CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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April 26, 2012

TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst

SUBJECT: May 2, 2012 Budget and Finance Sub-Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objective

- Ordinance amending the San Francisco Park Code, Article 12, by: (1) amending Section 12.35 to increase Music Concourse Parking Garage rates and eliminate the early bird rate; (2) amending Section 12.20 to clarify the requirements for annual fee adjustments; and, (3) adding a new Section 12.49 to ratify prior fees and fee adjustments; and making environmental findings and findings of consistency with the City's General Plan.

Key Points

- The Music Concourse Community Partnership (MCCP), a non-profit organization, entered into a 35-year ground lease with the Recreation and Park Department in 2004 for the construction and operation of the Music Concourse Parking Garage. Music Concourse Parking Garage revenues are intended to cover the parking garage's expenditures, including lease revenues to the Recreation and Park Department and debt service on debt incurred for the construction of the Music Concourse Parking Garage. MCCP partially financed construction of the Music Concourse Parking Garage through Bond Anticipatory Notes, which were refinanced in 2010 with Bank Qualified tax-exempt bonds. According to the City's Office of Public Finance, the Bank Qualified tax-exempt bonds are not a debt of the City.
- The proposed ordinance would (a) increase the weekday parking rate by $1.00 per hour, from $3.50 per hour to $4.50 per hour, and the weekend parking rate by $1.00 per hour, from $4.00 per hour to $5.00 per hour; (b) increase the flat rate for parking after 6:00 p.m. from $12.00 to $15.00; and (c) eliminate the early bird rate which has been $11.00. The monthly flat rate of $200.00 is unchanged.
- The proposed ordinance would also eliminate the Park Code provision that limit Recreation and Park Department parking garage rates and fees for programs, services, and use of facilities to the amount necessary to recover costs. The provision limiting parking garage rates and other fees to the amount needed to recover costs was intended for regulatory fees covering permits, licenses, and other regulatory requirements, and not for parking garage rates and other non-regulatory fees.

Fiscal Impacts

- The proposed increase in parking garage rates as of June 1, 2012 would result in estimated increased parking garage revenues in FY 2011-12 of $93,135 for the month of June. However, there would still be an estimated budgetary shortfall of $1,188,754 in FY 2011-12. According to Ms. Jan Berckefeldt, MCCP Managing Director, MCCP will offset the projected budgetary shortfall in FY 2011-12 through deferred payments to City Park, which serves as the Music Concourse Parking Garage operator through a management agreement between City Park and MCCP.

- According to Ms. Berckefeldt, the proposed $1.00 per hour parking rate increases for both weekdays and weekends are estimated to generate sufficient revenues in FY 2012-13 to cover expenditures. According to Ms. Berckefeldt, MCCP is also working with City Park to reduce operating expenditures.

Recommendation

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

BACKGROUND

In 1998 voters approved Proposition J, authorizing the construction of an underground parking garage in the Music Concourse of Golden Gate Park. In 2004, the City entered into a ground lease with the Music Concourse Community Partnership (MCCP), a non-profit organization which had been formed to construct and manage the Music Concourse Parking Garage until its eventual transfer to the City in 2039 when the debt on the garage is scheduled to be retired. In 2005, the 800-space parking garage opened to the public.

According to Ms. Jan Berckefeldt, Managing Director of MCCP, the construction of the parking garage was funded through a combination of $36.4 million in private contributions and $26.5 million in Bond Anticipatory Notes (BANs) incurred by MCCP. In December 2010, MCCP refinanced the BANs, via a Bank Qualified tax-exempt bond program through the American Recovery and Reinvestment Act (ARRA) of 2009. First Republic Bank is the loaning institution and Bank of New York Mellon acts as the Trustee. Debt on the parking garage is scheduled to be retired in 2039. Title to the parking garage will then be transferred to the Recreation and Park Department. According to Ms. Berckefeldt, the City's General Fund is not liable for MCCP's debt through the Bank Qualified tax-exempt bond program[1].

Ms. Katherine Petrucione, Recreation and Park Department Director of Administration and Finance, advises that the proposed ordinance is being requested in partnership with MCCP. The current parking garage rates were previously approved by the Board of Supervisors in July 2010 (File 10-0708), and are intended to cover the parking garage's operating expenses, including the annual rent of $100,000 paid by MCCP to the Recreation and Park Department and the annual debt service of $2,158,130 ($179,844 monthly).

MCCP staff compiled various parking garage rates with the help of the San Francisco Municipal Transportation Agency's (SFMTA) Off-Street Parking Director in order to compare parking rates at SFMTA parking garages and at private parking garages located in San Francisco. Parking garage rates varied greatly in the area with some parking garages charging $3.00 per hour (such as 560 Mission Garage, Jessie Square Garage, and San Francisco Museum of Modern Art Garage), $10.00 per hour (such as 455 Market Garage and Paramount Garage), and as high as $25.00 per hour (such as Red Cross Garage).

[1] According to the November 9, 2010 memorandum from the City's Director of Public Finance to the Board of Supervisors, the Bank Qualified tax-exempt bonds are not a debt of the City, nor will any funds of the City be pledged to the repayment of Bonds.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the San Francisco Park Code, Article 12, by: (1) amending Section 12.35 to increase Music Concourse Parking Garage rates and eliminate the early bird rate; (2) amending Section 12.20 to clarify the requirements for annual fee adjustments; and, (3) adding a new Section 12.49 to ratify prior fees and fee adjustments; and making environmental findings and findings of consistency with the City's General Plan.

Table 1 below shows the proposed changes to the Music Concourse Parking Garage rates.

Table 1
Proposed Music Concourse Parking Garage Rate Increases

	Existing Rate	Proposed New Rate	Increase
Weekdays	\$3.50	\$4.50	\$1.00
Weekends	\$4.00	\$5.00	\$1.00
Flat Rate After 6:00 p.m.	\$12.00	\$15.00	\$3.00
Early Bird Rate	\$11.00	Rate will be eliminated	n/a
Monthly Rate (daytime)	\$200.00	\$200.00	n/a

Annual Parking Rate and Other Fee Increases

The proposed ordinance would eliminate the existing language in Park Code Section 12.20, which requires the Controller to certify that the parking rates and other fees in Article 12 do not produce revenue significantly more than the costs of providing the services for which the fees are assessed ("cost recovery limitation"). According to the legislative digest to the proposed ordinance, prepared by the City Attorney's Office, this limitation is intended to apply to a category of fees called "regulatory fees." Regulatory fees are imposed to recover costs incurred from providing regulatory services, such as issuing licenses, performing investigations, inspections and audits.

However, according to the legislative digest, parking rates charged by the Music Concourse Community Partnership (MCCP) and other fees included in Park Code Article 12 are not regulatory fees, and thus, are not intended to be subject to the cost recovery limitation. Parking rates and other fees in Article 12 are charged for entrance to, rental or use of Recreation and Park Department properties, facilities and programming. These fees include Camp Mather fees, golf course fees, rental of Recreation and Park Department property for weddings, and other fees for use of Recreation and Park Department property or programs. Therefore, the proposed ordinance clarifies that these fees are not subject to cost recovery limitation.

FISCAL IMPACTS

According to Ms. Berckefeldt, Music Concourse Parking Garage revenues, based on existing parking rates, do not cover the parking garage's operating expenditures. The Music Concourse

Parking Garage revenues have decreased in FY 2011-12 compared to FY 2010-11 due to a decrease in parking garage usage. As shown in Table 2 below, the Music Concourse Parking Garage has a budgetary shortfall in FY 2011-12 from July 1, 2011 through January 31, 2012.

Table 2: Music Concourse Parking Garage Budgetary Shortfall

	Actual July 1, 2011 to January 31, 2012
Parking Revenues	$2,147,143
Operating Expenditures (Including Debt Service)	2,994,555
Shortfall	($847,413)

Source: MCCP

At the current parking garage rates, MCCP projects a FY 2011-12 budgetary shortfall of $1,281,889. The proposed increase in parking garage rates as of June 1, 2012 would result in estimated increased parking garage revenues in FY 2011-12 of $93,135 for the month of June, resulting in a FY 2011-12 budgetary shortfall of $1,188,754. According to Ms. Jan Berckefeldt, MCCP Managing Director, MCCP will offset the projected budgetary shortfall in FY 2011-12 through deferred payments to City Park, which serves as the Music Concourse Parking Garage operator through a management agreement between City Park and MCCP.

According to Ms. Berckefeldt, the proposed $1.00 per hour parking rate increases for both weekdays and weekends are estimated to generate sufficient revenues in FY 2012-13 to cover Music Concourse Parking Garage operating expenditures, including debt service. According to Ms. Berckefeldt, MCCP is also working with City Park to reduce operating expenditures.

RECOMMENDATION

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

Item 8 File 12-0385	Departments: Police Department, Real Estate Division

EXECUTIVE SUMMARY

Legislative Objective

The proposed resolution would authorize an amendment to an existing lease between the City, as tenant, and Sixth Street Baldwin House, LLC, as landlord for the Police Substation at 72 Sixth Street.

Key Points

- The Board of Supervisors previously approved a 1,932 square foot lease for a three-year period beginning June 1, 2012 through May 31, 2015, with three two-year options to extend between the City and the Sixth Street Baldwin House, LLC to rent ground floor space for the Sixth Street Police Substation. Under the existing lease, the San Francisco Redevelopment Agency (SFRA) was to forgive a loan of $500,000 to Sixth Street Baldwin House, LLC, who in return would construct $500,000 in tenant improvements to the Sixth Street Police Substation.
- Due to the dissolution of the SFRA, the forgivable loan is no longer a funding source for the construction of the tenant improvements. Therefore, the City is proposing to construct the tenant improvements, using the City's General Fund to pay for such improvements. In exchange, the landlord has agreed to reduce the previously approved rent of $2,898 per month ($1.50 per square foot per month) by $1,449 per month to $1,449 per month ($0.75 per square foot per month).
- The proposed amended lease is for three years, beginning with the estimated completion of construction of tenant improvements in approximately July 2012. The amended lease provides for three two-year options to extend the lease, for a total of nine years.
- According to Mr. John Updike, Acting Director of Real Estate, the proposed lease amendment revises the rent terms of the original lease, by (a) reducing the monthly rent by 50 percent from $2,898 to $1,449, and (b) deferring the annual Consumer Price Index (CPI) adjustment of not less than 1.5 percent and not more than 3.0 percent for the initial three-year term of the lease. If the City exercises the option to extend the term of the lease in the fourth year, the rent would be increased to the original base rent of $2,898, plus any CPI adjustments that had accrued during the initial three-year term.

Fiscal Impact

- The City will pay $1,449 per month or $17,388 annually in rent for the leased space at 72 Sixth Street. Over the three-year term of the lease, the City will pay total rent of $52,164.
- The City will incur estimated costs for constructing tenant improvements of $775,000. Funding sources to pay for these costs, which are General Fund costs, include (1) $125,000 in the FY 2011-12 SFPD budget, which according to the Mayor's Budget Office, will be re-allocated to the proposed project through a surplus transfer; and (2) $650,000 in the Real Estate Facilities Management Special Revenue Fund.

- Because the proposed amended lease requires $775,000 to be paid by the City's General Fund to construct the needed tenant improvements for the Sixth Street Police Substation, and because under the original lease such improvements as described in Attachment II of this report would have been paid for by the SFRA forgivable loan to the landlord of $500,000, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy decision for the Board of Supervisors.

Recommendations

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

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with Section 23.27 of the City's Administrative Code, except for specified short-term leases, leases, in which the City is the tenant, are subject to Board of Supervisors approval.

Background

History of the South of Market Redevelopment Project Area

On June 11, 1990, the Board of Supervisors approved the South of Market Redevelopment Project Area[1] (Ordinance 234-90) to redevelop the South of Market neighborhood by repairing buildings damaged in the 1989 Loma Prieta Earthquake in order to create additional affordable housing units. Attachment I to this report is a map identifying the boundaries of the South of Market Redevelopment Project Area.

On December 6, 2005, the Board of Supervisors approved an ordinance (Ordinance 265-05) broadening the initial housing goals of the South of Market Redevelopment Project Area to include attracting more small businesses in order to revitalize the overall South of Market Redevelopment Project Area, and identifying the Sixth Street Corridor, from Market Street to Harrison Street, as an area that needed significant investment.

History of the Police Department's Substation

Since 2009, the San Francisco Police Department (SFPD) worked with the San Francisco Redevelopment Agency (SFRA) to find a location for a SFPD Substation[2] to further the City's goals of community policing, and help efforts at revitalizing the South of Market by providing a visual deterrent to crime along the Sixth Street Corridor.

According to SFPD Deputy Chief Kevin Cashman, a SFPD Substation in the South of Market area is intended to allow police officers working in the area on foot patrols or on bicycles, to use the Substation to check in and write reports, as opposed to returning to Southern Station at 850 Bryant Street in the Hall of Justice. As of the writing of this report, a staffing plan has not been finalized but, according to Deputy Chief Cashman, the SFPD Substation would consist of staff

[1] The South of Market Redevelopment Project Area was originally titled The South of Market Earthquake Recovery Redevelopment Project Area.

[2] Currently, the City has ten District Police Stations throughout the City. In addition, the Police Department has two satellite facilities, one each in the Bayview and Ingleside Housing Projects, which are used for report writing, breaks, and occasionally for community events. The proposed SFPD Substation would be the first of its kind in the City.

from the Southern Station and would require no additional personnel. In addition, with the Southern Station moving to a new Mission Bay Police Headquarters in 2014, Deputy Chief Cashman advises that the proposed Police Substation would allow police officers working in the South of Market to be closer to the community on a regular basis.

On December 6, 2011 the Board of Supervisors approved a resolution (Resolution 0519-11) authorizing a new three-year lease between the City and County of San Francisco, on behalf of the SFPD, as tenant, and Sixth Street Baldwin House, LLC, as landlord, for 1,932 square feet of ground floor office space at 72 Sixth Street to be used as a new Police Department Substation for the three-year period from June 1, 2012 through May 31, 2015, with three two-year options to extend the lease, for a total maximum term of nine years, or through May 31, 2021.

Although not approved within Resolution 0519-11, the SFRA was to grant a forgivable loan of up to $500,000 to the landlord, Sixth Street Baldwin House, LLC. Under the agreement with SFRA, in consideration for forgiving the loan, the landlord was to pay for the necessary tenant improvements to the subject premises for the new Police Department Substation, estimated to cost up to $500,000.

According to Mr. John Updike, the City's Acting Director of Real Estate, as a result of the dissolution of the SFRA on February 1, 2012, the SFRA funding source for the tenant improvements is no longer available.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would amend the existing three-year lease between the City, as tenant, and Sixth Street Baldwin House, LLC, as landlord, for 1,932 square feet of ground floor office space at 72 Sixth Street to be used as a new Police Department Substation. Table 1 compares the existing lease terms to the proposed amended lease terms.

Table 1
Comparison of Original and Proposed Amended Lease Terms

	Original Lease Terms	**Proposed Amended Lease Terms**
Commencement Date	June 1, 2012	No later than December 1, 2012
Initial Term	3 years	3 years
Options to Extend	Three 2-year options	Three 2-year options
Total Term	Up to 9 years	Up to 9 years
Square Feet	1,932	1,932
Rent per Square Foot per Month	$1.50	$0.75
Total Rent per Month	$2,898	$1,449
Annual Consumer Price Index (CPI) Adjustments	1.5% to 3.0%	None
Tenant Improvements	To be paid for by a SFRA forgivable loan	To be paid from the City's General Fund

- The proposed resolution specifies a lease commencement date of December 1, 2012. However, according to Mr. Updike, the 'lease commencement date' as defined in the proposed lease amendment, is the date upon which the City completes the base tenant improvements and the SFPD is able to occupy the space. If the City is able to complete the improvements in July 2012, then the lease will commence upon notice from the City to Sixth Street Baldwin House, LLC.[3] The City's right to enter the property and start work on the tenant improvements begin 10 days after legislative approval and the Director of Real Estate's signature on the lease.

- Under the original lease, the landlord was to construct the tenant improvements, with an estimated cost of $500,000, in exchange for loan forgiveness from the SFRA, as noted above. Since the SFRA has been dissolved, the City's General Fund will pay for the construction of tenant improvements (discussed below). Because the City's General Fund will now be paying for the tenant improvements, the landlord, Sixth Street Baldwin House, LLC, under the proposed amended lease, has agreed to reduce the monthly rent payable by the City from $2,898 to $1,449, a reduction of $1,449 or 50 percent.

Rent Adjustments

According to Mr. John Updike, Acting Director of Real Estate, the proposed lease amendment revises the rent terms of the original lease, by (a) reducing the monthly rent by 50 percent from $2,898 to $1,449, and (b) deferring the annual Consumer Price Index (CPI) adjustment of not less than 1.5 percent and not more than 3.0 percent for the initial three-year term of the lease. If the City exercises the option to extend the term of the lease in the fourth year, the rent would be increased to the original base rent of $2,898, plus any CPI adjustments that had accrued during the initial three-year term (see Fiscal Impact section below).

Tenant Improvements

The proposed Lease Amendment stipulates that the City would be responsible for completing the necessary tenant improvements to transform the existing ground floor vacant storefront space into a Police Substation prior to the commencement of the lease. The improvements are described in Attachment II as provided by the City's Real Estate Division (RED). The total cost estimate for such improvements payable by the City's General Fund is $775,000, which is an increase of $225,000 over the previously estimated cost of $500,000 discussed in December 2011 with the approval of Resolution 0519-11.

According to Bill Barnes, Office of the City Administrator, at the time of the Board of Supervisor's approval of the Resolution 0519-11, construction bids had been solicited but were not yet due, and as a result, the original cost estimate for the improvements, provided by Asian Neighborhood Design, a non-profit organization, did not include architectural or engineering soft costs and was unsupported by the construction bids that were ultimately submitted. Additionally, Mr. Barnes reports that the SFRA separately funded Urban Solutions as construction manager for this project through a separate agreement, in addition to the forgivable loan[4] of up to $500,000, from the SFRA to the lessor, Sixth Street Baldwin House, LLC, to make the needed tenant improvements.

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[3] According to John Updike, Acting Director of Real Estate, there is no specific date in the Lease Amendment as to commencement - it is predicated upon completion of the work to the space to meet the City's needs. Lease Commencement is the term of art used to describe when a tenant must begin paying rent owed.

[4] Prior to the dissolution of the SFRA, forgivable loans were granted to rehabilitate privately owned ground-floor spaces on Sixth Street.

Mr. Barnes reports that the City has elected to proceed with a blended approach using the Department of Public Works (DPW) and outside contractors. DPW consulted with the SFPD to identify specific materials and labor needs to deliver the project. According to Douglas Legg, DPW Finance and Budget Manager, the cost of using this approach is comparable to bidding the entire project and DPW will be able to deliver the project more quickly than if the City relied on an outside contractor, which will mitigate some of the delay caused by the dissolution of the SFRA. Additionally, as seen in Attachment II, scope reductions were made by DPW in consultation with SFPD to decrease the Substation project's construction cost including less expensive finishes and adjusted security features.

FISCAL IMPACT

The City will pay $1,449 per month in rent or $17,388 annually for the leased space at 72 Sixth Street. Over the 3-year term of the base lease period, the City will pay total rent of $52,164. According to Mr. Updike, the original monthly base rent of $2,898, as previously approved by the Board of Supervisors in Resolution 0591-11, was determined to be the fair market value based on comparable rents in the neighborhood. Mr. Updike reports that the proposed amended lease's monthly base rent of $1,449, results in a 50 percent rental reduction that was negotiated with the landlord because the City's General Fund will now be paying for $750,000 in tenant improvements to the SFPD Substation.

The proposed lease amendment defers the annual CPI adjustment to the base rent of not less than 1.5 percent and not more than 3.0 percent for the initial three-year term of the lease. However, according to Mr. Updike, if the City exercises the option to extend the lease in the fourth year, (a) the base rent returns to the original lease amount of $2,898 per month; and (b) the CPI adjustments accrue over the initial three-year term, resulting in CPI adjustments in the fourth year of not less than 4.5 percent and not more than 9.0 percent. If the City exercises the option to extend the lease, the rent will be adjusted annually beginning in the fifth year by the CPI, but not less than 1.5 percent and not more than 3.0 percent.

As shown in Table 2 below, total estimated rent to be paid by the City to the Sixth Street Baldwin House, LLC over the nine-year term of the lease, if the three two-year options are exercised, is up to $297,355.

Table 2:
Estimated Annual Rent for 1,932 Square Feet during the Nine Year Term of Lease

	Annual Rent Based on:	
	1.5 Percent Annual Increase, after the initial term of 3 years	**3 Percent Annual Increase, after the initial term of 3 years**
Year 1	$17,388	$17,388
Year 2	17,388	17,388
Year 3	17,388	17,388
Subtotal, Initial Term	**52,164**	**52,164**
Year 4	36,341	37,906
Year 5	36,886	39,043
Year 6	37,439	40,214
Year 7	38,001	41,421
Year 8	38,571	42,663
Year 9	39,149	43,943
Total	**$278,552**	**$297,355**

The proposed amended lease would be funded from General Fund monies requested as part of the SFPD's annual budget beginning with the FY 2012-13 budget. All rental expenditures would be subject to annual appropriation approval by the Board of Supervisors.

The City's General Fund sources for the $775,000 in 72 Sixth Street tenant improvements include:

- $125,000 in the FY 2011-12 SFPD budget, which according to the Mayor's Budget Office, will be re-allocated to the proposed project through a surplus transfer; and
- $650,000 in the Real Estate Facilities Management Special Revenue Fund.[5]

Although Attachment II shows a listing of the expected tenant improvements, as of the writing of this report, RED has not been able to provide cost details of the estimated tenant improvement costs of $775,000.

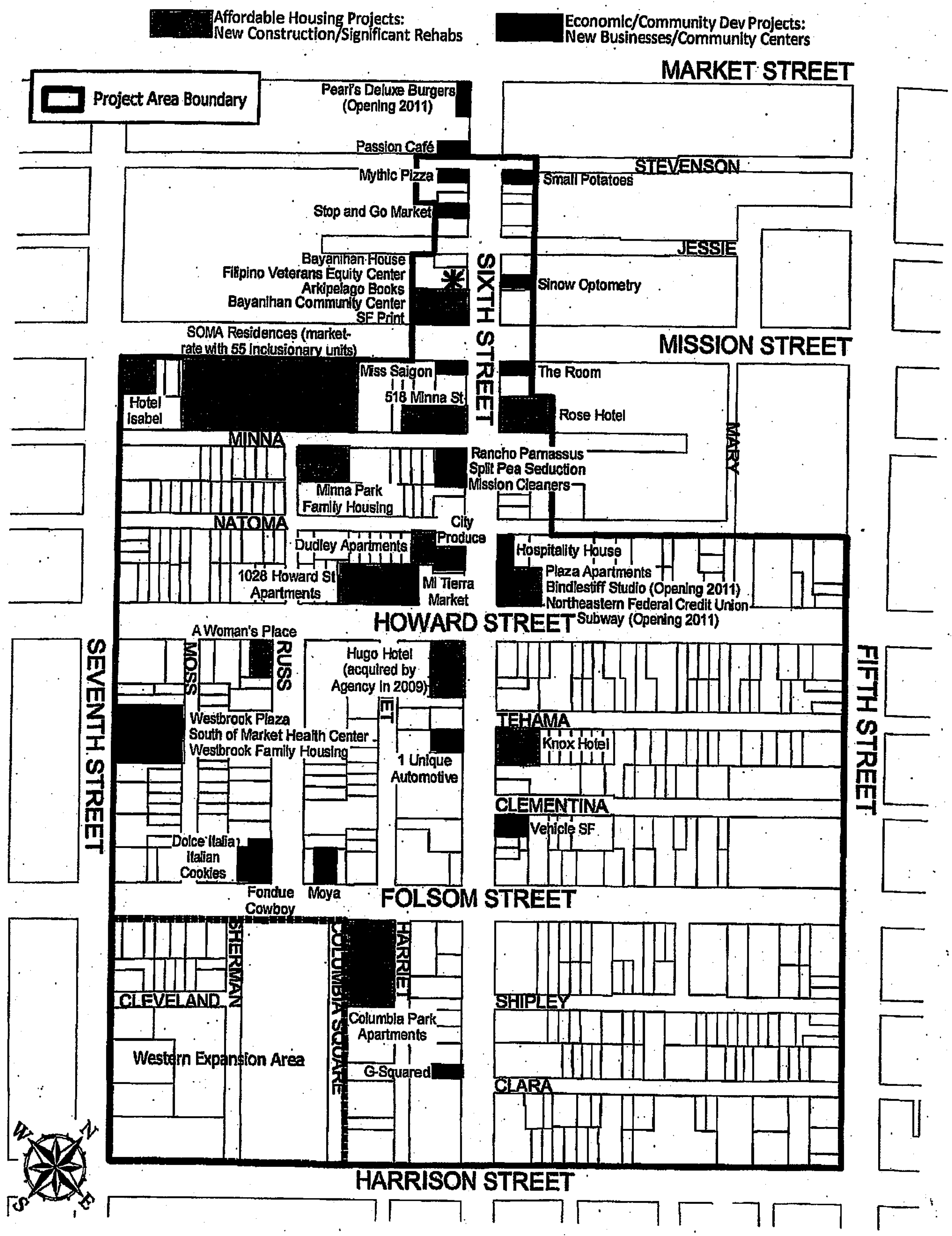
Because the proposed amended lease requires $775,000 to be paid by the City's General Fund to construct the needed tenant improvements for the Sixth Street Police Substation, and because under the original lease such improvements as described in Attachment II of this report would have been paid for by a SFRA forgivable loan of $500,000 to the landlord, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy decision for the Board of Supervisors.

[5] The Real Estate Facilities Management Special Revenue Fund is funded by the General Fund and other revenues.

RECOMMENDATION

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

South of Market Redevelopment Project Area
Affordable Housing and Economic/Community Development Projects



SFPD NEW SUBSTATION - 72 6TH ST., SF

	LOCATION	ITEM ON PLAN	PROPOSED SUBSTITUTE
1.	Basement ceiling	Install Ballistic panels on **Basement ceiling joists**	Install Ballistic panels on top of **1st Fl. subfloor**
2.	Basement ceiling	Install cotton batt insullation on basement ceiling joists	Delete insullation on basement ceiling joists
	Bathroom	2- showers, 1-toilet,1- floor drain,	N/A Deleted
3.	Water supply lines	Install water lines in 1st Fl. ceiling crawl space and down wall bays	Install water lines in basement ceiling and up wall bays
4.	Rest rooms, shower rooms, Mechanical rm.	9ft ceiling height	Reduce ceiling height to 8'-0"
5.	Lt. Office, hallway ceilings	11ft. ceiling height	Reduce ceiling height to 8'-0"
6.	HVAC runs	Rectangular ducts with fiberglass insullation	Round duct with bubble wrap insullation
7.	Storefront Clerestory Windows	Install Ballistic Level3 Lam. Glass	Install Fibergalss "omnipanel" backed by Ballistic fiberglass panel Level3
8.	Men's & Women's Accessible Showers	Install cultured granite shower surround	Install Corian (solid panel) shower surround
9.	Kitchenette	Install granite countertop and backsplash	Install plastic laminate countertop and backsplash
10.	Offices	Install granite countertops	Install plastic laminate countertops
11.	Lt. Office and hallway ceilings	Install wood slat dropped ceiling system	Install t-bar dropped ceiling with 2X4 acoustical tiles 8'-0" height
	Entire building (except) service room	Ceiling coverings, sheet rock and other.	Install t-bar dropped ceiling with 2X4 acoustical tiles to 8'-0" height
	Hallway and locker room bathroom	Reframe walls	To new proposed floor plan
12	Lt. Office ceiling and Kitchenette walls	Install Flush wood paneling	Delete wood paneling
13.	Lt. Office and hallway ceilings	Install recessed florescent light cans in ceiling	Install drop-in 2X2 T5 florescent lights where ceiling changed to t-bar.
14	Mechanical Room		Re name Bike room
16.	Restroom and Locker Room floors	Install ceramic tile floors and tile base	Install sheet vinyl on floors & cove
17.	FLOOR MTLS: Lt. Office/ Hallway/ Gun Locker/ Kitchenette/ Offies/ Service Rm.	Install Armstrong Luxury Solid Vinyl Tile	Install Armstrong Vinyl Composition Tile (VCT)
	Delete upper cabinets at kitchen and gun cabinet	Cabinets	Shelves above both
18.	R/Rms exhaust ducting	Run separate exhaust ducts from (2) exhaust fans	Join (2) exhaust ducts into (1) duct

Item 9 **File 12-0279**	**Department:** Port

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would approve a new 15-year lease with one five-year option to extend between the Port and Golden Bear Restaurant Company III, dba Mission Rock Resort, for the restaurant building, deck and land located at 817 Terry A. Francois Boulevard in the Central Waterfront.

Key Points

- The Port had a 15-year lease with Kelly's Mission Rock, LLC (Kelly's) from April 1, 1998 through March 31, 2013 for 817 Terry A. Francois Boulevard. Kelly's declared bankruptcy in 2010, and the bankruptcy court ordered the Kelly's Lease to be sold at auction to the highest bidder. Golden Bear Restaurant Company III (Golden Bear), the highest bidder, bid $375,000 for the Kelly's Lease, which the bankruptcy court used to pay Kelly's creditors. The bankruptcy court paid the Port $90,840 for past-due rent and late fees on the Kelly's Lease.
- The initial term of the existing lease between Golden Bear and the Port expires on March 31, 2013, and has two additional 5-year options to extend the lease, or a term of approximately 10 years and 11 months. The Port is proposing a new 15-year lease with Golden Bear rather than continuing the existing lease in order to (1) provide Golden Bear with sufficient time to amortize an estimated $1,490,000 in capital investments to the leased property; and (2) revise lease provisions to conform to the Port's current leasing policies.
- The proposed new 15-year lease is for 7,924 square feet of building space, 2,888 square feet desk space and 3,044 square feet of land. Under the proposed new lease, Golden Bear would invest an estimated $1,490,000 in capital improvements to the leased premises. No rent credits would be granted by the Port for these capital improvements. The capital investment of $1,490,000 would be amortized over the new 15-year lease term. Golden Bear would also invest $25,000 in the adjacent Agua Vista Park Marina.

Fiscal Impacts

- Under the proposed new lease, the rent payable to the Port is the greater of (a) base rent of $15,841 per month in the first year, increased by 3% per year, or (b) percentage rent of 7% of all gross revenues. Base rent over the 15-year term, including annual increases of 3%, is $3,535,407. If percentage rent exceeds base rent, the Port estimates that the rent payable by Golden Bear would be $3,905,772 over the 15-year term of the lease.

Policy Consideration

- If an existing tenant agrees to make capital improvements to leased space, the Port's Retail Leasing Policy allows the Port to negotiate (a) a new lease with the existing tenant without competitively bidding the lease, and (b) a lease term that is greater than either 10 years or the number of years necessary to amortize the capital improvements. According to the April 5, 2012 memorandum from the Port Executive Director to the Port Commission, Golden Bear believes that the term remaining on the existing lease of approximately 10 years and 11 months is not sufficient to amortize the proposed capital investment costing an estimated $1,490,000.

- Under the Port's Retail Leasing Policy, in order to negotiate a sole source lease, the Port must first (1) determine whether the existing tenant is in good standing, (2) evaluate whether it is the most suitable economic tenant, and (3) receive and review a business plan and audited financial statements or tax returns. All of these conditions have been met for the proposed sole source lease award to Golden Bear.

- As noted above, the Port could alternatively exercise the two additional five-year options to extend the existing lease with Golden Bear.

Recommendation

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

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with City Charter Section 9.118(c), any lease exceeding ten years and/or having anticipated revenue of $1,000,000 or more is subject to approval by the Board of Supervisors.

Background

From 1998 to 2010, Kelly's Mission Rock, LLC (Kelly's) leased space from the Port and operated a restaurant at Pier 64 ½ (more commonly known as Terry A. Francois Boulevard). The restaurant declared bankruptcy shortly after the death in 2010 of Mr. James Kelly, managing partner of Kelly's Mission Rock, LLC. On December 23, 2011, Mr. Kelly's assets, including the lease, were ordered to public auction by the bankruptcy court.

The Port consented to the sale of the Kelly's Lease (Lease No. L-12474) through the public auction to Golden Bear Restaurant III, LLC (Golden Bear). Golden Bear's bid of $375,000 for the Kelly's Lease was the highest bid at the public auction, which was used by the bankruptcy court to pay Kelly's creditors. The bankruptcy court paid the Port $90,840 for past-due rent and late fees on the Kelly's Lease.

Kelly's Lease provided for an initial term of fifteen (15) years commencing on April 1, 1998 through March 31, 2013, with two additional five year options, subject to Board of Supervisors approval. There are approximately 11 months remaining on the initial term under the existing Kelly's Lease, and two five-year options, totaling 10 years and 11 months. The proposed resolution would establish a new lease between Golden Bear and the Port, with a fifteen (15) year term and one five (5) year option to extend.

The Port is proposing a new 15-year lease with Golden Bear rather than continuing the existing lease, which has a remaining term of up to 10 years and 11 months, in order to (1) provide Golden Bear with sufficient time to amortize an estimated $1,490,000 in capital investments to the leased property; and (2) revise lease provisions to conform to the Port's current leasing policies[1].

[1] The Port's current leasing policies include compliance with City programs to reduce discharge of fats, oil and degrease into the sewer system, acknowledgement of the impact of the 34th America's Cup on the waterfront, and conformance with environmental and hazardous materials regulations.

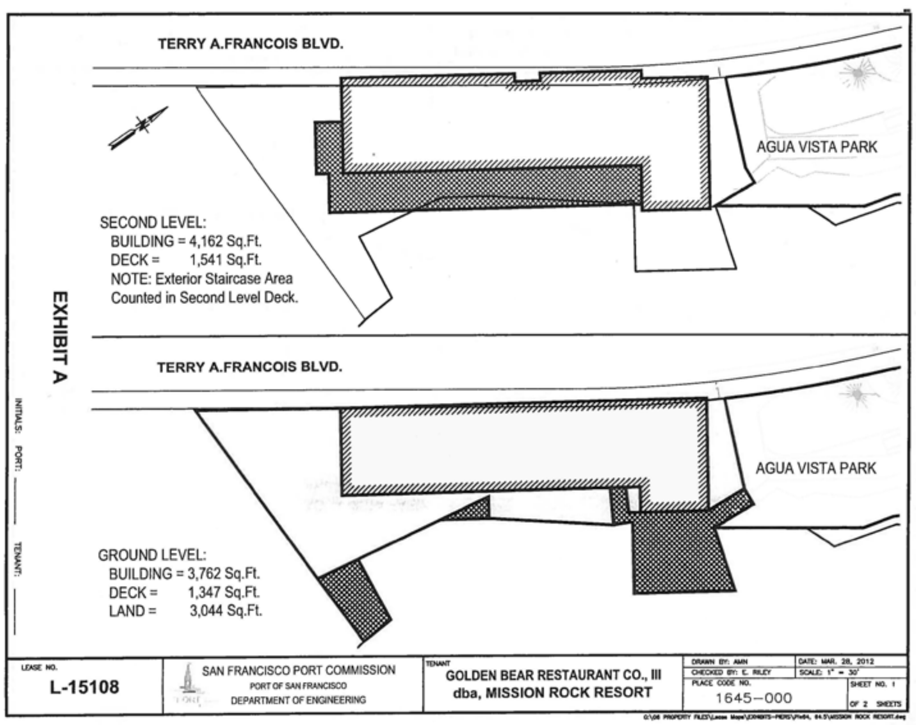
DETAILS OF PROPOSED LEGISLATION

The resolution would approve a new 15-year lease, with one five (5) year option, between the Port Commission (Lease No. L-15108) and Golden Bear Restaurant Company III, dba Mission Rock Resort, for the restaurant building, deck and land located at 817 Terry A. Francois Boulevard in the Central Waterfront.

Proposed Lease Space

As shown in Chart 1 below, the proposed lease contains (a) 7,924 square feet of building space (3,762 square feet on the ground level and 4,162 square feet on the second level), (b) 2,888 square feet of deck space (1,347 square feet on the ground level and 1,541 square feet on the second level), and (c) 3,044 square feet of land.

Chart 1.
Golden Bear Restaurant Company III, dba Mission Rock Resort



The Kelly's Lease did not include square footage for the second level. The proposed new lease incorporates 4,162 square feet of building space as shown above in Chart 1.

Tenant Improvements

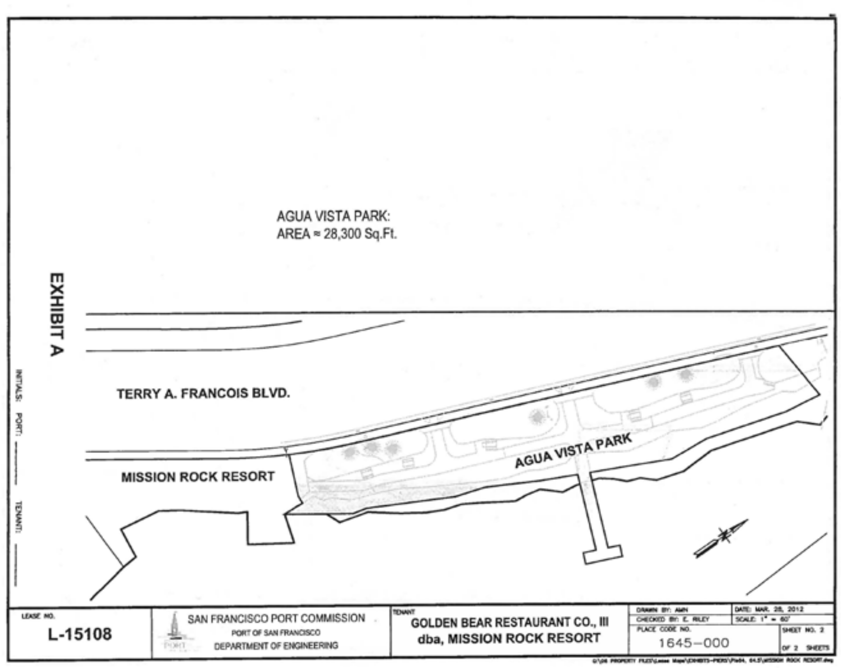
Under the proposed new lease, Golden Bear would invest an estimated $1,490,000 in capital improvements to the leased premises. No rent credits would be granted by the Port for such capital improvements.

The Attachment, provided by Mr. Elliott Riley, Port Senior Property Manager, lists the capital improvements proposed by Golden Bear, estimated to cost $1,490,000. The proposed lease requires Golden Bear to post a performance bond equal to 100% of the costs of constructing the tenant improvements. According to Mr. Riley, Golden Bear has posted a performance bond of $1,537,661, exceeding estimated costs of $1,490,000. The restaurant has a target opening date of July 2012.

According to Mr. Riley, the proposed 15-year lease would provide Golden Bear sufficient time to amortize the $1,490,000 investment in Golden Bear Restaurant. According to Port Commission policy, an existing retail tenant can receive a lease extension to allow amortization of capital improvements.

The proposed lease grants Golden Bear a non-exclusive, non-possessory revocable license to the Agua Vista Park Marina. The proposed new lease requires the tenant to spend $25,000 on landscape improvements to the Agua Vista Park Marina to satisfy requirements of the San Francisco Bay Conservation and Development Commission. Golden Bear Restaurant will also perform daily trash pick-ups and remove graffiti at the Agua Vista Park Marina. As shown in Chart 2 below, Agua Vista Park Marina is immediately adjacent to Golden Bear Restaurant.

Chart 2.
Agua Vista Park Marina



FISCAL IMPACTS

The rent under the existing Kelly's Lease is the greater of (a) base rent of $13,934 per month ($167,208 annually), or (b) percentage rent of 7% of full service dining revenues, plus 9% of casual dining and other retails sales. According to Mr. Riley, the Kelly's Lease has never paid percentage rent since the base rent has always exceeded the percentage rent.

Under the proposed new lease, rent is the greater of (a) base rent of $15,841 per month ($190,087 annually) in the first year, as shown in the Table below, increased by 3% per year, or (b) percentage rent of 7% of all gross revenues.

Base Rent	Square Feet	Rent per Square Foot per Month	Rent per Month
Building	7,924	$1.74	$13,788
Deck	2,888	$0.50	1,444
Land	3,044	$0.20	609
Total	13,856		$15,841

The base rent of $190,097 in the first year of the lease is $22,879, or 13.7%, more than base rent under the existing lease of $167,208.

Table 1, provided by the Port, provides a summary of the estimated revenues payable by Golden Bear to the Port for the 15-year term of the proposed new lease. Base rent over the 15-year term, including annual rent increases of 3%, is $3,535,407. If percentage rent exceeds base rent over the 15-year term, rent payable to the Port is estimated at $3,905,772 over the 15-year term of the lease.

Table 1
Total Rent under the Proposed Lease

Year	Estimated Gross Sales	7% of Sales	Base Rent
1	$3,000,000	$210,000	$190,087
2	3,090,000	216,300	195,789
3	3,182,700	222,789	201,663
4	3,278,181	229,473	207,713
5	3,376,526	236,357	213,944
6	3,477,822	243,448	220,363
7	3,582,157	250,751	226,973
8	3,689,622	258,274	233,783
9	3,800,310	266,022	240,796
10	3,914,320	274,002	248,020
11	4,031,749	282,222	255,461
12	4,152,702	290,410	263,124
13	4,277,283	299,410	271,018
14	4,405,601	308,392	279,149
15	4,537,769	317,644	287,523
Total	**$55,796,742**	**$3,905,772**	**$3,535,407**

Source: Port

The Port hired a consultant, the Conley Consulting Group (CCG), to review the proposed lease in the context of market rent and lease terms for restaurant spaces in San Francisco. In their final report, CCG found that (1) the proposed lease terms are in line with typical market lease terms, and (2) the proposed lease is at the low end of the range established by the market, but that the location experiences low foot traffic compared to more desirable locations like Fisherman's Wharf.

POLICY CONSIDERATION

If an existing tenant agrees to make capital improvements to leased space, the Port's Retail Leasing Policy allows the Port to negotiate (a) a new lease with the existing tenant without competitively bidding the lease, and (b) a lease term that is greater than either 10 years or the number of years necessary to amortize the capital improvements. According to the April 5, 2012 memorandum from the Port Executive Director to the Port Commission, Golden Bear believes that the term remaining on the existing lease of approximately 10 years and 11 months is not sufficient to amortize the proposed capital investment costing an estimated $1,490,000.

Under the Port's Retail Leasing Policy, in order to negotiate a sole source lease, the Port must first (1) determine whether the existing tenant is in good standing, (2) evaluate whether it is the most suitable economic tenant, and (3) receive and review a business plan and audited financial statements or tax returns. All of these conditions have been met for the proposed sole source lease award to Golden Bear.

As noted above, the Port could alternatively exercise the two additional five-year options to extend the existing lease with Golden Bear.

RECOMMENDATION

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

Scope of Development
Mission Rock Resort
817 Terry A Francois Boulevard, San Francisco, CA

Current estimates for capital costs are below. Budget will be updated with lease approval and completion of design and bid process.

Architectural Services	90,000
Kitchen Improvements	250,000
Bar Improvements	200,000
Landscaping On Site	50,000
Landscaping Aqua Vista	25,000
Electrical Exterior	80,000
Electrical Interior	100,000
Plumbing	175,000
Life Safety	30,000
Building Conditioning	150,000
Architectural Construction	200,000
Updated Code Requirements	100,000
Subtotal	$1,450,000
Permits	40,000
Total	$1,490,000

Name: Peter W. Osborne

Date: April 4, 2012

Firm: Golden Bear Restaurant Company III LLC

Item 10 File 12-0280	Department: Real Estate City Attorney

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize a Third Amendment to the existing lease between the City (as Tenant) and BCRP 1390 Market, LLC (as Landlord), for office space for the City Attorney's Office at 1390 Market Street.

Key Points

- The City has an existing lease with BCRP 1390 Market, LLC for office space for the City Attorney's Office at 1390 Market Street. The original lease, which was for 7 years with one 5-year option to extend the lease, began on January 1, 2001 and terminates on December 31, 2012 (12 years).
- The First Amendment to the existing lease established the parameters for the relocation of a portion of the City Attorney's Office space within 1390 Market Street, at the landlord's request. The second amendment (1) extended the lease term from January 1, 2008 through December 31, 2012; (2) increased the square footage from 62,814 to 68,803; and (3) reduced the rent per square foot from approximately $3.69 per square foot per month to approximately $2.51 per square foot per month. Total rent decreased from $231,530 per month (or $2,778,363 per year) to $172,952 per month (or $2,075,428 per year).
- The proposed Third Amendment to the existing lease would (1) extend the lease for 5 years from January 1, 2013 to December 31, 2017, (2) increase the square footage by 599 square feet from 68,803 square feet to 69,402 square feet; and (3) reduce the rent by $0.01 per square foot per month from approximately $2.51 per square foot per month to $2.50 per square foot per month, or $173,505 per month ($2,082,060 per year). The rent would not increase during the 5-year term of the third amendment. On an annual basis, the increase would be $6,632 more (or the difference between $2,075,428 and $2,082,060).
- The proposed Third Amendment provides for two 5-year options to extend the lease. Base rent would be set at 95% of fair market rent at the beginning of each lease extension.
- The City will receive free rent for the first three months, from January 1, 2013 through March 31, 2013. Therefore, first year rent under the proposed third amendment will be reduced by $520,515 (3 months' rent at $173,505) from $2,082,060 to $1,561,545.
- The City will pay electricity and beginning in 2014, the pro-rata share (31.75%) of the increases in actual building costs, such as elevator maintenance and security costs.

Fiscal Impacts

- Over the initial 5-year term of the proposed Third Amendment, the City will pay $9,889,785 in rent, which includes $1,561,545 in the first year and $2,082,060 per year for the remaining four years.

Recommendation

Approve the proposed resolution.

MANDATE STATEMENT

In accordance with Sections 23.26 and 23.27 of the City's Administrative Code, leases of $5,000 or more per month that extend for more than one year, and in which the City is the tenant, are subject to Board of Supervisors approval by resolution.

BACKGROUND

The City has an existing lease with BCRP 1390 Market, LLC for office space at 1390 Market Street for the City Attorney's Office. The original lease, which was for 7 years with one 5-year option to extend the lease, began on January 1, 2001 and terminates on December 31, 2012 (12 years). The City has entered into two lease amendments:

- The First Amendment set the parameters for relocating the City Attorney's Office to new space within 1390 Market Street, at the request of the landlord, and reduced the rent for the option term.
- The Second Amendment exercised the 5-year option to extend the lease, from January 1, 2008 to December 31, 2012.

The Attachment, prepared by the Budget and Legislative Analyst, summarizes the terms of the original lease and the two amendments.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize a Third Amendment to extend the term of the existing lease with between the City (as Tenant) and BCRP 1390 Market, LLC (as Landlord) at 1390 Market Street for the City Attorney's Office space. The proposed Third Amendment, as summarized in the Attachment, would:

- Extend the lease term by 5 years, from January 1, 2013 through December 31, 2017;
- Increase the leased space by 599 square feet, from 68,803 to 69,402 square feet;
- Reduce the rent per square foot, by $0.01 per square foot per month from approximately $2.51 per square foot per month to $2.50 per month per square foot, resulting in a total rent of $173,505 per month (2,082,060 annually) to account for the increase of 599 square feet;
- No increase in the rent in the initial 5-year term from January 1, 2013 through December 31, 2017;
- Provide for two 5-year options to extend the term of the lease with the rent adjusted to 95% of fair market rent with each extension.

As shown in the Attachment, the other lease terms under the proposed Third Amendment remain the same as in the original lease and the first two amendments.

The leased premises also include 3,601 square feet of space used for childcare services operated by Marin Day Schools/Bright Horizons and provided to City Attorney employees, as well as other City employees on a waitlisted basis. Marin Day Schools/Bright Horizons, a California non-profit corporation, occupies their portion of the premises at the nominal rent of $1.00 per year in return for the childcare services provided to the City.

FISCAL IMPACTS

Rent over the initial 5-year term of the proposed Third Amendment is fixed at $173,505 per month, or $2,082,060 per year. On an annual basis, the rent would increase by $6,632 over the existing annual rent of $2,075,428. The proposed Third Amendment includes three months of free rent. Therefore, first year rent under the proposed third amendment will be reduced by $520,515 (3 months' rent at $173,505) from $2,082,060 to $1,561,545.

The proposed Third Amendment would reduce the rent per square foot by $0.01 from $2.51 per square foot per month to $2.50 per square foot per month resulting in an annual rent increase of $6,632 based on an additional 599 square feet.

As shown in Table 1 below, the rental costs to the City from January 1, 2013 through December 31, 2017 for the proposed lease over five years would total $9,889,785. Including estimated electricity costs, the total cost would be $9,969,354.

Table 1: Rent and Electricity Costs for City Attorney Office Space
At 1390 Market Street
January 1, 2013 through December 31, 2017

Annual Costs	Year One	Year Two	Year Three	Year Four	Year Five	Total
Rent	$1,561,545	$2,082,060	$2,082,060	$2,082,060	$2,082,060	$9,889,785
Electricity	14,400	15,120	15,876	16,670	17,503	79,569
Total	**$1,575,945**	**$2,097,180**	**$2,097,936**	**$2,098,730**	**$2,099,563**	**$9,969,354**

Source: Division of Real Estate

Mr. Dunn notes that the proposed lease extension is fully serviced, except for separately metered electricity on approximately 48,265 square feet. Expenditures on utilities for the City are expected to cost $1,200 per month or $14,400 for the first year.

According to Mr. Dunn, the City will also be responsible for the pro-rata share (31.75%) of the increases in actual building costs, such as elevator maintenance and security costs. According to Mr. Dunn, these costs, which will start in 2014, are typical in multi-tenant office buildings and difficult to predict.

RECOMENDATIONS

Approve the proposed resolution.

Attachment: Summary of City Attorney Lease at 1390 Market Street (Fox Plaza)

	Original *	1st Amendment	2nd Amendment	Proposed 3rd Amendment
Term	7 years	9 months	5 years	5 years
Start Date	January 1, 2001	April 1, 2007	January 1, 2008	January 1, 2013
End Date	December 31, 2007	December 31, 2007	December 31, 2012	December 31, 2017
Options to Extend	One 5-year option to extend	One 5-year option to extend	N/A	Adds Two 5-year options
Square Feet	62,814	62,814	68,803 leased space plus an additional 599 square feet at no cost, for a total of 69,402	69,402
Monthly Rent per Square Foot	Approximately $3.69		Approximately $2.51	$2.50
Total Monthly Rent	$231,530		$172,952	$173,505
Annual	$44.23		$30.16	$30.00
Total Annual Rent	$2,778,363		$2,075,428	$2,082,060
Annual increases	None during initial term		None	None
Increase for option to extend	Market rate			Market Rate
Other rent	Share of increases in operating expenses and taxes over Base Year 2001		Share of increases in operating expenses and taxes over Base Year 2008	Share of increases in operating expenses and taxes over Base Year 2014
Utilties	City pays electricity on 70.47% of Premises SF		City pays electricity on 70.47% of Premises SF	City pays electricity on 69.95% of Premises SF
Other		Establishes parameters for Landlord provided relocation & Option term rent at $30 psf subject to Board approval		

* Current Lease - City Attorney has occupied space at Fox Plaza under prior lease agreements for over 25 years

Item 11 File 12-0287	Department: Recreation and Park

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would authorize the execution of a third amendment to the Master Tournament Agreement between the City, through the Recreation and Park Department (RPD), and the Professional Golf Association (PGA) Tour, Inc. (PGA Tour) for the use of Harding Park Golf Course (Harding Park) for certain professional golf tournaments.

Key Points

- In addition to the four PGA Tour tournaments, which have already been held at Harding Park, the proposed third amendment would require the PGA Tour to hold at Harding Park the (a) 2013 Charles Schwab Championship; (b) 2016 PGA Tour Playoff Event, which includes four end-of season tournaments; and (c) one tournament to be held between 2017 and 2019, which could be either a PGA Tour Playoff Event, the Presidents Cup, or a World Golf.
- The proposed third amendment to the Master Tournament Agreement would also allow the PGA Tour the option to hold (a) a 2015 tournament, which could be either the Tour Championship or a Champions Tour Event, and (b) the 2021 Presidents Cup.
- If the PGA Tour decides to hold the 2021 Presidents Cup at Harding Park, the PGA Tour would have the option to hold a Champions Tour tournament from 2017 through 2019 rather than the currently scheduled tournament for that time period.

Fiscal Impacts

- The PGA Tour has previously held four tournaments at Harding Park from 2005 through 2011, for which RPD has incurred a net loss of $667,713.
- Under the proposed third amendment, depending on which tournament options that the PGA Tour selects, the Budget and Legislative Analyst estimates that RPD would realize a net gain in revenues from 2013 through 2021 ranging from $521,270 to $1,256,602.

Policy Considerations

- RPD believes that, rather than placing emphasis on maximizing revenues to the City for the Master Tournament only, the City benefits by holding PGA Tour tournaments at Harding Park which result in an improved golf course. Harding Park's improved condition increases usage of Harding Park and allows RPD to charge higher rates than RPD is able to charge at other RPD golf courses, resulting in increased attendance and revenues at Harding Park.
- To ensure that RPD does not incur future losses from PGA Tour tournaments held at Harding Park, which would result in costs to the General Fund, RPD should report to the Budget and Finance Committee of the Board of Supervisors after each PGA Tour tournament is held with respect to (a) RPD's net gain or loss for the tournament, and (b) in the event a net loss is incurred by RPD, the actions that RPD can take to ensure that future tournaments do not result in a net loss.
- Although the Budget and Legislative Analyst estimates that approval of the subject proposed Third Amendment to the Master Tournament Agreement would result in a net gain to the City from 2013 through 2021, ranging from $521,270 to $1,256,602, there are no assurances that such a net gain will be realized by the City. Because the Golf Fund requires an annual General Fund

subsidy, any loss to the Golf Fund may directly impact the General Fund.

Recommendations

- Request that RPD submit a written report to the Budget and Finance Committee of the Board of Supervisors subsequent to the conclusion of each PGA Tour tournament held at Harding Park as to (a) RPD's net gain or loss resulting from the tournament, and (b) in the event that a net loss is incurred, the actions that RPD should take to ensure that future PGA Tour golf tournaments at Harding Park do not result in a net loss.

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

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with City Charter Section 9.118(a), City agreements, or amendments to such City agreements, with anticipated revenue of $1,000,000 or more are subject to approval of the Board of Supervisors.

Background

Harding Park Golf Course and the Golf Fund

In 2002 the Board of Supervisors approved the establishment of the Golf Fund (File 02-0197). Under the Administrative Code, revenues from the Recreation and Park Department's (RPD) golf courses are deposited into the Golf Fund. The Golf Fund does not fully cover RPD's costs for operating and maintaining the golf courses, resulting in an annual General Fund subsidy to the Golf Fund.

When the Board of Supervisors approved establishing the Golf Fund, they also authorized spending $16,627,627 in State Proposition12[1] grant funds on the renovation of Harding Park Golf Course (Harding Park). Under the Administrative Code, revenues from the Golf Fund are to be used to reimburse the Open Space Fund for use of the State Proposition 12 grant funds to renovate Harding Park. To date, the Golf Fund has paid $4,820,000 into the Open Space Fund.

PGA Tour Master Tournament Agreement

In 2002 the Board of Supervisors also approved a resolution approving and authorizing a Master Tournament Agreement between the Professional Golfers' Association (PGA) Tour, Inc. (PGA Tour) and the City, acting by and through the RPD, for the use of Harding Park by the PGA Tour to hold PGA Tour Championship tournaments (Resolution No. 219-02). Under the terms of the existing agreement, the PGA Tour was to hold a PGA Tour Championship Tournament at Harding Park three times over a nine-year period commencing on January 1, 2006.

[1] Proposition 12 authorized the issuance of State bonds from which the proceeds would be used in part to provide grants to local agencies to fund neighborhood parks, recreational facilities, and recreational programs located in historically underserved and economically disadvantaged communities.

Under the original Master Tournament Agreement, the PGA Tour would reimburse RPD $250,000 for maintenance[2] costs incurred for each PGA Tour tournament. If RPD incurred maintenance costs in excess of $250,000, the PGA Tour would reimburse RPD up to an additional $130,000. The PGA Tour would also provide $250,000 for golf course improvements. Therefore, RPD would be paid by the PGA Tour between $500,000 and $630,000 per tournament, with $250,000 allocated to Harding Park course improvements. In addition, the First Tee Program[3] would receive $250,000 per tournament.

First Amendment

Before the first tournament took place, on March 16, 2004, the Board of Supervisors approved the First Amendment to the Master Tournament Agreement for the use of Harding Park. Instead of the PGA Tour having three tournaments over nine years, either the PGA Tour Championship Tournament, the American Express Championship Tournament or the NEC Invitational Tournament, five such PGA Tour tournaments were to be held over a 15-year period commencing in 2005 (Resolution No. 061-04).

Under the First Amendment, the PGA Tour made a one-time contribution of $100,000 to defray the design costs for a new Harding Park clubhouse. In addition, the PGA Tour was to pay RPD $500,000 per tournament, which would increase by the Consumer Price Index (CPI) from the date of the prior tournament. The PGA Tour was also to pay RPD 6.66% of the PGA Tour's gross operating revenues[4] exceeding $10,000,000. Also, the PGA Tour would pay the First Tee Program $500,000 per tournament.

The American Express Championship[5] was held at Harding Park in October 2005. According to the Budget and Legislative Analyst's 2006 management audit report, and as shown in Table 1 below, RPD's direct costs, including maintenance costs and lost revenue from the tournament, exceeded the PGA Tour payments, resulting in a net loss of $141,619.

Table 1: 2005 American Express Championship Costs and Revenues

PGA Tour Facility Use Fee		$500,000
Maintenance Costs	(329,900)	
Lost Revenue	(311,719)	
Less, Maintenance Costs and Lost Revenue		(641,619)
RPD's Net Revenue (Loss)		**($141,619)**

Source: Budget and Legislative Analyst

[2] RPD incurs maintenance costs to prepare Harding Park for the PGA Tour tournaments, comprised primarily of salaries, materials & supplies, and professional services.

[3] The First Tee Program is a nonprofit organization which provides golf programs designed to bring youth of all ethnic and socioeconomic backgrounds to the game of golf.

[4] Gross operating revenues are gross revenues from admissions, corporate hospitality, publications, on-site sponsorships and on-site concession, but not including any television revenues earned.

[5] The American Express Championship is one of the annual World Golf Championships, a group of four annual events for male professional golfers, and was the first Championship Tournament held at Harding Park in October of 2005. The name of the event was changed to the Cadillac Championship in 2011.

Second Amendment

On May 1, 2007, the Board of Supervisors approved the second amendment to the Master Tournament Agreement, which increased the number of PGA Tour tournaments to be held at Harding Park from five to six, and changed the tournaments to be held at Harding Park by the PGA to the following six tournaments:

<u>2005</u>: American Express Championship
<u>2009:</u> Presidents Cup.[6]
<u>2010:</u> Charles Schwab Championship.[7]
<u>2011:</u> The Charles Schwab Championship.
<u>2013 or 2014:</u> PGA Tour Playoff event.
<u>Between 2014 and 2020:</u> Either (a) the Presidents Cup, (b) a PGA Tour Playoff event, (c) the Bridgestone Invitational[8], (d) the Cadillac Championship[9] or, (e) the Accenture Match Play Championship[10] (Resolution No. 222-07).

Under the Second Amendment, the PGA Tour pays RPD an up-front facility use fee, which is equal to RPD's actual costs to host the PGA Tour tournaments up to $1,000,000. Such tournament costs include Harding Park maintenance costs, and RPD's lost revenue from the closure of Harding Park during the tournaments. The PGA Tour was also to pay RPD 6.66% of PGA Tour's gross operating revenues exceeding $10,000,000. The PGA Tour would continue to contribute $500,000 per tournament to the First Tee Program.

According to Ms. Katie Petrucione, RPD Director of Finance and Administration, as shown in Table 2 below, based on the tournaments held to date under the Second Amendment, RPD's costs to host the PGA Tour tournament exceeded the PGA Tour payments to RPD, resulting in a net loss of $526,094 for the 2009 President's Cup. Also, RPD did not receive 6.66% of gross operating revenues, as specified in the agreement between RPD and the PGA Tour, because PGA Tour's gross operating revenues were less than $10,000,000. As shown in Table 2 below, RPD fully recovered its costs from the PGA Tour payments for the tournaments held in 2010 and 2011.

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[6] The Presidents Cup is a four-day championship match, in which the United States team plays an international team selected from all countries with the exception of Europe.
[7] The Charles Schwab Championship is the championship tournament of the Champions Tour for PGA golfers, a series of events held annually in the United States and United Kingdom for golfers who are 50 years old or older.
[8] The Bridgestone Invitational is one of the annual World Golf Championships, a group of four annual events for male professional golfers.
[9] The Cadillac Championship is one of the annual World Golf Championships.
[10] The Accenture Match Play Championship is one of the annual World Golf Championships.

Table 2: RPD's Net Loss for Three PGA Tour Tournaments			
	2009 Presidents Cup	**2010 Charles Schwab Cup Championship**	**2011 Charles Schwab Cup Championship**
PGA Tour Facility Use Fee	$1,000,000	$806,392	$548,988
RPD Maintenance Costs for Tournament	(848,757)	(555,383)	(314,321)
RPD Lost Revenue	(677,337)	(251,009)	(234,667)
RPD Maintenance Costs and Lost Revenue	(1,526,094)	(806,392)	(548,988)
RPD's Net Revenue (Loss)	**($526,094)**	**$0**	**$0**

Source: RPD

To date, RPD's net loss to the Golf Fund for hosting the PGA Tour tournaments is $667,713 ($141,619 under the First Amendment plus $526,094 under the Second Amendment). As noted above, the Golf Fund requires an annual General Fund subsidy, so that any loss to the Golf Fund directly impacts the General Fund.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the execution of the Third Amendment to the Master Tournament Agreement between the City, through the RPD, and the PGA Tour, Inc. (PGA Tour) for the use of Harding Park for certain professional golf tournaments.

Proposed Revised Tournament Schedule

The proposed Third Amendment would (a) revise the current schedule of tournaments to be held by the PGA Tour at Harding Park, and (b) increase the number of tournaments to be held at Harding Park from six to seven, with two optional tournaments, bringing the total up to nine tournaments. The proposed Third Amendment would also revise the PGA Tour's facility use fees to reimburse RPD for RPD's costs to host the PGA Tour tournaments. These fees are discussed below in the Fiscal Impacts section of this report.

In addition to the four PGA Tour tournaments (see Table 1 and 2 above) that have already been held at Harding Park, the proposed Third Amendment would require the following three future tournaments be held at Harding Park:

2013: The Charles Schwab Championship
2016: One PGA Tour Playoff Event of the four events in the series of end-of-season events leading up to and including the Tour Championship[11]
2017 to 2019: One tournament, which could be either (1) a PGA Tour Playoff Event, (2) the Presidents Cup, or (3) a World Golf Championship[12] tournament

The proposed Third Amendment would also allow the PGA Tour to hold two optional

[11] The Tour Championship is the competition for the first official championship trophy for the PGA Tour season.
[12] A World Golf Championship event is one of four annual events for male professional golfers.

tournaments at Harding Park:

2015: One tournament, which could be either the Charles Schwab Championship or a Champions Tour Event other than the Charles Schwab Championship
2021: The Presidents Cup

Therefore, up to five additional tournaments would be held at Harding Park under the proposed Third Amendment.

Under the proposed Third Amendment, if the PGA Tour decides to hold the 2021 Presidents Cup at Harding Park, the PGA Tour would have the option to hold a Champions Tour tournament from 2017 through 2019 rather than one of the currently scheduled tournaments discussed above.

Under the proposed Third Amendment, the PGA Tour would contribute $250,000 per tournament to the First Tee Program. The PGA Tour would also pay a percentage of gross operating revenues to the First Tee Program under identical terms to which the City would be paid a percentage of gross operating revenues, as specified in Table 3 below.

On March 15, 2012, the Recreation and Park Commission approved a resolution recommending that the Board of Supervisors approve the proposed third amendment to the Master Tournament Agreement (Resolution No. 1203-010).

FISCAL IMPACTS

Proposed Revised Facility Fee for Events

The proposed third amendment would establish revised facility use fees and obligate the PGA Tour to make the following payments to RPD (See Table 3 below and the Attachment to this report for details):

Table 3: Proposed Facility Use Fees			
Year	**Required/ Optional**	**Tournament Type**	**Facility Use Fee to be Paid to RPD by the PGA Tour**
2013	Required	The Charles Schwab Championship	• The average Harding Park maintenance costs for the Championships in 2010 and 2011, increased by the CPI • The average lost revenue from the closure of Harding Park during the Championships in 2010 and 2011, increased by the CPI • $200,000 capital investment to Harding Park • 6.66% of gross operating revenues exceeding $8,000,000
2015	Optional	The Charles Schwab Championship or one Champions Tour Event other than the Charles Schwab Championship	• The average Harding Park maintenance costs for the Championships in 2010, 2011 and 2013, increased by the CPI • The average lost revenue from the closure of Harding Park for the Championships in 2010, 2011 and 2013, increased by the CPI • $200,000 capital investment to Harding Park • 6.66% of gross operating revenues exceeding $8,000,000 • $500,000 to RPD if the PGA Tour does not hold a tournament in 2015
2016	Required	One PGA Tour Playoff Event of the four tournaments in the series of end-of-season tournaments leading up to and including the Tour Championship	• $1,100,000 reimbursement for Harding Park maintenance costs and lost revenues for the PGA Tour Playoff Event, increased by the CPI • A participation fee in the amount by which gross operating revenues exceed $6,000,000, but not to exceed $300,000 • 6.66% of gross operating revenues exceeding of $10,000,000

Table 3: Proposed Facility Use Fees (Continued)			
Year	**Required/ Optional**	**Tournament Type**	**Facility Use Fee to be Paid to RPD by the PGA Tour**
2017 to 2019	Required	One tournament, which could be either: (1) a PGA Tour Playoff Event, (2) the Presidents Cup, (3) a World Golf Championship, or, (4) if PGA Tour decides to hold the 2021 Presidents Cup at Harding Park, a Champions Tour Event	PGA Tour Playoff Event or a World Golf Championship: • $1,100,000 reimbursement for Harding Park maintenance costs and lost revenues, increased by the • A participation fee in the amount by which gross operating revenues exceed $6,000,000, but not to exceed $300,000 • 6.66% of gross operating revenues exceeding $10,000,000 Presidents Cup: • $1,200,000 reimbursement for Harding Park maintenance costs and lost revenues, increased by the CPI • 6.66% of gross operating revenues exceeding $10,000,000 Champions Tour: • The average Harding Park maintenance costs for the Championships in 2010, 2011, 2013 and 2015, increased by the CPI • The average lost revenue from the closure of Harding Park for the Championships in 2010, 2011, 2013 and 2015, increased by the CPI • $200,000 capital investment to Harding Park • 6.66% of gross operating revenues exceeding $8,000,000
2021	Optional	The Presidents Cup	• $1,200,000 reimbursement for Harding Park maintenance costs and lost revenues, increased by the CPI • 6.66% of gross operating revenues exceeding $10,000,000

The Attachment to this report, prepared by the Budget and Legislative Analyst, shows the estimated net gain (revenues exceeding expenditures) to be received by RPD under the proposed Third Amendment. Under the proposed Third Amendment, the PGA Tour is required to hold tournaments in 2013 and 2016, but has options for holding tournaments in Harding Park in 2015, 2017 to 2019, and 2021, as follows:

- The PGA Tour may hold a tournament in 2015 or may pay RPD a fee of $500,000 in lieu of holding a tournament;
- The PGA Tour is required to hold a tournament between 2017 and 2019;
- If the PGA Tour does not hold a President's Cup tournament in 2021, the PGA Tour will hold a PGA Tour Playoff, World Golf Championship or a President's Cup during 2017 to 2019;
- If the PGA Tour holds a President's Cup tournament in 2021, the PGA Tour will hold a Champions Tour during 2017 to 2019.

These options result in four different scenarios, as shown in the Attachment.

RPD's Estimated Net Gain under the Proposed Third Amendment Range from a $521,270 to $1,256,602

As shown in Table 4 below, under the proposed Third Amendment, from 2013 through 2021, RPD would realize a net gain in revenues ranging from $521,270 to $1,256,602, depending on which options the PGA Tour elects for holding tournaments in Harding Park.

Table 4: Estimated Net Gain to RPD Under the Proposed Third Amendment

	Net Revenue (Loss)			
Tournament	**Option One**	**Option Two**	**Option Three**	**Option Four**
2013 Charles Schwab Cup Championship	$91,148	$91,148	$91,148	$91,148
2015 Charles Schwab or Other (Optional)		59,656		59,656
2015 No Tournament	500,000		500,000	
2016 PGA Tour Playoff Tournament	355,976	355,976	355,976	355,976
2017 PGA Tour Playoff or Other	309,478	309,478		
2017 Champions Tour Tournament			(5,372)	(5,372)
2021 President's Cup (Optional)			19,862	19,862
Total	**$1,256,602**	**$816,258**	**$961,614**	**$521,270**

Source: Budget and Legislative Analyst

RPD has never received a percentage of gross operating revenues from PGA Tour tournaments under the existing Master Tournament Agreement. According to Ms. Petrucione, the PGA Tour estimates that the 2016 tournament's gross operating revenues will exceed $10,000,000 because of changes in the tournament format to include a Pro-Am tournament[13]. However, whether the 2016 tournament will generate gross operating revenues exceeding $10,000,000, in which RPD would receive 6.66%, is uncertain.

POLICY CONSIDERATIONS

According to Mr. Nick Kinsey, Acting Director of Property and Concession Management for RPD, RPD believes that, rather than placing emphasis on maximizing revenues to the City for the Master Tournament only, the City benefits by holding PGA Tour tournaments at Harding Park which result in an improved golf course. This would not be the case if PGA Tour tournaments were not held at Harding Park. Harding Park's improved condition increases usage of Harding Park and allows RPD to charge higher rates than RPD is able to charge at other RPD golf courses, resulting in increased attendance and revenues at Harding Park. In addition, Harding Park receives international publicity from the PGA Tour tournaments.

According to Ms. Petrucione, RPD has not conducted an economic analysis to date, quantifying the economic benefits of holding PGA Tour events at Harding Park, including increased tourism and the resulting economic activity. RPD should report to the Budget and Finance Committee

[13] Pro-Am tournaments match professional PGA Tour golfers with amateur golfers on a national scale. According to Ms. Petrucione, the fees paid by the amateur golfers, along with possible increased revenues from local admissions and concession sales associated with this extra event, are estimated to result in Gross Operating Revenues exceeding $10,000,000.

of the Board of Supervisors after each PGA Tour tournament is held at Harding Park as to (a) RPD's net gain or loss resulting from the tournament, and (b) in the event a net loss is incurred by RPD, the actions that RPD should take to ensure that future tournaments do not result in a net loss to the City.

Although the Budget and Legislative Analyst estimates that approval of the proposed Third Amendment to the Master Tournament Agreement would result in a net gain to the Golf Fund from 2013 through 2021 ranging from $521,270 to $1,256,602 (See Table 4 above), there are no assurances that such a net gain will be realized by the City. Because the Golf Fund requires an annual General Fund subsidy, any loss to the Golf Fund may directly impact the General Fund.

RECOMMENDATION

1. Request that RPD submit a written report to the Budget and Finance Committee of the Board of Supervisors subsequent to the conclusion of each PGA Tour tournament held at Harding Park as to (a) RPD's net revenues or loss for the tournament, and (b) in the event a net loss is incurred, the actions that RPD should take to ensure that future PGA Tour golf tournaments at Harding Park do not result in a net loss to the City.

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

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

Estimated Net Revenue (Loss) to RPD Under Proposed Third Amendment

Option One

	2013 Charles Schwab Championship	2015 (if No Event)	2016 PGA Tour Playoff Event	2017-19 (if PGA Tour Playoff, or World Golf Championship is held)	Total
Facility Use Fee	$677,691	$500,000	$1,100,000	$1,100,000	$3,377,691
Participation Fee	n/a	N/A	300,000	300,000	600,000
6.66% of Gross Operating Revenues	0	0	0	0	0
Total PGA Tour Revenue	**677,691**	**500,000**	**1,400,000**	**1,400,000**	**3,977,691**
RPD's Estimated Maintenance Costs	(328,409)	0	(485,680)	(504,261)	(1,318,350)
RPD's Estimated Lost Revenues	(258,134)	0	(558,344)	(586,261)	(1,402,739)
Total RPD Maintenance Costs and Lost Revenue	**(586,543)**	**0**	**(1,044,024)**	**(1,090,522)**	**(2,721,089)**
RPD's Estimated Net Gain	**$91,148**	**$500,000**	**$355,976**	**$309,478**	**$1,256,602**

Prepared by Budget and Legislative Analyst
Based on estimates provided by RPD

Option 2

	2013 Charles Schwab Championship	2015 Charles Schwab Championship or Other Champions Tour Event	2016 PGA Tour Playoff Event	2017-19 (if PGA Tour Playoff, or World Golf Championship is held	Total
Facility Use Fee	$677,691	$679,674	$1,100,000	$1,100,000	$3,557,365
Participation Fee	n/a	N/A	300,000	300,000	600,000
6.66% of Gross Operating Revenues	0	0	0	0	0
Total PGA Tour Revenue	**677,691**	**679,674**	**1,400,000**	**1,400,000**	**4,157,365**
RPD's Estimated Maintenance Costs	(328,409)	(348,974)	(485,680)	(504,261)	(1,667,324)
RPD's Estimated Lost Revenues	(258,134)	(271,044)	(558,344)	(586,261)	(1,673,783)
Total RPD Maintenance Costs and Lost Revenue	**(586,543)**	**(620,018)**	**(1,044,024)**	**(1,090,522)**	**(3,341,107)**
RPD's Estimated Net Gain	**$91,148**	**$59,656**	**$355,976**	**$309,478**	**$816,258**

Prepared by Budget and Legislative Analyst
Based on estimates provided by RPD

Option 3

	2013 Charles Schwab Championship	2015 (if No Event)	2016 PGA Tour Playoff Event	2017-19 (if Champions Tour is held)	2021 (if Presidents Cup is held)	Total
Facility Use Fee	$677,691	$500,000	$1,100,000	$679,673	$1,200,000	$4,157,364
Participation Fee	n/a	N/A	300,000	n/a	N/A	300,000
6.66% of Gross Operating Revenues	0	0	0	0	0	0
Total PGA Tour Revenue	**677,691**	**500,000**	**1,400,000**	**679,673**	**1,200,000**	**4,457,364**
RPD's Estimated Maintenance Costs	(328,409)	0	(485,680)	(389,610)	(564,564)	(1,768,263)
RPD's Estimated Lost Revenues	(258,134)	0	(558,344)	(295,435)	(615,574)	(1,727,487)
Total RPD Maintenance Costs and Lost Revenue	**(586,543)**	**0**	**(1,044,024)**	**(685,045)**	**(1,180,138)**	**(3,495,750)**
RPD's Estimated Net Gain (Loss)	**$91,148**	**$500,000**	**$355,976**	**($5,372)**	**$19,862**	**$961,614**

Prepared by Budget and Legislative Analyst
Based on estimates provided by RPD

Option 4

	2013 Charles Schwab Championship	2015 Charles Schwab Championship or Other Champions Tour Event	2016 PGA Tour Playoff Event	2017-19 (if Champions Tour is held)	2021 (if Presidents Cup is held)	Total
Facility Use Fee	$677,691	$679,674	$1,100,000	$679,673	$1,200,000	$4,337,038
Participation Fee	n/a	N/A	300,000	n/a	N/A	300,000
6.66% of Gross Operating Revenues	0	0	0	0	0	0
Total PGA Tour Revenue	**677,691**	**679,674**	**1,400,000**	**679,673**	**1,200,000**	**4,637,038**
RPD's Estimated Maintenance Costs	(328,409)	(348,974)	(485,680)	(389,610)	(564,564)	(2,117,237)
RPD's Estimated Lost Revenues	(258,134)	(271,044)	(558,344)	(295,435)	(615,574)	(1,998,531)
Total RPD Maintenance Costs and Lost Revenue	**(586,543)**	**(620,018)**	**(1,044,024)**	**(685,045)**	**(1,180,138)**	**(4,115,768)**
RPD's Estimated Net Gain (Loss)	**$91,148**	**$59,656**	**$355,976**	**($5,372)**	**$19,862**	**$521,270**

Prepared by Budget and Legislative Analyst
Based on estimates provided by RPD