CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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February 23, 2012

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: February 29, 2012 Budget and Finance Committee Meeting

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Item 1 File 12-0141	Department: Real Estate Division, Department of Administrative Services

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize a permit between the City and Total Outdoor Corporation (Total Outdoor) for the purpose of authorizing Total Outdoor to enter City-owned property at 1650 Mission Street to install and maintain a billboard on the exterior wall of 1650 Mission Street.

Key Points

- When the City acquired the building at 1650 Mission Street in May 2007, the City assumed the existing agreement with CBS Outdoor, who was responsible for installing and maintaining a billboard on the exterior wall of 1650 Mission Street, facing Highway 101. That agreement expired on March 31, 2011. Under the agreement, CBS Outdoor was authorized to advertise on the billboard.
- The Real Estate Division (RED) issued a Request for Bids (RFB) to install, maintain and advertise on a new billboard at 1650 Mission Street on February 28, 2011, and a second RFB on March 11, 2011, clarifying that advertising for alcohol and tobacco products is prohibited. RED received five responsive bids.
- According to Mr. John Updike, Acting Director of Property, RED initially awarded the permit to Farias Outdoor, the highest bidder, but failed to reach agreement on a permit. RED then entered negotiations with West Coast Media, who was determined by RED to be the second highest bidder. West Coast Media was subsequently purchased by Total Outdoor Corporation (Total Outdoor) during the course of negotiations, which began on March 31, 2011 and completed in January 2012.
- The permit would be for an initial term from approximately May 1, 2012 through December 31, 2016, a period of four years and eight months. The permit contains three 5-year options to renew at the sole discretion of the City, for an additional 15 years, from January 1, 2017 through December 31, 2031. The proposed permit provides for payment by Total Outdoor to the City of the higher of either (a) the minimum annual guarantee (MAG) of $63,000, or (b) percentage rent of 35 percent of net revenues that exceed $180,000. Additionally, under the proposed permit, Total Outdoor would pay a one-time signing bonus of $30,000.

Fiscal Impacts

- The proposed permit would generate $93,000 in year one, payable by Total Outdoor to the City ($63,000 in MAG plus $30,000 one-time bonus). Over the four year and eight month term of the permit, the permit would generate at least $324,000 in revenues to the City.
- The prior permit for the 1650 Mission Street billboard between the City and CBS Outdoor had a MAG of $240,000. According to Mr. Updike, the MAG of $63,000 under the proposed permit between the City and Total Outdoor is $177,000, or 73.8 percent, less than the MAG of $240,000 under the prior permit between the City and CBS Outdoor because the 1650 Mission Street billboard has not generated sufficient advertising revenues to justify the higher MAG. Total gross annual advertising revenues realized by CBS Outdoor for the 1650 Mission Street billboard in the twelve-month period from October 2009 through September 2010, which provides RED's most recent revenue data, were $117,089, or $122,911 less than the MAG of $240,000.

Policy Issue

- The billboard on 1650 Mission Street is the only billboard advertising on a City-owned building. Proposition G, approved by the voters in March 2002, prohibits new general advertising signs, or billboards, within the City that were not in place as of March 5, 2002. RED was able to solicit a new advertising agreement, when the existing agreement between the City and CBS Outdoor terminated, because the 1650 Mission Street billboard was in place prior to March 5, 2002.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Under Charter Section 9.118(c), leases exceeding ten years and/or having anticipated revenue of $1,000,000 or more are subject to Board of Supervisors approval.

Background

The City acquired a building at 1650 Mission Street in May 2007, which houses the Planning Department and the Department of Building Inspection. When the City acquired 1650 Mission Street, the City assumed an agreement with CBS Outdoor for billboard advertising on the exterior wall of the building, facing Highway 101. Under that agreement, CBS Outdoor paid the City the greater of the Minimum Annual Guarantee (MAG) of $240,000 per year, or 50 percent of the gross advertising revenues received by CBS Outdoor. CBS Outdoor did not generate sufficient advertising revenues to pay percentage rent, and therefore paid the City the MAG of $240,000 per year from May 2007 through termination of the agreement on March 31, 2011.

The City's Real Estate Division (RED) issued an initial Request for Bids (RFB) to 19 outdoor advertising firms to advertise on the 1650 Mission Street billboard on February 28, 2011, and a second RFB on March 11, 2011, clarifying that advertising for alcohol and tobacco products is prohibited. According to Mr. John Updike, Acting Director of Property, the alcohol and tobacco product advertising restrictions did not affect the original bids, and therefore, RED confirmed the original bid results on March 17, 2011. Table 1 shows the bid results.

Table 1
Results of the Request for Bids for 1650 Mission Street Billboard Advertising

Respondent	1st Year MAG[1]	Annual Increases for the Initial Estimated 5 Year Term
Farias Outdoor	$140,000	5%
West Coast Media/Total Outdoor [2]	105,000	0%
Radiant	110,000	0%
CBS Outdoor (Previous Permit)	100,000	3%
Foster Interstate	60,000	0%

Source: Real Estate Division

[1] The MAG proposed by each bidder was based on the ability to advertise on illuminated billboards.
[2] West Coast Media/Total Outdoor proposed an additional one-time signing bonus of $30,000.

RED calculated the bid results based on each bidder's proposed MAG for the first five years of the permit, including any annual percentage increases to the MAG or one-time signing bonuses.[1] According to Mr. Updike, RED initially awarded the permit to Farias Outdoor, but failed to

[1] RED's calculations of the bid results for the estimated five-year term of the permit are as follows: (a) Farias ($773,588); (b) West Coast Media/Total Outdoor ($555,000); (c) Radiant ($550,000, with the condition that the City trim trees along Otis Street, Mission Street, and Van Ness Avenue); (d) CBS Outdoor ($531,375); and (e) Foster Interstate ($300,000).

reach agreement on a permit. RED terminated negotiations with Farias Outdoor on March 31, 2011.

RED then entered negotiations with West Coast Media, who was determined by RED to be the second highest bidder. West Coast Media was subsequently purchased by Total Outdoor Corporation (Total Outdoor) during the course of negotiations, which began on March 31, 2011, and were completed in January 2012.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the execution of a permit between the City and Total Outdoor, authorizing Total Outdoor's access to 1650 Mission Street in order to install and maintain the 28 foot by 99 foot exterior advertising billboard. Final negotiated terms of the permit include:

- All necessary regulatory approvals are secured by Total Outdoor by April 15, 2012;
- Initial term from approximately May 1, 2012, after all regulatory permits are secured, to December 31, 2016, a period of four years and eight months;
- Three 5-year options to renew at the sole discretion of the City, for an additional 15 years, from January 1, 2017 through December 31, 2031;
- 5 percent increase to the base MAG at the exercise of each of the three 5-year options to renew;
- One-time bonus fee of $30,000 payable by Total Outdoor to the City at the commencement of the permit;
- Payment by Total Outdoor to the City of either the higher of the MAG of $63,000 or percentage rent, as noted below;
- If the Planning Commission approves Total Outdoor's application to illuminate the billboard, as noted below, the MAG will be $105,000, consistent with West Coast Media/Total Outdoor's bid as shown in Table 1 above;
- Percentage rent of 35 percent share of net revenues that exceed $180,000 (if higher than the MAG)[2]; and
- Security Deposit of $10,000.

According to Mr. Updike, although the five bidders, shown in Table 1 above, submitted bids based on the ability to illuminate the billboard, RED determined during negotiations with West Coast Media/Total Outdoor that the subject billboard did not have a Planning Department permit for illumination. Therefore, RED negotiated a two-tier MAG: (a) the lower MAG of $63,000 if Total Outdoor does not obtain a Planning Department permit for illumination; and (b) the higher MAG of $105,000 if Total Outdoor does obtain a Planning Department permit for illumination.

[2] Net revenues are calculated as the lesser of (a) gross revenues minus commissions by Total Outdoor to third party advertising agencies; or (b) 16.67 percent of gross revenues.

According to Mr. Updike, the installation of the billboard on the exterior wall of 1650 Mission Street requires California Department of Transportation approval (Caltrans) because the billboard faces Highway 101.

FISCAL IMPACTS

The proposed permit would generate $93,000 in year one (MAG of $63,000 plus a $30,000 one-time bonus). Over the four-year, eight-month initial term, the permit would generate a MAG of $324,000.[3]

The proposed permit provides for percentage rent if percentage rent exceeds the MAG. Percentage rent is calculated at 35 percent of net advertising revenues, which exceed $180,000. For example, if net advertising revenues equal $210,000, annual rent would be $73,500 (35 percent of $210,000), or $10,500 more than the MAG of $63,000.

As noted above, the prior permit for the 1650 Mission Street billboard advertising between the City and CBS Outdoor required a MAG of $240,000. Although the permit provided for percentage rent of 50 percent of gross revenues, if such percentage rent were higher than the MAG, CBS Outdoor never paid more than the MAG of $240,000.

According to Mr. Updike, the MAG of $63,000 under the proposed permit between the City and Total Outdoor is $177,000, or 73.8 percent less than the MAG of $240,000 under the prior permit between the City and CBS Outdoor because the 1650 Mission Street billboard has not generated sufficient advertising revenues to justify the higher MAG. Total gross annual advertising revenues received by CBS Outdoor for the 1650 Mission Street billboard during the twelve-month period from October 2009 through September 2010, which provides RED's most recent revenue data, were $117,089, or $122,911 less than the MAG of $240,000 which was payable by CBS Outdoor to the City. As noted in Table 1 above, CBS Outdoor proposed a MAG of $100,000 in response to the RFB, as compared to the prior MAG of $240,000 paid by CBS Outdoor.

POLICY ISSUE

The billboard on 1650 Mission Street is the only billboard advertising on a City-owned building. Proposition G, approved by the voters in March 2002, prohibits new general advertising signs, or billboards, within the City that were not in place as of March 5, 2002. The Real Estate Division was able to solicit a new advertising agreement, when the existing agreement between the City and CBS Outdoor terminated, because the 1650 Mission Street billboard was in place prior to March 5, 2002.

RECOMMENDATION

Approve the proposed resolution.

[3] $93,000 in year one, plus $63,000 in years two through four (for a total of $189,000), plus $42,000 for eight months in year five, equal $324,000.

Item 2 File 12-0120	Department: Department of Public Works (DPW)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would appropriate $962,038 in State Proposition 1B Highway Safety, Traffic Reduction, Air Quality and Port Security Bond interest earnings, placing $52,600 on Controller's Reserve pending receipt of such future interest earnings.

Key Points

- The Planning Department issued a Draft Public Realm Plan for Fisherman's Wharf in 2010, which identified five blocks of Jefferson Street for improvements to the street and streetscape, which includes signs and signals, sidewalks, curb ramps, street trees, street lighting, site furnishings, and storm water infrastructure. The Jefferson Street Redesign Project consists of two phases: Phase I consists of improvements to the street and streetscape for two blocks of Jefferson Street between Hyde and Jones Streets; and Phase II consists of improvements to the street and streetscape for three blocks of Jefferson Street from Jones Street to Powell Street. The proposed ordinance pertains to Phase I.
- The Jefferson Street Redesign Project consists of three options for Phase I, with costs ranging from $8,740,000 for Option I to $4,808,000 for Option III.

Fiscal Impacts

- The requested appropriation of $962,038 in interest earnings would fund Jefferson Street Redesign Phase I costs for design, development of construction documents, and construction administration.
- The budget for Phase I design and development of construction documents is $706,500. According to Mr. Douglas Legg, Department of Public Works (DPW) Budget Manager, the excess funds of $255,538 (the requested supplemental appropriation of $962,038, less $706,500) will be allocated to construction administration. Because the $255,538 is not necessary to fund design and construction document development costs, the Budget and Legislative Analyst recommends placing the $255,538 on Budget and Finance Committee reserve, pending details on how these funds will be spent during the construction phase of the Phase I Jefferson Street Redesign Project.

Policy Issue

- As of the writing of this report, DPW has not identified funding for the construction of Phase I of the Jefferson Street Redesign Project. According to Mr. Legg, DPW submitted a request in January 2012 to the City's Capital Planning Committee for approval of $8,682,434 in General Fund monies in the FY 2012-13 budget to pay for the total costs of Phase I of the Jefferson Street Redesign Project. The February 13, 2012 Capital Planning Committee recommended appropriation of $962,038 for design and construction document development. Although Capital Planning Committee recommendations for FY 2012-13 for total Phase I Jefferson Street Redesign Project costs will not be available until May 2012, Mr. Legg states that DPW is requesting the supplemental appropriation of $962,038 from State Bond interest earnings, prior to approval of the total requested funds by the Capital Planning Committee, because the Mayor's Office wants to complete Phase I of the Jefferson Street Redesign Project in time for the America's Cup in September 2013.

- Mr. Legg states that the request for $962,038, which is to be expended for design, development of construction documents, and construction administration, is based on the current estimated updated total costs of $8,740,000 for Option I of the Phase I Jefferson Street Redesign Project. If the Capital Planning Committee recommends General Fund monies of less than $8,740,000, Mr. Legg states that DPW will reduce the design costs accordingly.

Recommendations

- Amend the proposed ordinance to place $255,538 on Budget and Finance Committee reserve, pending details on how these funds will be spent during the construction phase of the Phase I Jefferson Street Redesign Project.

- Approval of the proposed ordinance, as amended, is a policy matter for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Charter Section 9.105 requires that amendments to the Annual Appropriation Ordinance be approved by ordinance by the Board of Supervisors, and may not be adopted unless the Controller certifies the availability of funds.

Background

Fisherman's Wharf Public Realm Plan

On November 2 and November 3, 2006, the Fisherman's Wharf Community Benefit District (CBD)[1] convened a two-day community process in which residents, merchants, and other stake holders collaborated on a future vision for the Fisherman's Wharf area. The result was the Fisherman's Wharf Vision Plan, released in December of 2006, which identified opportunities to improve Fisherman's Wharf streets and sidewalks to provide better access for pedestrians, bicycles, and San Francisco residents. The plan priorities included developing (a) a comprehensive retail merchandising plan, (b) a parking management plan, (c) urban design guidelines, (d) a comprehensive open-space plan, and (e) a funding plan.

In 2008, the Planning Department retained Gehl Architects to conduct a Public Space and Public Life Study for Fisherman's Wharf. The goal of the study was to describe the current state of public life in and around Fisherman's Wharf and to highlight the opportunities and challenges for that area. The study found eight major challenges including (a) weak links to the water, (b) an inactive waterfront, (c) poor pedestrian links to adjacent neighborhoods, (d) poor conditions for walking and cycling, (e) uninviting streetscapes,[2] (f) lack of public space, (g) few attractions for local residents, and (h) lack of district identity.

On June 8, 2010, as a follow up to the Public Space and Public Life Study for Fisherman's Wharf, the Planning Department issued a Draft Public Realm Plan for Fisherman's Wharf, which described (a) the existing conditions, (b) the proposed redesign of Jefferson Street, (c) design guidelines for other streets in and around Fisherman's Wharf, (d) potential parking and circulation solutions, (e) public open space solutions, and (f) overall urban design guidelines. The Draft Public Realm Plan also suggested solutions to the challenges identified by Gehl Architects in the Public Space and Public Life Study, including the creation of a (a) Waterfront District, (b) Walkable District, (c) Diverse District, and (d) District Identity.

Jefferson Street Redesign Project

In April 2011, the Planning Department completed an Environmental Impact Report (EIR) for the Jefferson Street Redesign Project.

[1] The Fisherman's Wharf Community Benefit District (FWCBD) is an organization founded in 2005 by business and property owners in the Fisherman's Wharf neighborhood to "preserve and enhance its vast San Francisco waterfront landscape and multi-cultural heritage, while integrating modern efficiencies to enrich the experience of visitors from both near and far." The FWCBD is funded through an annual assessment on residential property value or annual sales of property owners within the CBD.

[2] Streetscapes are defined as signs and signals, sidewalks, curb ramps, street trees, street lighting, site furnishings, and storm water infrastructure.

In November 2011, the Fisherman's Wharf Community Benefit District retained the Roma Design Group, an urban design consultant, to develop the initial design concept. The Department of Public Works (DPW) also conducted a street survey for the entire five-block corridor of Jefferson Street between Hyde Street and Powell Street. The initial design concept for the Jefferson Street Redesign Project changes the roadway to make it more pedestrian and bicycle friendly by (a) removing the parking on both sides of the street, (b) adding a unified café zone on the north side of the street, and (c) changing the road and curbs to a granite surface.

The proposed redesign of Jefferson Street, as presented to the Capital Planning Committee on February 13, 2012, is a two-phase project. Phase I is the two-block streetscape on Jefferson Street between Hyde and Jones Streets. Phase II of the plan would include the three-block streetscape on Jefferson Street from Jones Street to Powell Street.

According to Mr. Douglas Legg, DPW Budget Manager, there are three construction options for Phase I of the Jefferson Street Redesign, shown in Table 1 below:

Table 1: Approximate Costs of the Current Phase I Options*

	Description	Phase I Costs
Option I	The original Roma plan from November of 2011 (as described above) included a redesign of the right-of-way, granite streets, granite curbs, and a unified café zone	$8,740,000
Option II	Similar to Option 1 but reduced in scope by the deletion of the granite curbs and the deletion of the café zone. The right-of-way changes and the granite street would remain.	$6,277,000
Option III	Similar to Option II but changing the granite streets to standard asphalt streets. The right-of-way changes would remain.	$4,808,000

*The costs in the table represent the total cost of each option, including the design and other pre-construction work.

The City's Capital Plan for 2012-2021 identifies the Jefferson Street Redesign Project as an emerging need[3]. According to Mr. Brian Strong, Director of the Capital Planning Program, because the Jefferson Street Redesign Project was identified by the Planning Department as an emerging need project, requiring further development, a funding source for the total Phase I Jefferson Street Redesign Project costs was not identified in the City's Capital Plan.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate $962,038 in interest earnings from State Proposition 1B Highway Safety, Traffic Reduction, Air Quality and Port Security Bond funds previously allocated to San Francisco, as shown in Table 2 below.

[3] The 2012-2021 Capital Plan identifies (a) General Fund facilities and infrastructure requiring major repair or improvement over the next ten years, at an estimated cost of $4.9 billion, and (b) emerging needs, which are projects that require further development.

Table 2: Sources of Funds

State Proposition 1B Funds:	
Interest earnings received as of February 3, 2012	$909,438
Future estimated interest earnings	52,600
Total	$962,038

In accordance with the proposed ordinance, $52,600 in future interest earnings would be placed on Controller's reserve, pending receipt of such interest earnings.

The Capital Planning Committee recommended the proposed supplemental appropriation of $962,038 to fund design, construction document development, and construction administration costs for Phase I of the Jefferson Street Redesign Project, at the February 13, 2012 Capital Planning Committee.

FISCAL IMPACTS

According to Mr. Legg, since 2007, the Board of Supervisors has appropriated $39,812,401 in State Proposition 1B Highway Safety, Traffic Reduction, Air Quality and Port Security Bond funds, previously allocated to San Francisco, for various City street improvement projects. As of February 3, 2012, the City has earned interest income of $909,438 on the principal of $39,812,401 and estimates future interest earnings of $52,600. The proposed ordinance would appropriate $962,038 in interest earnings, including $909,438 received as of February 3, 2012, plus $52,600 in future interest earnings, for the design, development of construction documents, and construction administration for Phase I of the Jefferson Street Redesign Project.

The requested appropriation of $962,038 would be expended as shown in Table 3 below.

Table 3: Phase I Design Services Provided by DPW and Other City Staff

Landscape Design	$266,500
Streets & Highways Design	150,000
Electrical Design	25,000
Hydraulics Design	118,500
Bureau of Construction Management Staff	8,000
Contract Preparation	14,000
Bureau of Street Management - Legislation	11,000
Bureau of Street Management - Surveys	40,000
Bureau of Street Management – Hazardous Materials Mitigation	92,000
Project Management	63,000
Municipal Transportation Agency - Traffic	8,500
Total	**796,500**
City Planning funds	90,000
Net	**$706,500**
Supplemental Request (Proposed Ordinance)	962,038
Net to be applied to Construction Administration Phase	$255,538

According to Mr. Legg, the Mayor's Office would like to have Phase I of the Jefferson Street Redesign Project completed in time for the America's Cup in July 2013. Due to the time constraints imposed by the America's Cup and overall fiscal constraints, Mr. Legg believes Options II or III, having estimated total project costs ranging from $4,808,000 to $6,277,000, are currently the most likely options (see Table 1 above). The current schedule for Phase I is shown in Table 4 below.

Table 4: Jefferson Redesign Phase I Timeline

Date	Milestone
Late February 2012	Initiate Construction Drawings
June 2012	Construction Drawings Completed
	Bidding Process Begins
September 2012	Contract Awarded
October 2012	Construction Begins
June 2013	Construction is anticipated to be Completed

According to Mr. Legg, the construction bidding process will follow the standard construction bidding process as outlined in Chapter 6 of the City's Administrative Code.

POLICY ISSUE

DPW has not yet identified funding for the construction of Phase I of the Jefferson Street Redesign Project.

According to Mr. Legg, in January 2012, DPW requested the Capital Planning Committee to approve $8,682,434[4] in General Fund monies in the FY 2012-13 budget for total Phase I Jefferson Street Redesign Project costs. Although Capital Planning Committee recommendations for FY 2012-13 will not be available until May 2012, Mr. Legg states that DPW is requesting the supplemental appropriation of $962,038 in State Bond interest earnings, prior to total Phase I Jefferson Street Redesign Project funding approval by the Capital Planning Committee, because the Mayor's Office wants to complete Phase I in time for the America's Cup in September 2013.

Mr. Legg states that the requested $962,038 for design, development of construction documents, and construction administration is based on the estimated total costs of $8,740,000 for Option I of the Phase I Jefferson Street Redesign Project. If the Capital Planning Committee recommends General Fund monies of less than $8,740,000, Mr. Legg states that DPW will reduce the design costs accordingly.

As shown in Table 3 above, the budget for Phase I design and development of construction documents is $706,500. According to Mr. Legg, the excess funds of $255,538 (the requested supplemental appropriation of $962,038, less $706,500) will be allocated to construction administration. Because the $255,538 is not necessary to fund design and construction document development costs, the Budget and Legislative Analyst recommends placing the $255,538 on

[4] The estimated cost of $8,682,434 was for Option I and has been updated to the new amount of $8,740,000.

Budget and Finance Committee reserve, pending details on how these funds will be spent during the construction phase of the Phase I Jefferson Street Redesign Project.

The Budget and Legislative Analyst considers approval of the proposed supplemental appropriation to be a policy matter for the Board of Supervisors because the City's Capital Planning Committee has not yet recommended funding for construction of Phase I of the Jefferson Street Redesign Project.

RECOMMENDATION

1. Amend the proposed ordinance to place $255,538 on Budget and Finance Committee reserve, pending details on how these funds will be spent during the construction phase of the Phase I Jefferson Street Redesign Project.

2. Approval of the proposed ordinance, as amended, is a policy matter for the Board of Supervisors.

Item 3 File 12-0122	Department: Port

EXECUTIVE SUMMARY

Legislative Objectives

- The Port is requesting an appropriation of $7,248,350 for Phase I of the Pier 27 Cruise Terminal project, comprised of (a) $3,448,350 from the Port's Fund Balance, (b) $2,000,000 of reimbursements from the America's Cup Event Authority, and (c) $1,800,000 in current 2010 Port Revenue Bond proceeds. These funds are part of the Port's $62,359,983 budget for Phase I of the Cruise Terminal

Key Points

- The new Pier 27 Cruise Terminal, expected to be completed in October 2014, will replace the Port's existing cruise terminal at Pier 35. Pier 35 has insufficient capacity for large cruise ships and has difficulty accommodating the operational security needs of the cruise industry. The Pier 27 Cruise Terminal project has a total budget of $93,121,722, funded by Watermark Condominiums and Seawall Lot 330 sales proceeds, 2010 Port Revenue Bonds, a planned 2012 General Obligation Bond issuance, General Fund contributions, reallocation of existing Port capital project funds, passenger facility charges, and other funding sources. The Host and Venue Agreement (HVA) between the City and the 34th America's Cup Event Authority (Event Authority), as previously approved by the Board of Supervisors on December 14, 2010, authorizes the Event Authority to use Pier 27 during the 34th America's Cup in 2013. The Event Authority is required to contribute actual costs of up to $2 million to relocate shoreside power, which allows ships to plug into an electrical power source from the berth so that ship engines can be shut off and emissions eliminated.
- The Board of Supervisors previously determined that the Pier 27 Cruise Terminal project is fiscally feasible, in accordance with Administrative Code Chapter 29 in May of 2011 (File 10-0920).

Fiscal Impacts

- The Phase I budget for the Pier 27 Cruise Terminal project is $62,359,983. The Port currently has $33,111,633 in available funding for the Cruise Terminal project. Approval of the proposed appropriation of $7,248,350 would result in total available funding of $40,359,983, or 64.7 percent of the Phase I budget, resulting in a balance needed of $22,000,000.

Policy Considerations

- The Port has not yet obtained approval for the additional $22,000,000 needed of the $62,359,983 Phase I budget. The additional $22,000,000 will be subject to future Board of Supervisors appropriation approval, including $15,500,000 in Certificates of Participation (COPs), and $6,500,000 in General Fund monies.
- The Phase II budget for the Pier 27 Cruise Terminal is $30,761,739. The Port has identified $25,456,093 in funding for the Phase II budget of the Pier 27 Cruise Terminal Project of $30,761,739, resulting in a budget shortfall of $5,305,646**.**

- Of the $25,456,093 in identified Phase II funding, $9,122,943 are proceeds from a planned 2012 General Obligation Bond measure for Recreation and Park and Port capital projects, requiring future Board of Supervisors approval to place the bond measure on the November 2012 ballot and subject to future 2/3 voter approval.
- Although the Budget and Legislative Analyst recommends approval of the proposed appropriation ordinance, the Budget and Legislative Analyst notes that the completion of Phase I of the Port's proposed Pier 27 Cruise Terminal project requires future Board of Supervisors approval of (a) issuance of $15,500,000 in Certificates of Participation (COPs) and (b) appropriation of $6,500,000 in General Fund monies.

Recommendations

- Approve the proposed ordinance.
- Request the Port to submit a written report to the Board of Supervisors by April 30, 2012 regarding the status of the present budget shortfall of $5,305,646 remaining in the Phase II budget for the Port's Pier 27 Cruise Terminal Project.

MANDATE STATEMENT

Charter Section 9.105 requires that amendments to the Annual Appropriation Ordinance be approved by ordinance by the Board of Supervisors, and may not be adopted unless the Controller certifies the availability of funds.

BACKGROUND

Pier 27 Cruise Terminal Project

The Port's new Pier 27 Cruise Terminal will replace the Port's existing cruise terminal at Pier 35, which has insufficient capacity for large cruise ships and has difficulty accommodating the operational security needs of the cruise industry. As shown in the Attachment to this report, provided by the Port, the Pier 27 Cruise Terminal project has a total budget of $93,121,722, with funding from various sources, including sales proceeds from Watermark Condominiums and Seawall Lot 330, 2010 Port Revenue Bonds, a planned General Obligation Bond measure for Recreation and Park and Port capital projects to be submitted to the voters in November 2012, General Fund contributions, reallocation of existing capital project funds, passenger facility charges and a Federal Emergency Management Agency (FEMA) grant.

34th America's Cup Event Authority

The Host and Venue Agreement (HVA) between the City and the 34th America's Cup Event Authority (Event Authority), as previously approved by the Board of Supervisors on December 14, 2010, authorizes the Event Authority to use Pier 27 during the 34th America's Cup in 2013. The Development and Disposition Agreement (DDA) between the Port and the America's Cup Event Authority, which revises the HVA, as previously approved by the Board of Supervisors, is pending before the Board of Supervisors (File 12-0127). Under the HVA and proposed DDA, the Port is required to complete Phase I of the Pier 27 Cruise Terminal Project by March 2013, for use by the Event Authority during the America's Cup.

The Event Authority is required to contribute actual costs of up to $2,000,000 to relocate the existing Pier 27 shoreside power which allows ships to plug into an electrical power source from the berth so that ship engines can be shut off and emissions eliminated.

Board of Supervisors Determination of Fiscal Feasibility and Appropriations Approvals

In May of 2011, the Board of Supervisors determined that the Pier 27 Cruise Terminal project is fiscally feasible, in accordance with Administrative Code Chapter 29 (File 10-0920). At the time of the fiscal feasibility determination, the proposed Pier 27 Cruise Terminal budget was $97.8 million, of which the City's obligations were $90.3 million, and the Event Authority's obligations were $7.5 million for the relocation of shoreside power ($2.0 million) and the costs to demolish the Pier 27 shed ($5.5 million).

The Port subsequently revised the total Pier 27 Cruise Terminal project costs, from $97.8 million to $93.1 million, primarily due to cost savings for demolishing the Pier 27 shed. However, the City's costs have increased by a net of $0.8 million because the City has assumed Pier 27 shed demolition costs which were previously the responsibility of the Event Authority. The total costs for the Pier 27 Cruise Terminal project are $93,121,722, of which the Event Authority will contribute actual costs of up to $2,000,000, as previously noted.

Pier 27 Cruise Terminal Project

Phase I of the Pier 27 Cruise Terminal Project will involve construction of the core and shell of the facility, including passenger circulation improvements such as escalators and elevators, demolition of the Pier 27 maritime shed, partial demolition of the non-historic portion of the Pier 29 shed, relocation of the shoreside power equipment, completion of the interior of the facility, and the design and initial site improvement for an adjacent 2.5 acre waterfront park called the Northeast Wharf Plaza. Phase I will include minimal site improvements to allow the America's Cup Event Authority to install temporary tenant improvements for the America's Cup racing events. Phase I is expected to be completed in March of 2013.

Phase II of the Pier 27 Cruise Terminal Project will take place following completion of the America's Cup racing events in October 2013. Phase II includes the build-out of offices for the U.S. Customs and Border Protection, as well as the installation of a glass enclosure in the lobby, additional escalators, certain interior finishes and installation of maritime equipment and amenities necessary to create a modern cruise terminal. Phase II, at the Port's option, may also include related site improvements to the Northeast Wharf Plaza and public access improvements associated with the tip of Pier 27/29. Phase II is expected to be completed in October 2014.

DETAILS OF LEGISLATION

The proposed ordinance (File 12-0122) would authorize the appropriation of $7,248,350 for Phase I of the Pier 27 Cruise Terminal project, comprised of (a) $3,448,350 from the Port's Fund Balance, (b) $2,000,000 of reimbursements from the America's Cup Event Authority, and (c) $1,800,000 in existing 2010 Port Revenue Bond proceeds. These funds are part of the Port's $62,359,983 budget for Phase I of the Pier 27 Cruise Terminal project.

Table 1 below details funding sources for the subject requested appropriation.

Table 1: Funds and Sources

Fund Balance	$3,448,350
Event Authority Reimbursement	$2,000,000
2010 Port Revenue Bonds	$1,800,000
Total Supplemental	**$7,248,350**

Source: Budget and Legislative Analyst

Each fiscal year, the Port uses Fund Balance monies accrued from prior year operating surpluses for its capital program. The Port planned to include $3,448,350 in FY 2012-13 capital budget,

but due to the Phase I Pier 27 Cruise Terminal project schedule and the timing of construction contracts, the Port is requesting appropriation approval of such funds at this time.

As detailed in the HVA, the Port is required to move its shoreside power units from Pier 27 in order to accommodate event activities. The Event Authority will then reimburse the Port for actual costs of up to $2,000,000 in expenditures related to the shoreside power relocation.

The Port is also requesting the reappropriation of $1,800,000 in 2010 Port Revenue Bond fund monies from the Pier 19/23 Roof Repair project ($700,000) and the Pier 35 Substructure Repair project ($1,100,000). The Pier 19/23 repair project is $700,000 below budget, allowing for permanent reallocation of those funds. The Pier 35 project, which will allow for the completion of necessary substructure repairs, has been delayed because overall project funding has not yet been secured.[1] The Port plans to reimburse the $1,100,000 to the Pier 35 Substructure Repair project in the FY 2013-2014 capital budget that was submitted to the Controller's Office on February 21, 2012.

FISCAL IMPACT

The Pier 27 Cruise Terminal Project Phase I funding sources total $62,359,983, as described below and as identified in Table 2 below and as shown in the Attachment to this report.

- $33,111,633 has been previously appropriated by the Board of Supervisors;
- $7,248,350 is the subject of this proposed appropriation ordinance; and
- $22,000,000 is subject to future Board of Supervisors appropriation approval, as discussed below.

[1] Through the Federal Water Resources Development Act of 2007, the Port has $20.2 million in Federal funding authorized for "repair or removal, as appropriate" of a number of piers along the waterfront, including Pier 35. However, those funds are considered earmarks and shortly after the swearing in of the 112th Congress of the United States, legislators put in place new rules prohibiting "earmarks." The current understanding of this rule extends the ban to include projects that were already explicitly authorized by Congress, such as Pier 35. Many members of Congress have expressed support to ease the current definition of earmarks in a way that would better facilitate the Department of Transportation and US Army Corps of Engineers budgets. Port staff believes that there is reasonable likelihood that the 113th Congress of the United States will lift the restriction to allow for the implementation of appropriations for pre-existing project-specific authorizations, including Pier 35.

Table 2: Phase I Cruise Terminal Project Funding Sources

Funds Previously Approved by Board of Supervisors - Port		
Watermark Sale Proceeds	$	20,134,075
Series A&B 2010 Port Revenue Bonds	$	10,139,456
Operating Budget - Workorder, including prior year carryf'd	$	295,905
Capital Budget Appropriations	$	1,375,347
	$	11,810,708
Subtotal, Port	*$*	*31,944,783*
Secured - Other		
FEMA Security Grant	$	1,166,850
Subtotal, Other	*$*	*1,166,850*
Total Phase I Funds Previously Appropriated by the Board of Supervisors	**$**	**33,111,633**
Funds Requested in this Subject Supplemental Appropriation		
Contribution for shoreside power relocation, from the America's Cup Event Authority	$	(up to) 2,000,000
Capital Budget Appropriation	$	3,448,350
Reallocation of 2010 Port Revenue Bond fund monies	$	1,800,000
Total Phase I Funds Requested in this Supplemental Appropriation	**$**	**7,248,350**
Funds Not Yet Approved Which Are Subject to Future Board of Supervisors Appropriations Approval		
2012 City Certificates of Participation (COPs)	$	15,500,000
City General Fund monies	$	6,500,000
Total Phase 1 Funds Not Yet Approved	**$**	**22,000,000**
TOTAL PIER 27 PHASE I PROJECT FUNDING SOURCES	**$**	**62,359,983**

Source: Port

A budget for the Pier 27 Cruise Terminal Project totaling $93,131,722 is shown in the Attachment to this report provided by the Port, including $62,359,983 for Phase I and $30,761,739 for Phase II.

According to Ms. Meghan Wallace, Port Budget Manager, there will be two future Port funding requests, following the approval of this proposed appropriation request of $7,248,350, to provide the remaining $22,000,000 (see Table 2 above) in funds not yet appropriated by the Board of Supervisors. The Port is working with the Controller's Office of Public Finance to issue

$15,500,000 in 2012 Certificates of Participation (COPs) in July. Also, the Port is requesting $6,500,000 in General Fund monies in the City's FY 2012-13 budget.

POLICY CONSIDERATIONS

Phase I Funding

The Phase I budget for the Pier 27 Cruise Terminal includes the appropriation of $2,000,000 for the relocation of the shoreside power which allows ships to plug into an electrical power source from the berth so that ship engines can be shut off and emissions eliminated. This allocation is contingent upon the final approval from the Board of Supervisors of the DDA between the City and the America's Cup Event Authority. Additionally, the Phase I budget includes $22,000,000 (see Table 2 above) in funds that have not yet been appropriated by the Board of Supervisors, representing 35.3 percent of the total Phase I budget of $62,359,893. These funds include $15,500,000 in 2012 Certificates of Participation to be repaid from Port revenues and $6,500,000 in General Fund monies, both of which will require future Board of Supervisors appropriation approval.

Phase II Funding

As shown in the Attachment provided by the Port, the Port has identified $25,456,093 in available funding for the Phase II budget of the Pier 27 Cruise Terminal Project of $30,761,739, resulting in a budget shortfall of $5,305,646 for Phase II. The Port plans to reduce the projected Phase II shortfall by: (a) reviewing economic opportunity at Pier 27 that would be revenue generating, including special event use, parking and other commercial opportunities, (b) developing cost estimates to determine which project line items can be reduced, (c) identifying other grant funds that the Port could use to fund portions of the Phase 2 project, (d) identifying project elements that can be deferred to a future date, and (e) reallocating funds from other capital projects.

Of the $25,456,093 in Phase II funding, $9,122,943 would be funded from proceeds of a future 2012 General Obligation Bond measure for Recreation and Park and Port capital projects, subject to 2/3 voter approval by the San Francisco electorate. According to Ms. Wallace, the future 2012 General Obligation Bond measure would fund the Northeast Wharf Plaza, which would not be a functioning part of the Pier 27 Cruise Terminal. Therefore, if voters do not approve this future General Obligation Bond measure, construction of the Northeast Wharf Plaza could be delayed until other funds are identified, without directly impacting the completion and operation of the Pier 27 Cruise Terminal.

Although the Budget and Legislative Analyst recommends approval of the proposed appropriations ordinance, the Budget and Legislative Analyst notes that the completion of Phase I of the Port's proposed Pier 27 Cruise Terminal project requires future Board of Supervisors approval of (a) issuance of $15,500,000 in Certificates of Participation (COPs) and (b) appropriation of $6,500,000 in General Fund monies.

RECOMMENDATIONS

1. Approve the proposed ordinance.

2. Request the Port to submit a written report to the Board of Supervisors by April 30, 2012 regarding the status of the present budget shortfall of $5,305,646 remaining in the Phase II budget for the Port's Pier 27 Cruise Terminal Project.

Harvey M. Rose

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

CRUISE TERMINAL PROJECT BUDGET	Phase I	Phase II	Total
Construction			
Construction Purchase and Installation (IPD)	$ 40,257,833	$ 23,242,500	$ 63,500,333
Construction Contingency (15%)	$ 3,927,676	$ 3,486,375	$ 7,414,051
Construction Mngr./ Gen. Contractor Svcs.	$ 1,222,915	$ 664,850	$ 1,887,765
Subtotal, Construction	*$ 45,408,424*	*$ 27,393,725*	*$ 72,802,149*
Other			
Design & Engin'g, Project Managem't & Entitlement Costs	$ 16,671,559	$ 2,968,014	$ 19,639,573
DPW, Program Contingency	$ 280,000	$ 400,000	$ 680,000
Subtotal, Design & Contingency	*$ 16,951,559*	*$ 3,368,014*	*$ 20,319,573*
	$ 62,359,983	**$ 30,761,739**	**$ 93,121,722**
Secured - Port			
Watermark Sale Proceeds	$ 20,134,075	$ -	$ 20,134,075
Actual Sale Proceeds	$ 17,583,635	$ -	$ 17,583,635
Deferred Land Sale Proceeds (SWL 330)	$ 324,000	$ -	$ 324,000
Interest Earnings (Port Capital Budget FY09-10)	$ 1,622,880	$ -	$ 1,622,880
Interest Earnings as of 06/30/11	$ 603,560	$ -	$ 603,560
Series A&B 2010 Port Revenue Bonds	$ 10,139,456	$ -	$ 10,139,456
Operating Budget - Workorder, including prior year carryf'd	$ 295,905	$ -	$ 295,905
Capital Budget Appropriations	$ 1,375,347	$ -	$ 1,375,347
Subtotal, Port	*$ 31,944,783*	*$ -*	*$ 31,944,783*
Secured - Other			
Contribution to Shorepower	$ 2,000,000	$ -	$ 2,000,000
FEMA Security Grant	$ 1,166,850	$ 6,333,150	$ 7,500,000
Subtotal, Other	*$ 3,166,850*	*$ 6,333,150*	*$ 9,500,000*
Subtotal, Secured	**$ 35,111,633**	**$ 6,333,150**	**$ 41,444,783**
Planned - Port			
2012 City Certificates of Participation (COPs)	$ 15,500,000	$ -	$ 15,500,000
Capital Budget Appropriation	$ 3,448,350	$ -	$ 3,448,350
Subtotal, Planned	**$ 18,948,350**	**$ -**	**$ 18,948,350**
Proposed - Port			
Repurposing Existing 2010 Debt* & Reimbursement	$ 1,800,000		$ 1,800,000
Subtotal, Port	*$ 1,800,000*	*$ -*	*$ 1,800,000*
Proposed - Other			
City Contribution	$ 6,500,000	$ -	$ 6,500,000
2012 G.O. Bond	$ -	$ 9,122,943	$ 9,122,943
Cruise Operator Contribution	$ -	$ 2,750,000	$ 2,750,000
Passenger Facility Charge	$ -	$ 7,250,000	$ 7,250,000
Subtotal, Proposed	*$ 6,500,000*	*$ 19,122,943*	*$ 25,622,943*
Subtotal, Proposed	**$ 8,300,000**	**$ 19,122,943**	**$ 27,422,943**
Total Sources	**$ 62,359,983**	**$ 25,456,093**	**$ 87,816,076**
PROJECT BALANCE (Shortfall) / Surplus	$ -	$ (5,305,646)	$ (5,305,646)