increase will be the greater of (a) 95 percent fair market rent;<sup>2</sup> or (b) 103 percent above the previous year's rent.

<sup>2</sup> The parties will first attempt to negotiate fair market rent. If not successful, each party shall procure an individual appraisal. If necessary, a third independent appraiser may then be selected to finally determine the market rent by averaging the independent appraisal with the closer of the two previous appraisals.

The City has a termination right with 210 days' notice, which can be exercised at any time.

### **Use of the Hotel for Supportive Housing**

The Department of Homelessness and Supportive Housing plans on using the Minna Lee Hotel as permanent supportive housing for adults exiting chronic homelessness. The Department will provide on-site services to stabilize people in their housing and provide client-specific support for physical and mental health needs through case management, care coordination and linkages to outside service and medical providers. The Department anticipates using the commercial space located on the ground floor as a community space and for delivering onsite social services to tenants.

Supportive housing is permanent housing, and the current turnover rate of units is approximately 12 percent annually. In 2016, the Department of Homeless and Supportive Housing launched the Moving On Initiative to support people who no longer need onsite support services to move into affordable housing in the community.<sup>3</sup>

## **FISCAL IMPACT**

### **Rent**

The rent paid to Shahina Holdings, LLC by the City is \$468,000 annually with annual rent increases between 2 percent and 6 percent annual. According to the November 2017 appraisal report prepared by Associated Right of Way Services, Inc.,<sup>4</sup> the fair market rent is greater than the negotiated rent. According to Mr. Joshua Keene, Real Estate Project Manager at the City's Real Estate Division, the City tried to request a purchase option, as well as a right of first refusal. Neither option was accepted by Shahina Holdings, LLC.

### **Maintenance**

The landlord is responsible for maintaining, replacing and repairing portions of the premises including the foundation, the roof, structural walls and support system, repairs to the sprinkler system, sewer system, and sidewalks.

In addition, the City and the landlord are jointly responsible for any extraordinary maintenance, replacement or repair. The City's shared obligation is limited to a not to exceed amount of \$22,500 per year. This not to exceed amount will be increased annually based on the percent increase in the CPI.

### **Operations and Services**

The City is responsible for procuring and paying for property management and operation of the hotel. The City expects to contract property management and operations to non-profit organizations to provide property management, operation, and supportive services. The Board of Supervisors approved an ordinance in February 2018 (File 18-0032) waiving competitive

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<sup>3</sup> The Moving On Initiative provides tenants who no longer need the intensive services offered to move out of supportive housing with a rental subsidy or preference into a project-based affordable or public housing unit. Moving On has already opened up 92 adult units and 19 family units in permanent supportive housing for chronically homeless people who need intensive support. Moving On is largely funded with private resources from The Tipping Point Community.

<sup>4</sup> Associated Right of Way Services, Inc. was selected by the Real Estate Division through a competitive process.

solicitation procedures to select a contractor to provide these services. According to Ms. Emily Cohen, Manager for Policy and Special Projects at the Department of Homelessness and Supportive Housing, the Department does not yet have the contract with the non-profit organization(s), and therefore does not have a precise budget for the services.

However, the Department expects the budget to be similar to the cost at the Auburn Hotel, another recent master lease SRO hotel used for permanent housing. The Auburn has an annual services budget of \$539,436 and an annual operations budget of \$1,213,969, for a total of approximately \$1,753,405.

The estimated potential cost to the City for the lease from May 1, 2018 through April 30, 2028 is \$25,723,856, which are General Fund costs, as seen in Table 2 below.

**Table 2: Projected Potential Cost of the City for Lease and Operations of the Minna Lee Hotel**

Year	Rent	Operations and Services	Extraordinary Maintenance	Yearly Amount
FY2018-19	\$468,000	\$1,753,405	\$22,500	\$2,243,905
FY2019-20	482,040	1,806,007	23,175	2,311,222
FY2020-21	496,501	1,860,187	23,870	2,380,559
FY2021-22	511,396	1,915,993	24,586	2,451,976
FY2022-23	526,738	1,973,473	25,324	2,525,535
FY2023-24	542,540	2,032,677	26,084	2,601,301
FY2024-25	558,816	2,093,657	26,866	2,679,340
FY2025-26	575,581	2,156,467	27,672	2,759,720
FY2026-27	592,848	2,221,161	28,502	2,842,512
FY2027-28	610,634	2,287,796	29,357	2,927,787
<b>Total</b>	<b>\$5,365,096</b>	<b>\$20,100,823</b>	<b>\$257,937</b>	<b>\$25,723,856</b>

The Department of Homelessness and Supportive Housing has \$863,000 budgeted for the Minna Lee Hotel in FY 2017-18 to cover partial year of lease and services costs. According to Ms. Cohen, the \$863,000 covers the one month security deposit, as well as rent, operations and services if the contract begins on April 1<sup>st</sup>, and not the expected start date of May 1<sup>st</sup>. The Department plans to encumber the full amount for lease and service costs. Estimated General Fund costs of \$2,243,905 in FY 2018-19 are subject to Board of Supervisors approval.

## POLICY CONSIDERATIONS

The Mayor's Office of Housing and Community Development and the Office of Community Investment and Infrastructure have 1,367 permanent supportive housing units for adults, families, and transitional age youth in the development pipeline between FY2018-22. However, the Department of Homelessness and Supportive housing needs an approximately 800 additional units to meet the goal of reducing chronic homelessness by fifty percent by 2022. According to Ms. Cohen, the Department does not currently have the funding for all of the needed units.

## RECOMMENDATION

Approve the proposed resolution.

<b>Item 5</b> <b>File 18-0155</b>	<b>Department:</b> Department of Public Health (DPH) Real Estate Division (RED)
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution approves the Third Amendment to the lease between the Department of Public Health (DPH), as tenant, and HLS 2, LLC and 716 Sacramento, LLC (73.4 percent), as landlords, for approximately 9,250 square feet of office space at 720 Sacramento Street, for a term of term of five years, from July 1, 2018 through June 30, 2023, at an initial annual rent of \$471,750, with 3 percent annual increases thereafter, and one five-year option to extend through June 2028.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Chinatown Child Development Center (CCDC) provides community based programs and outpatient mental health services in several languages to over 400 children and their families each year, as well as parenting education and consultation services to the Chinatown Community.</li> <li>• In 1996, the Board of Supervisors approved a 15 year and 7 month lease for DPH to operate CCDC at 720 Sacramento Street. The Board of Supervisors approved lease extensions of one year in 2012 and five years in 2013. The current lease expires June 30, 2018 with no option to extend, and DPH pays \$323,760 in annual rent. DPH is considering combining facilities with the City-owned Chinatown Public Health Center at 1490 Mason Street, but the facility requires substantial renovations that will take about five years to complete.</li> <li>• The proposed resolution approves the Third Amendment to the lease at 720 Sacramento Street, extending the term by five years through June 30, 2023. The initial annual rent would be \$471,750, or \$51 per square foot, and increase 3 percent annually. DPH would have one five-year option to extend the lease through June 30, 2028. The rent of \$51 per square foot was determined to be fair market rent based on an appraisal conducted by Cushman &amp; Wakefield Western.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Over the five year term of the lease extension, DPH would pay \$2,504,585 in rent. Should DPH exercise its option to extend the lease for an additional five years, it would pay \$2,818,933 in additional rent.</li> </ul> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	



**MANDATE STATEMENT**

City Administrative Code 23.27 states that any lease with a term of one year or longer or with rent of \$5,000 or more and where the City is the tenant is subject to Board of Supervisors approval. If the base rent is more than \$45 per square foot, the Director of the City's Real Estate Division must obtain an independent appraisal; if the base rent is more than \$60 per square foot, the Director of the City's Real Estate Division must obtain an appraisal review.

**BACKGROUND**

The Chinatown Child Development Center (CCDC) provides community based programs and outpatient mental health services to children and families, as well as parenting education and consultation services to the Chinatown community. CCDC serves over 400 children and multi-generational families per year. Services are provided in several languages.

In 1996, the Board of Supervisors approved a lease for the Department of Public Health (DPH) to occupy approximately 9,250 square feet of office space to operate CCDC at 720 Sacramento Street for a term of 15 years and 7 months, beginning December 1, 1996 and expiring June 30, 2012 (Resolution 331-96). On June 26, 2012, the Board of Supervisors approved the First Amendment to the lease, extending the term one year, through June 30, 2013 (File 12-079, Resolution 252-12). On July 23, 2013, the Board of Supervisors retroactively approved the Second Amendment to the lease, extending the term five years, through June 30, 2018 (File 13-0645, Resolution 271-13). DPH currently pays rent of \$26,980 per month, or \$323,760 annually (\$35 per square foot).

The current lease expires on June 30, 2018 with no options to extend. According to Mr. Charlie Dunn, Senior Real Property Officer, the City attempted to purchase the property, but had difficulty negotiating with the property owner. DPH is also considering combining facilities with the City-owned Chinatown Public Health Center at 1490 Mason Street. However, that facility requires substantial renovations and the planning and construction timeline is expected to take at least five years, so DPH is seeking a third amendment to the existing to extend the lease for an additional five years. According to Mr. Dunn, the City found no alternative suitable property for CCDC in Chinatown.

**DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would approve the Third Amendment to the existing lease between the City as tenant and 716 Sacramento, LLC, and HLS 2, LLC, as landlords, for a term of five years, beginning July 1, 2018 and expiring June 30, 2023. The initial annual rent would be \$471,750, or \$51 per square foot, and increase by 3 percent each year on the anniversary date. The key provisions of the lease are shown in Table 1 below.

**Table 1: Key Provisions of Proposed Lease Extension**

<b>Premises</b>	9,250 square feet
<b>Term</b>	5 years, from July 1, 2018 to June 30, 2023
<b>Base Annual Rent</b>	\$471,750 (\$51 per square foot)
<b>Rent Adjustment</b>	3% annually on July 1, starting in 2019
<b>Operating Expenses</b>	Approximately \$1,117 per month for electricity and janitorial services. Maintenance and other operating costs paid by landlord.
<b>Options to Extend</b>	City has one 5-year option to extend

**Extension Option**

As noted in Table 1 above, the proposed Third Amendment would provide one (1) five-year option to extend through June 30, 2028, which is subject to Board of Supervisors approval. The lease terms would remain the same under the extension. Rent paid by DPH in the first year of the lease extension of \$530,959 in initial annual rent (or \$57.40 per square foot) would be unchanged from the rent paid in the prior year. Beginning in the second year of the lease extension, rent would increase annually by 3 percent.

According to the proposed Third Amendment, the City would need to notify the landlord one year in advance if the City chooses to exercise the five-year option to extend the lease. According to Mr. Dunn, Real Estate Division (RED) typically begins to work with City departments about 18 months before their leases expire. RED analyzes department needs and conducts a preliminary search of other suitable properties in the area. According to Mr. Dunn, the decision of whether or not to exercise the option will depend on the progress of construction at the Chinatown Public Health Center facility in 2022, and whether or not it remains as DPH’s preferred location for CCDC.

**FISCAL IMPACT**

In the first year of the lease extension, DPH would pay \$471,750 in annual rent. This is an increase of \$147,990, or 46 percent, greater than the current annual rent of \$323,760. According to Mr. Dunn, the rent is derived by an appraisal conducted by Cushman & Wakefield Western, finding that \$51 per square foot annually is fair market rent for the property, based on market analysis of similar commercial properties in the Chinatown area.

Over the five-year term of the lease, DPH would pay a total of \$2,504,585 in rent. The annual rent payments are shown in Table 2 below.

**Table 2: Annual Rent Paid by DPH over Lease Extension Term**

<b>Year</b>	<b>Annual Square Footage Rent</b>	<b>Total Annual Rent</b>
Year 1 (July 2018 – June 2019)	\$51.00	\$471,750
Year 2 (July 2019 – June 2020)	52.53	485,903
Year 3 (July 2020 – June 2021)	54.11	500,480
Year 4 (July 2021 – June 2022)	55.73	515,494
Year 5 (July 2022 – June 2023)	57.40	530,959
<b>Total</b>		<b>\$2,504,585</b>

*\*Totals may not add due to rounding*

As noted above, if DPH exercises the five-year option to extend the lease, it would pay \$530,959 in initial annual rent during the extension period, increasing 3 percent per year thereafter. Over the five-year option period, DPH would pay \$2,818,933 in total rent, as shown in Table 3 below. Exercising the five-year option to extend would require Board of Supervisors approval.

**Table 3: Annual Rent Paid by DPH over Optional Extension Term**

<b>Year</b>	<b>Annual Square Footage Rent</b>	<b>Total Annual Rent</b>
Year 1 (July 2023 – June 2024)	\$57.40	\$530,959
Year 2 (July 2024 – June 2025)	59.12	546,888
Year 3 (July 2025 – June 2026)	60.90	563,294
Year 4 (July 2026 – June 2027)	62.72	580,193
Year 5 (July 2027 – June 2028)	64.61	597,599
<b>Total</b>		<b>\$2,818,933</b>

*\*Totals may not add due to rounding*

## RECOMMENDATION

Approve the proposed resolution.

<b>Item 6</b> <b>File 17-1179</b>	<b>Department:</b> San Francisco International Airport (Airport)
<b>EXECUTIVE SUMMARY</b>	
<p><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution approves the Domestic Terminals Automated Teller Machines (ATMs) Lease “B” between Bank of America and the City, acting through the Airport Commission, for a term of five years, to commence following Board approval, with a two-year option to extend, and a minimum annual guarantee of \$211,000 for the first year of the lease.</li> </ul> <p><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• On February 21, 2017, the Airport Commission authorized staff to issue a Request for Bids (RFB) to lease 12 ATM locations in Terminals 1, 2, and 3. Bank of America was the lone bidder.</li> <li>• Under the proposed lease, Bank of America would pay the Airport the greater of the Minimum Annual Guaranteed (MAG) rent, initially \$211,000 per year, or 70 percent of gross revenues. The Airport expects to continue receiving the MAG amount, which has historically been greater than the ATM revenues. The MAG rent would be adjusted annually based on the Consumer Price Index. The term of the lease is five years, and the Airport has the option to extend for an additional two years.</li> </ul> <p><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• Under the five year term of the lease, the Airport would collect at least \$1,055,000 in revenue. If the Airport chooses to extend the lease, it would receive at least \$422,000 over the two year extension. Based on increases to the Consumer Price Index, the Airport would receive annual rents greater than \$211,000 in subsequent years.</li> </ul> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of \$1 million or more, or (ii) have anticipated revenues of \$1 million or more and require modifications, are subject to Board of Supervisors approval.

## BACKGROUND

On May 11, 2010, the Board of Supervisors approved San Francisco International Airport's (Airport) most recent Lease "B" with JP Morgan Chase Bank (File 10-0420) to locate ATMs in the Airport's domestic terminals. On March 4, 2016, Cardtronics assumed the lease from JP Morgan Chase. The lease, which was for a term of five years and an option to extend for an additional two years, expired on November 10, 2017. Cardtronics had paid the Minimum Annual Guaranteed (MAG) rent of \$628,220 for 11 ATM locations, and removed its ATMs when the lease expired.

On February 21, 2017, the Airport Commission authorized the Airport staff to issue a Request for Bids (RFB) for Lease "B" to lease 12 ATM locations in Terminals 1, 2, and 3. In the RFB, the minimum bid allowed for the first year of the lease was \$150,000. An informational meeting was held on April 6, 2017 and attended by seven companies.

On May 16, 2017, the Airport Commission authorized staff to accept bids. Bank of America was the lone bidder, with first year MAG bid of \$211,000. The Airport Commission approved the lease on August 15, 2017.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a lease with Bank of America for a term of five years from approximately February 1, 2018 through January 31, 2023, with one option to extend the term for an additional two years to January 2025 at the Airport's sole discretion. Under the proposed lease, Bank of America would operate ATMs at the following 12 locations in the Airport's domestic terminals, which include the existing 11 locations and 1 new location:

- Four in Terminal 1, of which two are pre-security and two are post-security;
- Three in Terminal 2, of which two are pre-security and one is post-security;
- Five in Terminal 3, of which three are pre-security and two are post-security.

The base rent for the lease is the greater of the MAG amount of \$211,000 or 70 percent of gross revenues. The MAG would be adjusted annually based on the Consumer Price Index and shall never be reduced from the previous year. Gross revenues are transaction fees assessed to customers using cards from other banks. The maximum transaction fee allowed under the proposed lease is \$2.50, which is an increase over the current maximum fee of \$1.50. According to Mr. Trevor Brumm, Airport Principal Property Manager, the Airport expects to continue receiving the MAG amount, which has historically been significantly greater than the gross

revenues generated from transaction fees. The Rent Commencement Date would be once all ATMs are in operation, expected to be in early 2018.

### **FISCAL IMPACT**

The MAG rent in the first year of the proposed lease is \$211,000. Over the five year term, the Airport would collect at least \$1,055,000. If the Airport decides to extend the term, it would receive at least \$422,000 for the additional two years. The MAG would be adjusted annually based on the Consumer Price Index, but would never decrease from the previous year.

As noted above, the RFB set the minimum bid for the MAG at \$150,000, which is \$478,220 less than the MAG paid by Cardtronics under the prior lease. According to Mr. Brumm, Cardtronics collected \$148,591 in gross revenues from the ATMs in FY 2016-17, which was significantly less than the MAG rent of \$628,220 it paid to the Airport.

According to Mr. Brumm, the Airport set the minimum bid for the MAG in the RFB at \$150,000 to attract more bidders. However, Bank of America was the lone bidder, and according to Mr. Brumm, smaller banks may have not bid with the assumption that they could not outbid the larger banks. According to Mr. Brumm, part of Bank of America's interest in the ATM lease is for marketing and visibility to airport travelers.

### **RECOMMENDATION**

Approve the proposed resolution.

<b>Item 7</b> <b>File 18-0154</b>	<b>Department:</b> San Francisco International Airport (Airport)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed resolution would retroactively approve a ground lease between the United States Postal Service (Postal Service), and the Airport Commission for approximately 8.61 acres of land. The initial ground lease term is for five years, retroactive to September 1, 2017 through August 31, 2022 with four (4) five-year options to extend through 2024. The initial annual rent is \$1,497,000, increasing by 3 percent per year.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Postal Service has occupied Plot 10F, located at the West Field Cargo Area since 1964. The Postal Service was awarded a ground lease through a non-competitive process, and constructed and maintained all facilities and structures currently on the premises. The ground lease, which was first amended in 1998, expired on August 1, 2017.</li> <li>• The Airport Commission approved the new ground lease with the Postal Service in September 2017. However, due to an error in the resolution, the Airport Commission approved an updated resolution in December 2017.</li> <li>• The Airport did not try to find a new tenant to enter into a facility lease at the site, although a facility lease would generate higher rent than a ground lease, due to the highly specialized facilities constructed by the Postal Service. The ground lease site in the West Field Cargo area is slated for redevelopment in approximately 2026, and the Airport believed that finding a new tenant that would enter into a facility lease would be unlikely because the site would require the tenant to make significant improvements which could not be amortized over an eight year period.</li> <li>• The proposed ground lease is for a possible total term of 25 years rather than eight years because in the event the redevelopment plans change, the Postal Service can continue to occupy the site and the Airport will continue to receive rent from the Postal Service.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The Postal Service will pay the Airport a total of \$7,947,756 of rent over the initial five years term.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed resolution.</li> </ul>	

## MANDATE STATEMENT

City Charter Section 9.118(c) states that leases of City property for a period of ten or more years or having anticipated revenue of \$1 million or more require Board of Supervisors approval.

## BACKGROUND

The United States Postal Service (Postal Service) has occupied Plot 10F, located at the northwest corner of West Field Road and West Cargo Road at the San Francisco Airport (West Field Cargo Area), since 1964. The Postal Service was awarded a ground lease through a non-competitive process, and constructed and maintained all facilities and structures currently on the premises. The title to these improvements, except personal property and equipment, vested in the City in 1974. The ground lease, which was first amended in 1998, expired on August 1, 2017.

The Postal Service and the Airport entered into negotiations for a new lease in 2016 before the expiration of the ground lease. In September 2017, the Airport Commission approved the new ground lease with the Postal Service. However, due to an error in the resolution, the Airport Commission approved an updated resolution in December 2017.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve a ground lease between the Postal Service, and the City and County of San Francisco, acting by and through its Airport Commission, for occupancy of approximately 8.61 acres of land at an initial annual rent of \$1,497,000 for the initial five-year term from September 1, 2017 through August 31, 2022.

The terms of the proposed lease are summarized in Table 1 below.

**Table 1: Proposed Lease Provisions**

	<b>Proposed Lease Provisions</b>
Lease term	September 1, 2017 through August 31, 2022
Options to extend	Four (4) five-year options to extend through August 31, 2042 at the Airport's sole discretion and subject to Postal Service's approval of funding
Rent on exercise of option	Fair market value of the land only
Base rent paid to City	\$1,497,000
Rent Increase	Three percent annually
Maintenance	Postal Service incurs all costs and expenses related to maintaining buildings, structures and improvements on the premise, including streets, roads, parking areas and sidewalks in compliance with laws and regulations
Utilities	At Postal Service's sole cost and expense



**Ground Lease**

In 2011, the Postal Service approached the Airport in order to enter into a new ground lease that would supersede the existing ground lease. At that time, the Airport commissioned an appraisal from David Tattersal and Co. for a facility lease, which determined the market value for annual rent to be \$5,020,000 per year.

According to Ms. Diane Artz, Senior Property Manager at the Airport, the Postal Service determined a facility lease was not feasible due to Federal budget constraints. Therefore, the Postal Service continued to occupy the location under the existing ground lease, which expired in 2017.

Prior to the expiration of the ground lease in 2017, the City's Real Estate Division hired Runde & Partners, Inc. to appraise the premises for a ground lease. In September 2016, the appraisal recommended the Airport charge an annual rent of \$1,497,000 for a ground lease. According to Ms. Artz, the Airport determined that due to previous discussions in 2011, that a facility lease was not a viable option for the Postal Service and therefore only offered a ground lease.

The Airport did not try to find a new tenant to enter into a facility lease at the site, although a facility lease would generate higher rent than a ground lease, due to the highly specialized facilities constructed by the Postal Service. According to Ms. Artz, the ground lease site in the West Field Cargo area is slated for redevelopment in approximately 2026, or approximately eight years. The Airport believed that finding a new tenant that would enter into a facility lease at Plot 10F in the West Field Cargo Area for eight years would be unlikely because occupying the site would likely require the tenant to make significant improvements which could not be amortized over an eight year period or less.

However, the proposed lease is for a term of up to 25 years, rather than eight years, if the options to extend the lease are exercised. As noted above, the proposed ground lease is for an initial five-year term from September 2017 through August 2022 with four five-year options to extend the lease at the Airport's sole discretion through August 2042, which is 16 years after the planned date for the redevelopment slated in 2026. According to Ms. Artz, the proposed ground lease is for a possible total term of 25 years rather than eight years because in the event the redevelopment plans change, the Postal Service can continue to occupy the site and the Airport will continue to receive rent from the Postal Service.

**Airport Capital Plans**

The Airport is currently studying the West Field Cargo Area as part of the Boarding Area H development, which is a new boarding area the Airport plans to add to the International Terminal by approximately 2026. According to Ms. Artz, as part of the project, the Airport plans to repurpose the existing building on the premise currently occupied by the Postal Service as a distribution center for the Airport's concessionaire tenants, contractors, and vendors. The distribution center is not mentioned in the Airport Development Plan but would be included pending the result of the study.

**FISCAL IMPACT**

The Postal Service will pay the Airport a total of \$7,947,756 of rent over five years, as seen in Table 2 below.

**Table 2: Amount of Rent Paid by the Postal Service to the Airport from 2017 until 2022**

<b>Year</b>	<b>Amount</b>
September 1, 2017 through August 31, 2018	\$1,497,000
September 1, 2018 through August 31, 2019	1,541,910
September 1, 2019 through August 31, 2020	1,588,167
September 1, 2020 through August 31, 2021	1,635,812
September 1, 2021 through August 31, 2022	1,684,867
<b>Total</b>	<b>\$7,947,756</b>

**RECOMMENDATION**

Approve the proposed resolution

<b>Item 8</b> <b>File 17-0872</b>	<b>Department:</b> San Francisco International Airport (Airport)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>• The proposed ordinance would amend the Administrative Code to name Terminal 1 of the San Francisco International Airport after former Supervisor Harvey Milk.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• In 2013, the Board of Supervisors approved an ordinance amending the Administrative Code to establish the Airport Facilities Naming Advisory Committee. On June 26, 2017, the Committee recommended renaming Terminal 1 after Supervisor Harvey Milk, as the Terminal is currently undergoing a \$2.4 billion renovation.</li> <li>• The proposed ordinance does not specify the steps to be taken by the Airport to rename Terminal 1. Rather, the ordinance requires the Director of the Airport to submit a report to the Board of Supervisors and the Mayor no later than December 1, 2018 describing the steps the Airport has taken and plans to take to rename Terminal 1 after Supervisor Harvey Milk and publicize the name of the terminal.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• The estimated one-time cost to the Airport to rename Terminal 1 after former Supervisor Harvey Milk is \$357,000, which includes \$22,000 to replace existing signage and \$335,000 to place a new building sign on Terminal 1.</li> <li>• The current budget for signs for the Terminal 1 renovation is \$4.1 million, and any new signs to rename the terminal after former Supervisor Harvey Milk can be incorporated into the ongoing Terminal 1 renovation budget.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approve the proposed ordinance.</li> </ul>	

## MANDATE STATEMENT

According to Charter Section 2.105, all legislative acts shall be by ordinance and require the affirmative vote of at least a majority of the members of the Board of Supervisors.

## BACKGROUND

The San Francisco International Airport has four terminals: Terminal 1, Terminal 2, Terminal 3, and the International Terminal. The Airport's Terminal 1 is a 688,000 square foot commercial airline terminal which consists of check-in counters, security checkpoints, and aircraft gates configured in two boarding areas. During the peak months of 2017, 32,200 passengers per day use Terminal 1 on Frontier, Southwest, American and Delta airlines. The \$2.4 billion Terminal 1 renovation began in September 2016 and includes a complete replacement of the architectural building envelope, upgrades of all mechanical systems and special systems replacements, interior architectural renovations, facility upgrades such as a new consolidated passenger screening checkpoint, new airline ticket counters, and new concessions program. The renovation is expected to be completed in stages through 2024.

In 2013, the Board of Supervisors approved an ordinance amending the Administrative Code to establish the Airport Facilities Naming Advisory Committee (Committee). The Committee, composed of five Mayor-appointed members and four Board of Supervisors-appointed members for a total of nine members, was tasked with providing recommendations for the naming of a terminal at the Airport after Harvey Milk.<sup>1</sup> On June 26, 2017, the Committee recommended renaming Terminal 1, as the Terminal is currently undergoing the renovation mentioned above. The Committee also recommended naming the Airport's access road after Harvey Milk.

## DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Administrative Code to name Terminal 1 of the San Francisco International Airport after former Supervisor Harvey Milk. The proposed ordinance does not specify the steps to be taken by the Airport to rename Terminal 1. Rather, the ordinance requires the Director of the Airport to submit a report to the Board of Supervisors and the Mayor no later than December 1, 2018 describing the steps the Airport has taken and plans to take to rename Terminal 1 after Supervisor Harvey Milk and publicize the name of the terminal.

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<sup>1</sup> In 1977 Harvey Milk became the first gay person elected to office in San Francisco when he won a supervisor seat. A year later, Harvey Milk was assassinated inside City Hall, along with then-mayor George Moscone, by former supervisor Dan White.

**FISCAL IMPACT**

The estimated one-time cost to the Airport to implement the proposed ordinance is \$357,000, which includes \$22,000 to replace existing signage and \$335,000 to place a new building sign on Terminal 1.

According to Mr. Jon Ballesteros, Chief External Affairs Officer at the Airport, the one-time cost to replace existing AirTrain Station identification signs, directories, and maps of the Airport and terminals would be approximately \$22,000. The Airport may incur additional costs to place new signs at entrances, curbside, entry doors and garages as a result of the Terminal 1 renovation project although the number of new signs has not yet been determined. According to Mr. Ballesteros, the Airport does not anticipate the need to change information on external highways signs.

According to Mr. Ballesteros, the Airport would place a new building sign on Terminal 1, identifying the terminal as the Supervisor Harvey Milk Terminal, as part of the Terminal 1 renovation project. The Airport estimates the cost of the new building sign to be \$335,000, based on the Budget and Legislative Analyst's Office report from 2013 of the cost of replacing the San Francisco International Terminal sign. According to Mr. Ballesteros, the original Terminal 1 renovation plan did not include the installation of a building sign on the terminal other than the standard terminal identification.

The current budget for signs for the Terminal 1 renovation is \$4.1 million, and according to Mr. Ballesteros, any new signs can be incorporated into the ongoing Terminal 1 renovation budget.

**RECOMMENDATION**

Approve the proposed ordinance.