

Item 2
File 11-0538

Department:
San Francisco Municipal Transportation Agency
(SFMTA); Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve a new 39,573 square foot lease between SFMTA as lessee, and Hudson 1455 Market LLC, as lessor, for SFMTA to operate a new Transportation Management Center (TMC) for ten years plus two options to extend the term for ten years each, for a total of 30 years at 1445 Market Street.

Key Points

- The proposed new ten-year lease would commence upon substantial completion of the tenant improvements, estimated to cost \$9,488,316 and be completed by June 1, 2012.
- Under the proposed lease, the SFMTA has two ten-year options to extend the term at a five percent increase in rent for the first year of each of the two ten-year options. Rent for remaining nine years of each ten year option would be increased by a fixed three percent each year. Under the proposed resolution, if the Director of Real Estate determines that the option rent is less than 95 percent of the then fair market rent, further approval by the Board of Supervisors would not be required to exercise the two ten-year options to extend the lease for a total of 20 more years.

Fiscal Impacts

- Total costs to SFMTA would be \$19,457 in FY 2011-2012 for operating costs only (no rent in FY 2011-12) and \$616,106 (see Footnote 3 on Table 3 below) in FY 2012-2013. The first full year of rent would begin in FY 2013-14 at a cost of \$1,234,423 (see Table 4 below) and would be subject to three percent annual escalations beginning July 1, 2013.
- SFMTA would also pay an additional \$233,487 (see Table 2 below) in operating expenses per year or a total of \$2,670,737 (see Table 4 below) over the ten-year period.
- Total estimated rent and operating costs for the proposed ten-year lease is \$16,179,658.
- The proposed resolution would authorize SFMTA to expend, in addition to rent and operating costs, up to \$9,488,316 for improvements to the premises. Such tenant improvements of \$9,488,316 would be paid using San Francisco County Transportation Authority (Prop K), State infrastructure bonds and local bridge toll funds.

Policy Considerations

- The Budget and Legislative Analyst recommends deleting the provision to allow the exercise of both of the ten-year options with respect to not requiring further approval by the Board of Supervisors, if the Director of Real Estate determines that the fixed option rent is less than 95% of the then fair market value. The requested SFMTA approval of that provision would be a significant policy change from existing practice.
- The Budget and Legislative Analyst notes that the SFMTA is requesting 39,573 square feet of new leased space at a total 10-year cost of \$16,179,658 and is only giving up 3,824 square feet of its existing 16,524 square feet of space, thereby resulting in a total of 52,273 (see Table 5 below) square feet.

Recommendations

- Delete the provision authorizing the Director of Real Estate to exercise both of the two ten-year options to extend the term of the proposed initial ten-year lease if the option rent is less than 95% of fair market value, without requiring subsequent approval of the Board of Supervisors.
- Given that the proposed lease would result in (a) SFMTA occupying 52,273 square feet of space, which is 35,749 square feet or over 216 percent more than the 16,524 square feet SFMTA is presently occupying, (b) would result in a ten year expenditure of \$16,179,658 for rent and operating costs, (c) will result in a first year increase in rent and operating costs of \$1,569,944 which is \$1,313,707 or over 513 percent more than the existing annual cost of \$256,237 (see Table 5 above) and (d) the proposed facility would be an interim Transportation Management Center until the Transbay Terminal is projected to be completed in 2017, at which time the proposed facility would continue as either the primary or secondary TMC, the Budget and Legislative Analyst cannot recommend approval of the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Charter Section 9.118 requires that any agreements entered into by a department, board or commission with a term in excess of ten years, or requiring anticipated expenditures greater than \$10,000,000 be subject to approval of the Board of Supervisors by resolution. In addition, Administrative Code Section 23.27 requires that the Board of Supervisors approve all leases with the City as lessee, if such leases are less than one year or cost more than \$5,000 per month in rent.

Background

In late 2001 San Francisco Municipal Transportation Agency (SFMTA) began an analysis to update and consolidate SFMTA's command, communication and control functions into one location for more efficient operations. According to Mr. Frank Lau, SFMTA Project Manager, SFMTA's command, communication and control functions¹ are currently located in five separate City-owned facilities: (1) Operations Control Center at 131 Lennox Way, (2) Line Management Center at One South Van Ness Avenue, (3) Power Control Center at 1401 Bryant Street, (4) Sustainable Street's Traffic Management Center (SFgo) at 25 Van Ness Avenue, and (5) Security Division at 505 7th Street and One South Van Ness Avenue. Mr. Lau advises that the OCC is the

¹SFMTA command, communication and control functions include: (a) monitoring service and issuing control commands to all subway trains via the Automatic Train Control System (ATCS); (b) communicating instructions to MUNI bus, trolley, or train drivers and maintenance crews via SFMTA radio system; (c) making service or emergency announcements to subway stations via the Public Address and Platform Display Systems; (d) monitoring and remotely operating subway fire, life and safety systems via the facility Supervisory Control and Data Acquisition system; (e) monitoring the traction power for train and trolley overhead wires via the Traction Power Supervisory Control and Data Acquisition system; (f) monitoring traffic flows and control traffic signal timing and variable message signs via the centralized signal monitoring and control system; (g) monitoring and operating SFMTA's access control and security management system and Closed Circuit Television (CCTV) surveillance system; and (h) processing Parking Control Officer's field requests for DMV record checks and dispatching Parking Control Officers to towing and traffic directing requests.

largest component of SFMTA's command, communication and control functions. However, Mr. Lau reports that the existing Operations Control Center was constructed in the 1970s and the facilities are outdated and have not kept pace with the increased complexity, volume and technological advances of the transit industry for operational command, communication and control.

In September 2008, SFMTA completed an Operational Concept Document (OCD) provided by Booz Allen Hamilton, at a cost of \$149,111, as part of the SFMTA's Radio Replacement Project, to establish goals and recommendations for a new Transportation Management Center (TMC)². This Operational Concept Document recommended that SFMTA (a) co-locate the command and control functions of SFgo³ and Power Control with Transit⁴ at a new Transportation Management Center (TMC); (b) provide staffing and communications between controllers, line management, parking enforcement, and maintenance trouble desks; (c) integrate and expand existing capabilities for the Closed-Circuit Television (CCTV) monitoring of traffic and transit; (d) relocate Power Control Center functions to a new TMC; (e) conduct a formal business process review of TMC operating procedures and protocols; (f) develop and adopt security design criteria for both a primary and a secondary TMC; and (g) conduct a site survey for a new primary TMC facility. According to Mr. Lau, the Operational Concept Document recommended that SFMTA have primary and backup Operations Control Centers from both operational and security standpoints, as this is consistent with industry best practices in a post-9/11 environment. Mr. Lau advises that having both primary and backup OCCs limits the risk of losing essential transportation service to the City during an emergency. According to Mr. Lau, the current SFMTA facilities cannot accommodate all SFMTA control functions.

Site Selection: In March 2009, SFMTA completed a Site Assessment Study, prepared by Jacobs Engineering at a cost of \$59,470, to evaluate and rank potential sites for a new primary TMC. Nine sites were evaluated against 12 criteria, as summarized in the Attachment to this report. The Site Assessment Study ranked the top two preferred TMC sites: 1- 1455 Market Street and 2- Transbay Terminal.

According to Mr. Lau, SFMTA's long-term plan is to locate the TMC at the new Transbay Terminal at First Street and Mission Street. However, the new Transbay Terminal is currently under construction and is not scheduled to be completed until the end of 2017. Therefore, SFMTA set a near-term goal to equip an interim primary TMC at 1455 Market Street, the location of the proposed subject new lease, and retrofit its existing 131 Lenox Way Operating Control Center facility as a secondary site.⁵ According to Mr. Lau, when the new Transbay

²A Transportation Management Center (TMC) is where all SFMTA real-time command, communication and control systems would be located, including the personnel who operate, maintain and interface with these systems. According to Mr. Lau, the co-location of SFMTA command, communication-and-control functions in a TMC provides an integrated approach to transportation services, including public transit, traffic, pedestrian, bicycle, parking and taxi services.

³SFgo is the City's traffic management system, in which operators monitor traffic flows and control traffic signal timing and variable message signs via the centralized signal monitoring and control system.

⁴Currently, MUNI has 26 traction power substations throughout the City that supply traction power to the overhead wires for all SFMTA trains, streetcars, and trolley buses in the system. The Power Control Center monitors and controls all 26 substations and dispatches maintenance orders for overhead lines and substations.

⁵According to SFMTA, the primary TMC would be the site where OCC activities take place in the normal course of events and the secondary TMC would provide a back-up OCC in case the primary TMC was unavailable.

Terminal is fully constructed, the SFMTA will then decide whether to continue to use the TMC at 1455 Market Street as the primary site, and to develop a Transbay Terminal TMC as a secondary site or whether to develop the new Transbay Terminal as the primary site and convert 1455 Market Street to serve as a fully-functional secondary site.

Project Funding: Table 1 below shows a total \$32,882,900 estimated cost and identifies the various funding sources for a Central Control and Communications (C3) – Interim Facility. As part of the San Francisco County Transportation Authority (SFCTA) Project Budget for the Central Control and Communications (C3) – Interim Facility, and as shown in Table 1 below, to date SFCTA has appropriated SFMTA’s Proposition K⁶ funds totaling \$26,027,000 for planning, design, construction, and start-up phases for the development of an integrated SFMTA Operations Control Center, now referred to as the Transportation Management Center (TMC), which would be located in the proposed new leased space at 1455 Market Street.

Table 1: SFMTA’s Transportation Management Center Funding Sources included in SFTCA’s Project Budget for the Central Control and Communications (C3) – Interim Facility

Funding Source	Planned	Appropriated	TOTAL BY FUND
SFCTA Funding (Prop K)			
<i>Res. 10-67 EP22</i>		\$8,755,000	\$8,755,000
<i>Res. 10-67 EP20</i>		2,400,000	2,400,000
<i>Res. 11-52 EP20</i>		14,872,000	14,872,000
<i>Subtotal SFCTA Funding</i>		\$26,027,000	\$26,027,000
Federal Funding			
<i>Grants (Section 5307)</i>	746,181	2,367,284	3,113,465
State Funding			
<i>State Infrastructure Bonds (Prop 1B) - PTMISEA</i>		1,700,000	1,700,000
Local Funding			
<i>SFMTA Operating Funds</i>		62,766	62,766
<i>Hudson (formerly Bank of America)</i>	1,729,669		1,729,669
<i>Tenant Improvement (TI) Allowance*</i>			
<i>Bridge Tolls(AB664)</i>		250,000	250,000
TOTAL	\$2,475,850	\$30,407,050	\$32,882,900

⁶ Proposition K was passed by the voters in November 2003, authorizing the collection of one-half of one percent Sales Tax for financing transportation improvements for the City and County of San Francisco. Funds are administered by the San Francisco County Transportation Authority.

On April 5, 2011, the SFMTA Board of Directors approved Resolution 11-044, which is the subject of the proposed new lease at 1455 Market Street. According to Mr. Lau, if the proposed new lease is approved by the Board of Supervisors, SFMTA will relocate the following command-and-control functions:

- **Operations Control Center (OCC), currently at 131 Lenox Way.** The OCC is currently the central nervous system for SFMTA's transit operations, as it monitors and manages (a) SFMTA transit fleet movements, (b) incident detection and response, and (c) event and emergency response operations. If the proposed new lease at 1455 Market Street is approved, the City-owned OCC facility at 131 Lenox Way, which comprises approximately 8,000 square feet, would be retrofitted and would continue to operate as a secondary backup control center.⁷ The City does not currently maintain a secondary backup control center. The site at 131 Lenox Way is owned by BART but SFMTA does not pay rent, and is responsible for property management and paying operating costs based on a 1987 agreement between the City and BART.
- **Line Management Center (LMC), currently at the City-owned One South Van Ness Avenue.** Mr. Lau advises that the LMC at the City-owned One South Van Ness Avenue facility is a functional extension of the 131 Lenox Way Operations Control Center for staff dedicated to real-time management of transit lines, for early identification and for resolution of service issues before they develop into significant service performance problems. If the proposed new lease at 1455 Market Street is approved, the existing LMC space at One South Van Ness Avenue, which comprises approximately 3,500 square feet, would provide backup satellite line management functions. The City does not currently provide backup satellite line management functions. Currently, One South Van Ness Avenue is a multi-tenant Certificates of Participation (COP) building under Real Estate Division (RED) jurisdiction. RED manages the property and handles all operating costs through work orders with a prorata share of the costs to SFMTA
- **Power Control Center currently at the City-owned 1401 Bryant Street facility.** Mr. Lau advises that the Power Control Center is critical to monitoring the overhead power system and is not available at the current 131 Lenox Way OCC. If the proposed lease at 1455 Market Street is approved, the project plan is to extend the Power Control monitoring functions, including relocating dispatchers, to the new TMC at 1455 Market Street while retaining the existing traction (overhead lines) maintenance staff and shops at the City-owned 1401 Bryant Street facility, which comprises approximately 400 square feet. As a City-owned facility, SFMTA handles the property management and operating costs directly at 1401 Bryant Street.
- **Sustainable Streets' Traffic Management Center, SFgo, currently at the City-owned 25 Van Ness Avenue.** According to Mr. Lau, currently, there is no integration of traffic and transit data between SFgo and the 131 Lenox Way OCC. If the proposed new lease at 1455 Market Street is approved, SFgo would be integrated into the new TMC at 1455 Market Street. According to Mr. Charlie Dunn, Senior Real Property Officer with the RED, if the proposed new lease at 1455 Market Street is approved, the approximately

⁷ The new TMC project and associated costs will enable communication systems to be operable at both the existing OCC at 131 Lennox Way and the new TMC at 1455 Market Street. Costs to further upgrade the existing OCC facility at 131 Lennox Way are not included in this project budget and currently no additional funding is identified.

3,824 square feet of space at the City-owned 25 Van Ness Avenue would be leased by a yet to be determined City department. According to Mr. Dunn, if the proposed new lease is approved, SFgo would vacate their 3,824 sq ft premises in 12 to 18 months (approximately 12 months to construct the new premises and up to six months for the transition) and RED would then begin contacting other City departments for use of the 25 Van Ness Avenue space to be vacated by the SFMTA. Currently, 25 Van Ness Avenue is a multi-tenant COP building under RED jurisdiction. RED manages the property and handles all operating costs through work orders with a prorata share of the costs to SFMTA.

- **Security Division (Security) currently at the leased 505 7th Street facility and the One South Van Ness Avenue City-owned facility.** Mr. Lau advises that currently, SFMTA's Parking Control Officers (PCOs) and towing are dispatched from 505 7th Street, which comprises approximately 800 square feet, while security Closed-Circuit Television is monitored and Transit Fare Inspectors and security personnel are dispatched from One South Van Ness Avenue, which comprises approximately 3,500 square feet. If the proposed new lease at 1455 Market Street is approved, two dispatchers would relocate from 505 7th Street to the proposed TMC at the new leased facility at 1455 Market Street to integrate dispatch and security functions while the basic functions of the PCOs will continue to operate out of 505 7th Street and security officers and Transit Fare Inspectors will continue to operate out of the City-owned One South Van Ness Avenue. The site at 505 7th Street is a leased facility. SFMTA pays the lessor for rent which include operating expenses. Currently, One South Van Ness Avenue is a multi-tenant COP building under RED jurisdiction. RED manages the property and handles all operating costs through work orders with a prorata share of the costs to SFMTA.

SFMTA reports that the proposed new interim primary TMC would allow SFMTA to (a) update its command, communications and control functions at a new Operations Control Center and (b) integrate command, communication and control functions from five dispersed locations for more effective and efficient transit operations. According to SFMTA, the OCC needs to continue to be operational 24 hours a day, seven days per week including appropriate emergency backup systems and available power to run the substantial communications and operations equipment and systems. According to Mr. Lau, transit operations run 24 hours a day, seven days per week with reducing staffing during the nighttime shift.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new 39,573 square foot lease between SFMTA as lessee, and Hudson 1455 Market LLC, as lessor, for SFMTA to operate a new Transportation Management Center (TMC) for ten years plus two options to extend the term for ten years each, for a total of 30 years. The proposed lease would commence upon the lessor's completion of tenant improvements which is expected to take approximately one year to complete and is anticipated to be completed on June 1, 2012. The new leased space at 1455 Market Street (at 11th Street) would include approximately 679 square feet on the 1st floor (for shower and locker rooms required for Leadership in Energy & Environmental Design (LEED) Certification and available for emergency situations) and 38,894 square feet on the 7th floor.

According to Mr. Dunn, the tenant improvements are estimated to cost \$11,217,985 based on SFMTA's preliminary plans and specifications.⁸ Under the proposed lease, and as shown in Table 1 above, Hudson 1455 Market LLC would provide an allowance of \$1,729,669 so that the estimated improvement cost to be paid by the SFMTA is \$9,488,316 (\$11,217,985 - \$1,729,669). Mr. Dunn reports that the allowance of \$1,729,669 was determined based on negotiations.

According to Mr. Dunn, the improvements include: (a) an Uninterruptible Power Supply (UPS); (b) dedicated conduit and wiring to One South Van Ness Avenue; (c) dedicated conduit and wiring to SFMTA's light rail system and the City's fiber loop; (d) construction of an equipment room; (e) customized operation consoles; and (f) rooftop communications equipment. Mr. Lau reports that the project is seeking LEED-ID & C Silver Certification from the US Green Building Council (USGBC)⁹. According to Mr. Lau, the SFMTA's contribution of \$9,488,316 to tenant improvements would be paid from SFCTA's Project Budget for the Central Control and Communications C3 – Interim Facility, which totals \$32,882,900 and is comprised of Proposition K funds, federal grants and local bridge toll funds, as shown in Table 1 above. According to Mr. Dunn, the tenant improvements will be completed by the lessor, through the lessor's contractor, pursuant to plans and specifications to be approved by the City.

The proposed new lease would commence at an annual base rent of approximately \$30.29 per square foot, or a total of \$1,198,469 based on the 39,573 square feet of space (monthly rent is \$99,872 based on 39,573 square feet at approximately \$2.52 per square foot per month). The rent under the proposed lease would also be subject to three percent annual increases, commencing in July 2013. The proposed lease includes two months of free rent to facilitate SFMTA's transition to the new facility, which is projected to occur in June 2012. In addition to the base rent, the SFMTA would also be responsible for paying operating costs at 1455 Market Street, which are estimated to cost an additional \$233,487 per year as shown in Table 2 below.

⁸ Hudson 1455 Market LLC's contractor, CBI, prepared the \$11,217,985 estimate based on plans and specifications supplied by SFMTA, which was subsequently reviewed by an independent cost consultant.

⁹ Chapter 7 of the City's Environment Code currently requires LEED Silver certification for certain City leases, including the proposed new lease of 1455 Market Street. The United States Green Building Council (USGBC) has multiple categories from Residential to New Construction. According to Mr. Dunn, ID&C, Interior Design & Construction, is the applicable certification category for this project. LEED, the Leadership in Energy & Environmental Design, certification means the project has met certain environmental and energy efficiencies using recycled materials, water and energy efficient fixtures and appliances, etc.

Table 2: Estimated Operating Costs for 1455 Market Street

Item	Monthly	Annually
Interior Janitorial (6 day a week on 7th floor & 5 day/week on 1st Floor)	\$5,195	\$62,340
YEI Engineering Estimate of Electricity	9,138	109,656
Building Engineers Estimate of Chilled Water	4,918	59,016
Syska & Hennessey Engineering Estimate of Computer Room Air Conditioning Maintenance	206.25	2,475
Total Projected Operating Costs	\$19,457	\$233,487

SFMTA's total estimated annual rent and operating costs during the first year of the proposed lease would be \$1,431,956 (\$1,198,469 see above + \$233,487). According to Mr. Dunn, the proposed rent, including escalations, represents fair market value for the subject new space at 1455 Market Street.

As noted above, the proposed lease includes two options to extend the term for ten years each. In the first year of each option term, instead of the three percent increases during the initial ten-year term, the base rent would increase by five percent. Then, for years two through ten of each option period, the annual increase would revert to a three percent annual increase.

At the request of the Executive Director/CEO of SFMTA, if the Director of Real Estate determines that the option rent for the first year of each of the two ten year options is less than 95% of fair market value, the proposed resolution would authorize the Director of Real Estate, when the lease is expiring, to exercise the options to extend the term for a further term of ten years if the Director of Real Estate determines, in consultation with the City Attorney, that such extended term is in the best interests of the City and consistent with the terms and conditions of the lease without requiring further approval by the Board of Supervisors. According to Mr. Dunn, if the base rent during the option terms using the five percent increase in the first year of each option results in more than 95% of the fair market value for the property, then the City would likely not exercise the option and would instead negotiate a fair market rent if SFMTA still needed the space to run its operations. According to Mr. Dunn, if the base rent during the option terms using the five percent fixed increase were less than 95% of fair market value, then the Real Estate Division would likely exercise the option, without requiring Board of Supervisors approval.

FISCAL IMPACTS

Approval of the proposed lease would result in rent and operating expenses payable by the SFMTA, as lessee, to Hudson 1455 Market LLC, as lessor, of \$119,329 (\$99,872 rent (39,573 square feet times approximately 2.52 per square foot per month) + \$19,457 operating costs (see Table 2 above)) per month commencing two months after substantial completion of the tenant improvements. According to Mr. Dunn, the estimated date of substantial completion is June 1,

2012 due to the extensive nature of the improvements and the two months of free rent is intended to facilitate SFMTA's transition into the new facility by August 1, 2012. Mr. Dunn defines "substantial completion of tenant improvements" as the date when construction is complete (except for minor punchlist items which do not effect occupancy), construction permits have been closed out by DBI, and the premises are ready to be occupied. According to Mr. Lau, the \$32,882,900 of identified funding shown in Table 1 above assumes six months of rent and operating costs.

Therefore, if tenant improvements are substantially completed by June 1, 2012, assuming two months of free rent and six months of rent and operating costs are already budgeted, the SFMTA will begin paying monthly rent of \$99,872 plus \$19,457 of operating costs, or a total monthly cost of \$119,329 in February 2013. The base rent of \$99,872 per month would increase three percent annually starting July 1, 2013 and the SFMTA would be responsible for absorbing any additional inflationary operating expenses. According to Mr. Lau, the additional rent and operating expenses for the subject new lease at 1455 Market Street would be paid from SFMTA's operating budget. Given that under the proposed lease, SFMTA will not be required to pay rent for the first two months of occupancy and funds have already been budgeted for the first six months of rent and operating costs, the total cost to SFMTA's operating budget from June 1, 2012 through June 30, 2013 is estimated to be \$635,563 as shown in Table 3 below.

Table 3: Projected Rent and Operating Costs Beginning June 1, 2012 (13 Months)

FY 2011-2012	Rent Amount ¹		Projected Operating Cost ²		Total Monthly Rent & Projected Operating Costs Through June 2013 (13 months)	Total Projected SFMTA Cost Through June 2013 (13 months)
	SFCTA Cost	SFMTA Cost	SFCTA Cost	SFMTA Cost		
June 1, 2012	Free Rent			\$19,457	\$19,457	\$19,457
FY 2012-2013						
July 1, 2012	Free Rent			19,457	19,457	19,457
August 1, 2012	\$99,872		19,457		119,330	
September 1, 2012	99,872		19,457		119,330	
October 1, 2012	99,872		19,457		119,330	
November 1, 2012	99,872		19,457		119,330	
December 1, 2012	99,872		19,457		119,330	
January 1, 2013	99,872		19,457		119,330	
February 1, 2013		99,872		19,457	119,330	119,330
March 1, 2013		99,872		19,457	119,330	119,330
April 1, 2013		99,872		19,457	119,330	119,330
May 1, 2013		99,872		19,457	119,330	119,330
June 1, 2013		99,872		19,457	119,330	119,330
Total	\$599,235	\$499,362	\$116,743	\$136,201	\$1,351,541	\$635,563³

¹ Increases per lease (3% annually)

² Assumes 3% annual operating expense escalations with the annual increase in rent in July.

³\$635,563 total less \$19,457 for one month of operating costs in June 2012 equals \$616,106 rent and operating costs for FY 2012-2013.

Table 4 below shows the projected costs by fiscal year over the proposed ten year lease period, using three percent inflation factor for operating expenses and three percent annual increase in base rent. As shown in Table 4 below, the total estimated rent and operating costs for the proposed ten-year lease is \$16,179,658 (\$13,508,921 in rent plus \$2,670,737 in operating costs). The net project cost for SFMTA is \$15,463,690 (\$16,179,658 less \$599,235 rent less \$116,743 operating costs funded by SFTCA), which includes the abated rent and only 11 months of FY 2020-21 as the lease terminates in May 2021.

Table 4: Projected Annual Rent and Operating Costs Over the 10-Year Lease Beginning June 1, 2012

Fiscal Year	Rent Amount*		Operating Cost**		Annual Rent & Projected Operating Cost	Annual Projected SFMTA Cost
	SFCTA Cost	SFMTA Cost	SFCTA Cost	SFMTA Cost		
2011/ 2012		Free Rent		\$19,457	\$19,457	\$19,457
2012/ 2013	\$599,235	499,362	116,744	116,744	1,332,084	\$616,106
2013/ 2014		1,234,423		240,492	1,474,915	1,474,915
2014/ 2015		1,271,456		247,706	1,519,162	1,519,162
2015/ 2016		1,309,599		255,138	1,564,737	1,564,737
2016/ 2017		1,348,887		262,792	1,611,679	1,611,679
2017/ 2018		1,389,354		270,675	1,660,030	1,660,030
2018/ 2019		1,431,035		278,796	1,709,830	1,709,830
2019/ 2020		1,473,966		287,160	1,761,125	1,761,125
2020/ 2021		1,518,185		295,774	1,813,959	1,813,959
2020/ 2021 ¹		1,433,419		279,260	1,712,680	1,712,680
TOTAL	\$599,235	\$12,909,687	\$116,744	\$2,553,993	\$16,179,658	\$15,463,680

Total Rent over 10 years	\$13,508,921
Total Operating Expenses over 10 years	\$2,670,737
Total Rent & Operating Expenses over 10 years	\$16,179,658
Total SFMTA Expenses over 10 years	\$15,463,680

* Increases per lease (3% annually)

** Assumes 3% annual operating expense escalations

¹ Includes 11 months of rent.

POLICY CONSIDERATIONS

Options to Extend Lease

Under the proposed lease, the City would have two ten year options to extend the term with the first year's cost of each 10-year option rent increasing by five percent over the previous rent. Under the proposed resolution, the exercise of either of these ten-year options to extend the term

would not require further approval by the Board of Supervisors, if the Director of Real Estate determines that the fixed option rent is less than 95% of the then fair market value. This proposed provision, which was requested by the SFMTA to extend the term of the lease without Board of Supervisors approval, is a significant policy change from existing practice. Currently, in accordance with Section 23.26 of the City's Administrative Code, the Director of Real Estate has the authority to enter into leases on behalf of the City as lessee, without requiring Board of Supervisors approval, only if such leases are less than one year or cost more than \$5,000 per month in rent. However, as noted above, each option would extend the proposed lease by ten years and the monthly rent would be set at \$136,826 per month starting in the eleventh year of the lease. Therefore, the Budget and Legislative Analyst recommends deleting this provision from the proposed resolution.

Significant Increases in Space and Costs

As shown in Table 5 below, SFMTA currently has a total of approximately 16,524 square feet of space to operate the command and control functions for transportation activities dispersed among five locations in the City. If the proposed 39,573 square foot for a new lease at 1455 Market Street is approved, Mr. Dunn advises that the SFMTA would only relocate from the existing 3,824 square feet of space at 25 Van Ness Avenue to integrate these activities into the proposed new 1455 Market Street location. However, SFMTA proposes that the remaining four facilities continue to operate.

Therefore, as shown in Table 5 below, if the proposed lease is approved, the SFMTA would only reduce 3,824 square feet and add 39,573 square feet, for a total of 52,273 square feet for SFMTA to operate integrated command and control functions. The proposed total of 52,273 square feet of space represents an increase of 35,749 square feet, or over 216 percent more than the existing 16,524 square feet of space (see Table 5 below).

Given the fact that the SFMTA has operated for many years without the proposed new space, the Budget and Legislative Analyst questions the need for the SFMTA to not only enter into a new lease for an additional 39,573 square feet but also to continue to operate and maintain the four other facilities, containing 12,700 square feet.

Table 5: Comparison of Existing and Proposed Facilities Square Footage, Cost per Square Foot and Estimated Annual Cost

Location	Existing Facilities			Proposed Facilities			Difference
	Square Footage	Cost, Per Square Foot	Estimated Annual Cost	Square Footage	Cost, Per Square Foot	Estimated Annual Cost	
131 Lennox Way*	8,000	\$8.00	\$64,000	8,000	\$4.00	\$32,000	(\$32,000)
25 Van Ness Avenue	3,824	\$22.56	\$86,269				(\$86,269)
One South Van Ness Avenue	3,500	\$22.56	\$78,960	3,500	\$22.56	\$78,960	---
1401 Bryant Street	400	\$8.00	\$3,200	400	\$8.00	\$3,200	---
505 7 th Street	800	\$29.76	\$23,808	800	\$29.76	\$23,808	---
Proposed New TMC: 1455 Market Street				39,573	\$36.19	\$1,431,976	\$1,431,976
Total	16,524		\$256,237	52,273		\$1,569,944	\$1,313,707
Monthly Expenses			\$21,353			\$130,829	\$109,476

*131 Lenox Way will continue to be operational and serve as the Secondary Transportation Management Center (TMC) after the transition into the new TMC. Since the existing facility will be a back up facility, Mr. Dunn expects the annual costs for most operating expenses to decrease by 50 percent.

As shown in Table 5 above, SFMTA currently pays \$256,237 annually in operating costs (and also pays for the One South Van Ness Avenue and 25 Van Ness Avenue, prorata Certificate of Participation (COP)¹⁰ repayment) for five City-owned facilities. If the proposed lease is approved, SFMTA's annual costs will increase to \$1,569,944 (see Table 5 above) during the first year of the proposed lease, an increase of \$1,313,707 or over 513 percent more than the \$256,237 annual cost which the SFMTA is currently paying. As noted above, the SFMTA currently has sufficient funds, as shown in Table 1 above, to pay for tenant improvements and rent and operating expenses until approximately February 1, 2013. However, commencing in February of 2013, the SFMTA would incur additional monthly expenses of \$130,829, which is \$109,476 more than the \$21,353 monthly expenditures that SFMTA currently incurs.

Given the SFMTA's existing and projected financial and budgetary concerns, including an estimated projected budgeting shortfall of \$22,000,000 in FY2011-2012 the Budget and Legislative Analyst questions the propriety of the SFMTA to incur such additional expenditures at this time.

¹⁰ Certificates of Participation (COPs) are a funding source for City acquisition of buildings such as 25 & 30 Van Ness Avenue, 1650 Mission Street, and One South Van Ness Avenue.

Long Term Facility at Transbay Terminal

As discussed above, SFMTA's long-term plan is to locate the Transportation Management Center at the new Transbay Terminal located at First Street and Mission Street. However, the new Transbay Terminal is currently under construction and is not scheduled to be completed until the end of 2017. Therefore, the subject lease at 1455 Market Street, which would commence during the summer of 2012, is proposed as an interim primary Transportation Management Center (TMC) facility until the Transbay Terminal is completed. According to SFMTA, when a TMC at the Transbay Terminal is constructed, the SFMTA will then decide whether to continue to use the TMC at 1455 Market Street as the primary site, and to develop the Transbay Terminal TMC as a secondary site or whether to develop the Transbay Terminal as the primary site and convert 1455 Market Street to serve as a fully-functional secondary site.

Therefore, the Budget and Legislative Analyst further questions the reasonableness of constructing a \$32,882,900 (see Table 1 above) interim TMC facility, which would be needed for approximately five years from 2012 through 2017, with \$26,027,000 of local Proposition K Sales Tax revenues.

SUMMARY

In summary, the proposed lease would approve a new 39,573 square foot lease between the City and Hudson 1455 Market LLC, for SFMTA to operate a new Transportation Management Center (TMC) for ten years, plus two options to extend the term for ten years each, for a total of 30 years at 1445 Market Street. If the proposed lease is approved, the initial annual rent would be \$1,431,956. Over the initial ten-year lease term, rent would total \$13,508,921, and operating costs would total an additional \$2,670,737 for a total new ten-year cost of \$16,179,658 (see Table 4 above). The proposed lease would commence upon substantial completion of tenant improvements, estimated to cost an additional \$9,488,316 and be completed by June 2012. Under the proposed resolution, at the request of the SFMTA, if the Director of Real Estate determines that the rent is less than 95 percent of the then fair market rent, further approval by the Board of Supervisors would not be required to exercise the two ten-year options to extend the term of the new ten-year lease. This is a significant policy change from existing practice.

SFMTA currently occupies a total of 16,524 square feet of space at an annual cost of \$256,237 to operate the SFMTA's command and control functions dispersed among five locations in the City. If the proposed 39,573 square foot new lease at 1455 Market Street is approved, SFMTA's total cost for all five facilities will increase to \$1,569,944 during the first year of the proposed lease, an increase of \$1,313,707 or over 513 percent more than the \$256,237 annual cost which the SFMTA is currently paying (see Table 5 above). In addition, if the proposed lease is approved, SFMTA would only eliminate 3,824 square feet at 25 Van Ness Avenue (see Table 5 above) of their existing 16,524 square feet of space. As a result, SFMTA's integrated command and control functions would require a total of 52,273 square feet, an increase of 35,749 square feet, or 216 percent more than the existing 16,524 square feet of space.

Furthermore, the proposed lease would be an interim facility until the Transbay Terminal is completed in 2017. The SFMTA would then decide whether to continue to lease the 1455

Market Street as a primary site, and to develop the Transbay Terminal as a secondary site or whether to develop the Transbay Terminal as the primary site and convert 1455 Market Street to a secondary site.

Given the SFMTA's existing and projected financial and budgetary concerns, including an estimated projected budgeting shortfall of \$22,000,000 in FY 2011-2012 the Budget and Legislative Analyst questions the propriety of the SFMTA to incur such additional expenditures at this time.

For all these reasons, the Budget and Legislative Analyst cannot recommend approval of the proposed new lease.

RECOMMENDATIONS

1. Delete the provision authorizing the Director of Real Estate to exercise both of the two ten-year options to extend the term of the proposed initial ten-year lease if the option rent is less than 95% of fair market value, without requiring subsequent approval of the Board of Supervisors.
2. Given that the proposed lease would result in (a) SFMTA occupying 52,273 square feet of space, which is 35,749 square feet or over 216 percent more than the 16,524 square feet SFMTA is presently occupying, (b) would result in a ten year expenditure of \$16,179,658 for rent and operating costs, (c) will result in a first year increase in rent and operating costs of \$1,569,944 which is \$1,313,707 or over 513 percent more than the existing annual cost of \$256,237 (see Table 5 above) and (d) the proposed facility would be an interim Transportation Management Center until the Transbay Terminal is projected to be completed in 2017, at which time the proposed facility would continue as either the primary or secondary TMC, the Budget and Legislative Analyst cannot recommend approval of the proposed resolution.

Exhibit A
Site Assessment Study, prepared by Jacobs Engineering, March 2009

9 sites evaluated against 12 criteria, which are summarized in the table below:

Criteria/Site	Max Pts	1455 Market	Transbay Terminal	OH Lines 1455 Division St	1 South Van Ness	MME-Existing Bldg	Central Subway TOD @4 th & Folsom	"Green Field" New site	MME Expansion acres	131 Lenox
Site Size (30K sq ft)	15	12	15	15	10	11	11	15	13	8
Future Configurability and Expandability	5	2	1	4	2	4	1	5	5	1
Meeting SFMTA Mission & Goals	15	12	14	12	12	10	10	10	10	10
Meeting Safety & Security Criteria	5	3	1	4	1	4	3	4	4	4
Structural Vulnerability	5	2	3	5	2	3	3	5	3	4
Zoning	5	5	5	3	5	5	5	3	5	0
Proximity to Metro Subway	5	5	3	2	5	0	5	3	0	5
Capital Cost	15	14	12	9.5	13	13	6	0	6	6
Fundability	10	6	9	5	6	6	6	5	5	4
Schedule	5	5	1	3	4	4	0	0	0	0
Cost of Occupancy	10	8.5	9	10	9	10	10	10	10	10
Transportation Access	5	4	1	1	4	1	4	3	1	1
Site Total	100	78.5	74	73.5	73	71	64	63	62	53