

1 [Approving Updated Security Provisions for America's Cup Lease Disposition Agreement]

2 **Resolution approving revisions to the America's Cup Lease Disposition Agreement**  
3 **with respect to the security for certain obligations of the City; authorizing and directing**  
4 **the procurement of insurance coverage for the City's satisfaction of certain of such**  
5 **obligations; reaffirming the direction for ongoing staff progress reports as to the**  
6 **implementation of the America's Cup events; and authorizing related actions.**  
7

8 WHEREAS, In December 2010 San Francisco was selected as the host city for the 34<sup>th</sup>  
9 America's Cup and related activities (the "Event"); and

10 WHEREAS, At the time of such selection the City and County of San Francisco (the  
11 "City"), the America's Cup Event Authority, LLC (the "Authority") and the San Francisco  
12 America's Cup Organizing Committee ("ACOC") entered into the America's Cup Host and  
13 Venue Agreement (the "Host Agreement") which set out the applicable rights and  
14 responsibilities for each party in relation to preparation for and hosting the Events; and

15 WHEREAS, The Host Agreement included a number of responsibilities for the City and  
16 ACOC, both in terms of ACOC's fundraising program over three years intended to defray up  
17 to \$32 million of the public costs of hosting the events as well as the City responsibility to  
18 deliver the venues and support services called for under the Host Agreement and the  
19 associated implementation plans; and

20 WHEREAS, In July and August 2012 ACOC delivered a total of \$6,115,979.43 to the  
21 City in reimbursement for the full amount of costs charged to the City's America's Cup budget  
22 in fiscal year 2011-2012; and  
23  
24  
25

1           WHEREAS, The Host Agreement also called for ACOC to deliver a security instrument  
2 of up to a value of \$32 million to secure the performance by the City and ACOC of their  
3 respective obligations under the Host Agreement (the “ACOC Security”); and

4           WHEREAS, City project and risk management staff worked with ACOC over the course  
5 of late 2011 and early 2012 to investigate the availability of security instruments that would  
6 provide the coverage called for under the Host Agreement; and

7           WHEREAS, On March 27, 2012, by its Resolution No. 109-12, this Board of  
8 Supervisors (the “Board”) approved a number of matters relating to the Events and provided  
9 parameters for its delegation of authority to City officials to complete negotiations for and  
10 execute a Lease Disposition Agreement (the “LDA”) relating to the City’s delivery of venues to  
11 the Authority and other Event-related activities and responsibilities and the Authority’s delivery  
12 of security for its Event-related obligations; and

13           WHEREAS, At the time the LDA was approved by the Board the City’s and the  
14 Authority’s respective responsibilities for improvements to prepare the various Port venues for  
15 the Event had recently been revised, most notably the transfer of responsibility for Piers 30-32  
16 Event upgrades from the Authority to the Port, together with the elimination of the Authority’s  
17 long-term development rights in consideration of improvements as contemplated under the  
18 Host Agreement; and

19           WHEREAS, The staff presentation to the Board in conjunction with Resolution No. 109-  
20 12 noted that further underwriting analysis would be needed to procure security for the parties’  
21 respective Event-related obligations, including the revised construction responsibilities; and

22           WHEREAS, As negotiations continued the parties agreed that the security instruments  
23 customarily available in the insurance markets were not sufficient to provide all coverage  
24 sought under the terms of the Host Agreement, and that events and experience along the  
25 waterfront (including impact of the recent Pier 29 fire on the City’s ability to timely deliver key

1 Event venues) created certain priorities for the ACOC Security coverage in terms of providing  
2 assurance as to the successful delivery of venues and municipal services in support of the  
3 Events; and

4 WHEREAS, In acknowledgement of such discussions, and with an interest in  
5 establishing other reciprocal rights, obligations, and indemnities contemplated by Resolution  
6 No. 109-12 in time for the first San Francisco America's Cup World Series regatta in August  
7 2012, the parties executed the LDA, a copy of which is on file with the Clerk of the Board in  
8 File No. \_\_\_\_\_ and incorporated herein by reference as though fully set forth, under the  
9 authority delegated by the Board in such Resolution, subject to a condition under LDA Section  
10 3.15 that City staff obtain Board and Port Commission approval for certain LDA terms relating  
11 to the City's construction-related venue delivery obligations and the ACOC Security  
12 arrangements that the parties negotiated after the Board's action in March 2012; and

13 WHEREAS, The LDA reflects the parties' agreement as to a composite approach to  
14 each party's obligation to provide security for its performance to the other, which is intended to  
15 provide a comprehensive security arrangement that accounts for the issues that could not be  
16 addressed through the available insurance markets; and

17 WHEREAS, Under the LDA the City proposed to satisfy its obligation to provide the  
18 ACOC Security through a combination of sources (taken together, the "LDA Security"),  
19 including: (1) the City's use of liquidated damages and bond proceeds payable under the  
20 Port's construction contracts and insurance for improvements at Piers 30-32 and Pier 27 and  
21 for repairing the fire damage to Pier 29; (2) the City's payment of liquidated damages to the  
22 Authority up to a maximum aggregate amount of \$5 million (the "LDA Damages") should the  
23 City fail to deliver Pier 27 or Piers 30-32 to the Authority by March 1, 2012; and (3) a cash  
24 collateral deposit held under an escrow agreement (the "Cash Collateral") to secure other City  
25 obligations; and

1 WHEREAS, As security for its reciprocal obligations under the LDA the Authority  
2 agreed to provide a third-party guaranty and an environmental security deposit to secure its  
3 LDA obligations, including any required restoration of City venues after the Event; and

4 WHEREAS, The LDA requires the City to make an initial \$2.4 million deposit to fund  
5 the Cash Collateral by January 15, 2013; the priority use of such funds would be to secure the  
6 City's obligations to deliver construction projects for waterfront Event venues, including any  
7 obligation to accelerate construction or prepare replacement space should its delivery of  
8 Pier 27, or Piers 30-32, or fire-damaged Pier 29 be delayed beyond the LDA deadlines; and

9 WHEREAS, The LDA further calls for the Cash Collateral account to be replenished to  
10 the full \$2.4 million amount by July 15, 2013 if necessary; and

11 WHEREAS, Beginning in July 2013, the priority for the use of such Cash Collateral  
12 would be to secure the City's Event-related operational obligations over the course of July,  
13 August, and September 2013; and

14 WHEREAS, In addition to the Port's contractual remedies, construction bonds, and  
15 builder's risk insurance coverage available to mitigate the City's costs for construction delays  
16 at Pier 27 and Piers 30-32, the City's Director of Risk Management has identified an  
17 insurance product commonly known as owner's delay insurance (the "Insurance Policy") that  
18 would provide coverage for liquidated damages on the two primary Port construction projects  
19 needed for the events: the core and shell of the Pier 27 Cruise Terminal and the strengthening  
20 of the Piers 30-32 deck to accommodate sailing team bases; and

21 WHEREAS, The Insurance Policy: (a) can be secured for a premium of \$1,015,000;  
22 (b) has a self-insured retention of \$2.4 million (reflecting the amount of the Cash Collateral);  
23 and (c) explicitly provides coverage for the LDA Damages for delays caused by covered  
24 perils; and  
25

1 WHEREAS, A summary of the proposed terms and conditions of the Insurance Policy  
2 is on file with the Clerk of the Board in File No. \_\_\_\_\_ and incorporated herein by reference  
3 as though fully set forth; and

4 WHEREAS, In conjunction with the reduction in security to be provided for the City's  
5 and ACOC's obligations from the \$32 million contemplated under the Host Agreement to the  
6 City's obligation to provide LDA Security in the maximum amount of \$9.8 million (assuming  
7 City payment of the full amount of LDA Damages for delayed venue delivery and the full  
8 exhaustion of both the January and June 2013 \$2.4 million deposits to the Cash Collateral),  
9 the Authority sought to incorporate changes to the force majeure provisions of the LDA under  
10 which certain events will excuse the Port's obligation to deliver Pier 27 and Piers 30-32 by  
11 March 1, 2013; and

12 WHEREAS, Subject to good faith efforts to obtain subsequent Board approval, the City  
13 agreed to revise the force majeure provision to remove the following events: (a) fire;  
14 (b) unusually severe weather; and (c) labor disputes or strikes directed at the City's  
15 construction or other Event-related site preparation activities at Pier 27 or Piers 30-32; and

16 WHEREAS, The effect of this revision is that the City would be obligated under the  
17 LDA to pay the Authority up to \$5 million in LDA Damages if the City is unable to deliver  
18 Pier 27 or Piers 30-32 by March 1, 2013, even if the delay is caused by fire, unusually severe  
19 weather, or a venue-directed strike; and

20 WHEREAS, The Insurance Policy would fund entirely the City's obligation to pay the  
21 Authority up to \$5 million in LDA Damages if the City is unable to deliver Pier 27 or Piers 30-  
22 32 by March 1, 2013 for the events listed in the draft declaration, which include fire or  
23 unusually severe weather; and

24 WHEREAS, As an underwriting matter, however, insurers will not insure against delays  
25 due to labor disputes as they are considered to be under the insured party's control; and

1 WHEREAS, Based on a review of City construction project experience over the past  
2 several years, staff believes that a strike against the project is a remote risk and one that the  
3 City can manage more directly than the other force majeure events that are outside of the  
4 City's control; and

5 WHEREAS, Based on the factors above, the City's Director of Risk Management  
6 recommends procurement of the Insurance Policy upon approval of this Resolution by the  
7 Board; and

8 WHEREAS, The projected expenditures for the Events as reflected in the City's current  
9 two-year budget included amounts sufficient to pay the premium for the Insurance Policy and  
10 the deposits to the Cash Collateral referenced above, subject to reimbursement by ACOC;  
11 now, therefore, be it

12 RESOLVED, That the changes to the definition of force majeure as specified in  
13 Section 3.15 of the LDA are hereby approved; and, be it

14 FURTHER RESOLVED, That this Board hereby authorizes and directs the America's  
15 Cup Project Director and the Director of Risk Management to take all steps to procure the  
16 Insurance Policy described in this Resolution; and, be it

17 FURTHER RESOLVED, That this Board reaffirms its direction under Resolution  
18 No. 109-12 to the America's Cup Project Director and the Executive Director of the Port, as  
19 applicable, to provide the following progress reports: (i) to the City Controller and the Budget  
20 & Finance Committee of the Board of Supervisors on a quarterly basis, a report on (A) ACOC  
21 fundraising and transfers of such revenues to the City, (B) Port infrastructure expenditures in  
22 preparation for the Event and (C) City operating expenditures for the Event; and (ii) if ACOC  
23 does not contribute \$32 million to the City to defray its costs, a proposal for cost saving  
24 measures to offset any shortfall from Event-related tax and fundraising revenues; and, be it

1           FURTHER RESOLVED, That this Board authorizes and urges the Director of the Risk  
2     Management Division, the Executive Director of the Port, the Director of the Office of  
3     Economic and Workforce Development and any other appropriate officers, agents or  
4     employees of the City to take any and all steps (including, but not limited to, the execution and  
5     delivery of any and all certificates, agreements, permits, notices, consents and other  
6     instruments or documents), as they or any of them deems necessary or appropriate, in  
7     consultation with the City Attorney, in order to consummate the transactions in accordance  
8     with this Resolution, or to otherwise effectuate the purpose and intent of this Resolution, such  
9     determination to be conclusively evidenced by the execution and delivery by any such person  
10    or persons of any such documents; and be it

11           FURTHER RESOLVED, That the Board of Supervisors approves, confirms and ratifies  
12    all prior actions taken by the officials, employees and agents of the Port Commission or the  
13    City with respect to the transactions and agreements described herein.