

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

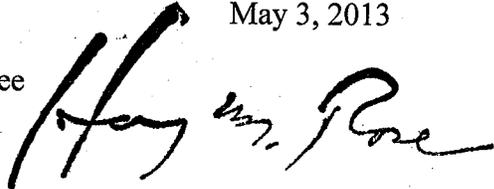
BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

May 3, 2013

TO: Budget and Finance Sub-Committee

FROM: Budget and Legislative Analyst



SUBJECT: May 8, 2013 Budget and Finance Sub-Committee Meeting

TABLE OF CONTENTS

Item	File	Page
1	13-0244 Health, Business and Tax Regulations Code – Regulate and Establish Annual Fees – Cottage Food Operations.....	1
3	13-0342 Lease Amendment – Master Bike Rental Concession – ParkWide Activities, LLC	5
5	13-0286 Term Sheet Endorsement – Development of Sewall Lot 337 and Pier 48 and Finding of Fiscal Feasibility	10
6	13-0072 Airport Concession Lease – Clear Channel Outdoor, Inc., dba Clear Channel Airports - \$10,000,000 Minimum Annual Guarantee	40
7	13-0277 Agreement – Engineered Arresting Systems Corporation – Not to Exceed \$40,000,000.....	57
8&9	13-0370 Appropriation and De-Appropriation – Equipment Lease Revenue Bonds, Series 2013A - \$2,056,612 – FY 2012-2013 13-0376 Issuance – Equipment Lease Revenue Bonds, Series 2013A – Finance Corporation Equipment Program – Not to Exceed \$12,500,000.....	62

Item 1 File 13-0244	Department: Department of Public Health
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would add Section 452.1 to the City’s Health Code and Section 249.1A to the City’s Business and Tax Regulation Code to be consistent with State law and to: (a) allow cottage food operations; (b) designate the Department of Public Health Program on Health, Equity, and Sustainability (DPH) as the permitting and regulatory authority; (c) establish eligibility requirements for cottage food operations; and (d) statutorily set permitting fees. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Governor signed AB1616, the Cottage Food Operations Act, into law on September 21, 2012. The Cottage Food Operations Act requires local governments to establish programs and fees to regulate cottage food operations effective January 1, 2013. • Cottage food operations are micro-enterprises that earn less than \$35,000 in revenue in calendar year 2013 and have one or fewer non-familial employees. • Per the Cottage Food Operations Act, cottage food operations may now sell certain food products, prepared in a home kitchen, either directly (for Class A permits) or indirectly (for Class B permits) to consumers. • The proposed ordinance would establish a two-tier permit system for cottage food operations depending on whether or not the food items will be sold via third-party vendor and allow DPH to charge \$100 for Class A applications and \$332 for Class B applications. Additionally, Class B permit-holders will pay a \$350 annual permit fee. <p style="text-align: center;">Fiscal Impacts</p> <ul style="list-style-type: none"> • The DPH estimates that permit fees will generate \$25,860 in revenue in FY 2013-2014. • The DPH estimates that staff time and overhead costs in FY 2013-14 will be \$26,006, resulting in fee revenues equal to 99.4% of DPH costs. At this point, DPH does not anticipate the need to hire any additional staff. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve proposed ordinance. 	

MANDATE STATEMENT / BACKGROUND

Mandate Statement

In accordance with Section 2.105 of the City's Charter, any amendments to the City's Health Code and Business and Tax Regulations Code are subject to approval by ordinance of the Board of Supervisors.

Background

The California Retail Food Code requires the California Department of Public Health (CDPH) to regulate health and sanitation standards for retail food facilities. Prior to September 21, 2012, the law did not allow individuals or food retailers to sell or use foods that were prepared in a home kitchen.

Assembly Bill 1616 (the Cottage Food Operations Act) changed these provisions and allows cottage food operators to prepare certain types of food in private homes and then sell certain food items either directly to consumers or to food facilities. Assembly Bill 1616 also:

- Excludes a cottage food operation from specified food processing establishment requirements;
- Requires a cottage food operation to meet specific requirements relating to training, sanitation, preparation, labeling, and permissible types of sales;
- Subjects a cottage food operation to inspections under specific circumstances; and
- Requires a food facility that serves a cottage food product, without its original packaging or labeling, to identify that food product as homemade.

Under Assembly Bill 1616, a "cottage food operation" is an enterprise located in the City that does not generate more than \$35,000 in gross annual sales in the calendar year 2013, is operated by a cottage food operator, and has not more than one full-time equivalent cottage food employee not related to the operator. The gross annual sales threshold increases in 2014 to \$45,000 and then again to \$50,000 in 2015.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would make the City compliant with State law by (1) adding Section 452.1 to the City's Health Code to establish a procedure for regulating cottage food operations; and (2) adding Section 249.1A to the City's Business and Tax Regulations Code to establish annual fees payable by cottage food operators to the DPH for licensure and administration. The proposed ordinance establishes and defines a two-tier cottage food operation system and delegates the regulatory responsibility to the Department of Public Health Program on Health, Equity, and Sustainability (DPH). Cottage food operations will be divided into two groups that include:

“Class A” cottage food operations, which may only sell certain food products directly to consumers at events such as: holiday bazaars; farmer's markets or farm stands including community-supported agriculture subscriptions; and bake sales or food swaps.

“Class B” cottage food operations, which may sell cottage food products both (a) directly to consumers at the same locations as Class A as well as (b) indirectly via third-party retail food facilities such as cafeterias and restaurants.

Operators of both Class A and Class B cottage food operations must complete food-handling and preparation courses and can only sell foods that are CDPH-approved. CDPH makes the list of approved foods available on their website and includes allowable, non-hazardous foods including: baked goods that do not include cream, custard, or meat filling; candy; dried fruit; dried nuts; chocolate-covered dried fruit and nuts; dried pasta; honey and sweet sorghum syrup; herb blends and dried mole paste; dried baking mixes; fruit pies, fruit empanadas, and fruit tamales; jams, jellies, preserves, and fruit butter; nut mixes and nut butters; popcorn; vinegar and mustard; roasted coffee and dried tea; and waffle cones and pizelles. CDPH may expand the list as additional, non-hazardous foods are considered and approved.

Operators of both Class A and Class B cottage food operations must also: (1) obtain all necessary business licenses and permits from the City; (2) comply with local zoning ordinances; and (3) comply with State labeling requirements.

DPH may inspect any cottage food operation. For Class A cottage food operations, DPH may only inspect a cottage food operation after a consumer files a complaint or if DPH has a reasonable suspicion that the cottage food operator has violated the law. Class B cottage food operations will be subject to more rigorous permitting requirements including up to one inspection a year for compliance in addition to any inspections resulting from a complaint or a reasonable suspicion that the cottage food operator has violated the law. The proposed ordinance allows DPH to revoke the license of any cottage food operator that violates food safety laws.

FISCAL IMPACTS

The proposed ordinance would add Section 429.1A to the City’s Business and Tax Regulations Code to set the fees for Class A registration and for Class B applications and permits. Table 1 below shows the proposed fees, the estimated number of applications, and the estimated total annual revenues to be realized by DPH.

Table 1: Proposed Cottage Food Operations Permit Fees

	Fee	Number of Annual Applications	Total Estimated Annual Revenues
Class A Registration	\$100	54	\$5,400
Class B Application	\$332	30	\$9,960
Class B Annual Permit	\$350	30	\$10,500
Total Estimated Annual Revenues			\$25,860

The Class A registration is the least expensive fee since these cottage food operations can only sell their foods directly to consumers. Additionally, Class A cottage food operations will not be

inspected as a part of the application process. Instead, Class A applicants will submit a self-certification checklist testifying that they adhere to all food laws and meet all prerequisites.

Class B permit-holders will pay an annual \$350 permit fee as well as a one-time, \$332 application fee. The application fee will pay for processing, which includes verifying the appropriate business licenses as well as zoning compliance. Because the Class B permit-holders will be inspected annually, the annual registration fee is higher than the Class A registration fees.

Table 2 below summarizes Class A and Class B application and registration fees for various counties in California.

Table 2: Cottage Food Operation Registration and Application Fees

Locality	Class A	Class B
San Francisco	\$100	\$332
Alameda County	150	225
Contra Costa County	95	304
Los Angeles County	65	194
Santa Clara County	219	635
San Mateo County	153	306
Monterey County	65	260
San Joaquin County	125	250
Solano County	96	316
Napa County	119	238
Sonoma County	139	348
Average	\$121	\$310

As shown in Table 3 below, the DPH estimates that staff time and overhead costs in FY 2013-14 will be \$26,006. The estimated annual fee revenues of \$25,860, as shown in Table 1 above, would recover 99.4% of the DPH costs. DPH does not anticipate the need to hire any additional staff at this time to administer the cottage food operations program.

Table 3: Estimated FY 2013-14 Department of Environmental Health Program Costs

Position	
Senior Environmental Health Inspector	\$ 14,265
Senior Clerk	3,219
Overhead and Operating Costs	8,522
Total Costs	\$ 26,006

RECOMMENDATION

Approve the proposed ordinance.

Item 3**File 13-0342****Department:**

Recreation and Park Department (RPD)

EXECUTIVE SUMMARY**Legislative Objectives**

- The proposed resolution would authorize the amendment of the existing five-year lease between the Recreation and Park Department (RPD), as landlord, and ParkWide Activities, LLC (ParkWide) as tenant, for the operation of bicycle rental concessions in five City park locations to (1) expand operations to two additional locations - Alvord Lake (east end of Golden Gate Park on Stanyan Street at Haight Street), and Ocean Beach; and (2) remove the John F. Kennedy Drive location from the lease (John F. Kennedy Drive at 8th Avenue in Golden Gate Park).

Key Points

- ParkWide would have the option to terminate the lease with respect to either or both of the two additional locations, Alvord Lake and Ocean Beach, if those locations are found to be low performing. However, the time period in which the two additional locations could be eliminated is not specified in the proposed lease amendment.
- The proposed lease amendment would allow ParkWide to submit written requests to operate at additional City park locations on a trial basis not to exceed 6 months, subject to approval by the RPD General Manager.

Fiscal Impacts

- Under the proposed amended lease, the base rent would be \$578,505 over the remaining four-year lease term, which is \$1,939 more than the base rent of \$576,566 under the existing lease.

Policy Considerations

- Section E of the proposed lease amendment includes a provision allowing ParkWide the ability to terminate the two new locations which are the subject of the proposed resolution within a “trial period” and “evaluation period”, with neither term’s time span defined. According to RPD, the time span is one year.
- The six-month trial period for other potential new locations included in the proposed lease amendment would remove Board of Supervisors approval and allow approval by the RPD General Manager instead for any of those new locations for the six-month period.

Recommendations

- The Board of Supervisors should amend the proposed resolution to direct RPD to amend the proposed lease amendment to delete the term “evaluation period” and replace it with the term “trial period” and specify that the length of the trial period is one year.
- If the Board of Supervisors wishes to retain the right to approve all future expansion of bicycle rental concessions at City park site locations, the proposed resolution should be amended to request RPD delete the provisions stating that the RPD General Manager has the authority to approve new locations on a six-month trial period basis.
- Approve the proposed resolution, as amended.

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

Charter Section 9.118(c) requires that any amendment of a lease, which extends for ten or more years or has anticipated revenue to the City and County of \$1,000,000 or more, must first be approved by resolution of the Board of Supervisors.

Background

On March 15, 2011, the Board of Supervisors approved a new five-year lease from August 17, 2011 through August 16, 2016, with one three-year option to extend, between Recreation and Park Department (RPD) as landlord and ParkWide Activities, LLC (ParkWide) as tenant to operate bicycle rental concessions in the following five park locations: (1) Golden Gate Park Bandshell, (2) JFK Drive at Hagiwara Tea Garden Drive in Golden Gate Park, (3) Marina Green, (4) Justin Herman Plaza, and (5) Union Square Plaza (Resolution no 127-11).

The existing lease permits ParkWide to expand the initial five bicycle rental concession locations to additional, non-specified City park locations in the future, subject to the approval of the Board of Supervisors. In addition, any proposed increases in rates or charges for bicycle rentals are subject to Recreation and Park Commission approval.

The existing lease requires ParkWide to pay RPD the greater of either (1) the annual base rent¹ of \$127,400, increased annually by the greater of either five percent or the Consumer Price Index (CPI), or (2) 13.5 percent of gross receipts if gross receipts are less than \$1,500,000; 15.0 percent of gross receipts if gross receipts are equal to or greater than \$1,500,000 but less than \$2,000,000; or 17.0 percent if gross receipts are equal to or greater than \$2,000,000. Gross receipts include revenue from bicycle rental charges and the limited retail concession sales permitted under the proposed lease.

On a monthly basis, in addition to the monthly base rent, ParkWide pays an amount equal to the percentage rent using the applicable percentage of gross receipts specified above and the base rent each month. Once the monthly rent paid by ParkWide to RPD reaches the annual base rent, ParkWide pays nothing in base rent but pays the applicable percentage rent for the remainder of the year. Table 1 below summarizes the base rent payable by ParkWide to RPD over the five-year term of the existing lease.

Table 1: Summary of Base Rent Under the Existing Lease

Lease Year	Base Rent
1	\$127,400
2	133,770
3	140,459
4	147,481
5	154,856
Total	\$703,966

¹ Base rent varies by month, with rent being highest during the spring and summer.

The existing lease specifies the amount that each of the five RPD park locations contributes to the annual base rent in Year 1 in order to allow for rent to be prorated based on when each bicycle concession location began operations. Under the existing lease, prorating of rent was allowed for the first three months of the existing lease, after which ParkWide is obligated to pay full rent each month based on the monthly scheduled rent payments.

According to Ms. Cassandra Costello, Property Manager for RPD, ParkWide has paid RPD \$162,854 in rent from August 17, 2011 through December 31, 2012, as shown in Table 2 below. The base rent received in Year 1 is \$37,854 less than the \$127,400 in base rent included in the existing lease for Year 1 and \$5,565 less than the seven months' of base rent due in Year 2 equal to \$59,535. Ms. Costello advises this is due to several locations not going into operation immediately upon the existing lease's execution and due to the Force Majeure² provision being utilized at the Justin Herman Plaza location because of the Occupy SF protests which took place there.

Table 2: Rent Received Under Existing Lease

	Base Rent	Percentage Rent (13.5%)	Total
Year 1 (12 months from August 2011 – July 2012)	\$89,546	\$15,340	\$104,886
Year 2 (5 months from August 2012 – February, 2013)	53,970	3,998	57,968
Total	\$143,516	\$19,338	\$162,854

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the amendment of the existing lease between RPD as landlord and ParkWide Activities, LLC (ParkWide) as tenant, for the operations of bicycle rental concessions to (1) expand operations to two new locations - Alvord Lake (east end of Golden Gate Park on Stanyan Street at Haight Street), and Ocean Beach; and (2) remove the existing John F. Kennedy Drive Golden Gate Park location from the lease, resulting in a total of six bicycle rental concessions in City park locations.

ParkWide would have the option to terminate the lease with respect to either or both of the two additional locations, Alvord Lake and Ocean Beach, if those locations are found to be low performing. Termination of either or both additional locations would be contingent upon consent of the RPD General Manager. Termination of operations at the two new proposed locations

² A force majeure provision was included in the existing lease which states that neither ParkWide nor RPD would be liable for any delay or failure to perform under the existing lease due to (a) any strike, lockout or other labor or industrial disturbance (whether or not on the part of the employees of either party), civil disturbance, future order claiming jurisdiction, act of the public enemy, war, riot, sabotage, blockade, embargo, inability to secure customary materials, supplies or labor through ordinary sources by reason of regulation or order of any government or regulatory body; (b) any changes in any applicable laws or the interpretation thereof; or (c) any flood, washout, explosion, or (d) any other cause beyond the reasonable control of the party from whom performance is required.

would require ParkWide to provide a written termination request notice to RPD with a minimum of 30 days' notice and evidence that the two additional locations had adequate operating staff during the evaluation period, which is not defined in either the existing lease or the proposed lease amendment. The termination would only be allowed after 120 days of operation. In addition, ParkWide may provide additional evidence of efforts to successfully operate at the two additional locations for the RPD General Manager to evaluate. The RPD General Manager would be required to provide a response to ParkWide within 30 days of the City's receipt of the Termination Request Notice and accompanying documentation.

The proposed lease amendment also grants ParkWide the right to place two 20-foot storage containers and one 18-foot truck and one 20-26 foot trailer in the Park Ranger Compound Annex for the storage of materials and equipment used in connection with the bicycle rental concession at the Alvord Lake location. In addition, the proposed lease amendment grants ParkWide the right to place one 20-foot storage container for the storage of materials and equipment used in connection with the bicycle rental concession at the Ocean Beach location. If bicycle rental concession at Alvord Lake should be terminated, ParkWide would be allowed to continue renting the space for one 18-foot truck and one 20-26 foot trailer at a rental rate of \$300 per month, with a 10-day advance termination notice requirement.

The proposed lease amendment would also allow the RPD General Manager to approve modifications to the minimum hours and/or days of operation at any of the six sites under the amended lease. In addition, rather than requiring Recreation and Park Commission approval, the RPD General Manager would also be able to approve any increases in bicycle rental rates or charges.

Finally, the proposed lease amendment would allow ParkWide to submit written requests to operate at additional City park locations on a trial basis not to exceed six months, subject to approval by the RPD General Manager. Base rent and percentage rent would be negotiated by RPD and ParkWide prior to the commencement of operations at any additional location. If the six-month trial period is successful for any given additional location, RPD would then seek approval of the Board of Supervisors to amend the lease and allow for continued operation at that additional location.

FISCAL IMPACTS

Under the proposed resolution, the amount of base rent would be adjusted to account for the elimination of the existing John F. Kennedy Drive locations and the addition of two additional locations at Alvord Lake and Ocean Beach. Ms. Costello advises that the new base rent in Year 2 would be \$134,220 if the proposed resolution is approved, \$450 more than the base rent under the existing lease.

As summarized in Table 3 below, under the proposed amended lease, the base rent would be \$578,505 over the remaining four-year lease term, which is \$1,939 more than the base rent of \$576,566 under the existing lease. Percentage rent would be determined in the same manner as the existing lease.

Table 3: Base Rent Breakdown by Each of the Five Park Locations Under the Proposed Resolution

Lease Year	Existing Base Rent	Proposed Base Rent	Difference
2	\$133,770	\$134,220	\$450
3	140,459	140,931	472
4	147,481	147,978	497
5	154,856	155,376	520
Total	\$576,566	\$578,505	\$1,939

POLICY CONSIDERATIONS

Section E of the proposed lease amendment includes a provision allowing ParkWide the ability to terminate the two new locations which are the subject of the proposed resolution within a “trial period” and “evaluation period”, with neither term’s time span defined. The termination of either location could occur after 120 days of the location being in operation. According to Ms. Costello, that “evaluation period” or “trial period” is one year. In order to provide consistency in terminology the term “evaluation period” should be removed from the proposed lease amendment and replaced with “trial period”. In addition, the time span for the trial period of the two new locations should be specified in the proposed lease amendment to stipulate the one-year limitation on the option to terminate.

The six-month trial period for other potential new locations included in the proposed lease amendment would not require Board of Supervisors approval and instead would only require approval of any potential new locations subject to the six-month trial period by the RPD General Manager. If the Board of Supervisors wishes to retain the right to approve all future expansion of additional bicycle rental concessions at additional City park locations that have not been specified under the proposed lease, the proposed resolution should be amended to require Board of Supervisors approval.

RECOMMENDATIONS

1. Amend the proposed resolution to direct RPD to amend the proposed lease amendment to delete the term “evaluation period” and replace it with the term “trial period” and specify that the length of the trial period is one year.
2. If the Board of Supervisors wishes to authorize all future expansion of additional bicycle rental concessions at City park site locations, the proposed resolution should be amended to request RPD to delete the provisions stating that the RPD General Manager has the sole authority to approve new ParkWide bicycle rental locations on a six-month trial period basis.
3. Approve the proposed resolution, as amended.

Item 5
File 13-0286

Departments:
Port of San Francisco

EXECUTIVE SUMMARY

Legislative Objective

Approval of the proposed resolution would (1) find that the proposed Seawall Lot 337 and Pier 48 (Mission Rock) project is fiscally feasible; and (2) endorse the proposed term sheet between the Port and Seawall Lot 337 Associates.

Key Points

- Administrative Code Chapter 29 requires that certain development projects be submitted to the Board of Supervisors for approval of the project's fiscal feasibility prior to submitting the project to the Planning Department for environmental review. Additionally, the Budget and Legislative Analyst recommended in the 2004 Management Audit of the Port that the Port should submit term sheets for projects with development costs greater than \$10 million to the Board of Supervisors for endorsement. The finding that the proposed Mission Rock project is fiscally feasible and endorsement of the proposed term sheet between the Port and Seawall Lot 337 Associates does not commit the Board of Supervisors to future approval of environmental findings under the California Environmental Quality Act (CEQA) or approval of the final lease between the Port and Seawall Lot 337 Associates.
- Under the proposed term sheet, Seawall Lot 337 Associates or an affiliate would construct a mixed use development balancing residential, office, retail, exhibition, and parking uses distributed over a network of newly constructed city blocks as well as three parks and open spaces totaling eight acres on Seawall Lot 337 and Pier 48.
- The Port Commission selected Seawall Lot 337 Associates to develop the Mission Rock project based on a competitive Request for Proposal (RFP) process and authorized Port staff to execute an Exclusive Negotiating Agreement with Seawall Lot 337 Associates on May 25, 2010.

Term Sheet

- The overall approach to the proposed Mission Rock project is a four-phase strategy, where 11 individual development parcels within Seawall Lot 337 (Parcels A – K) and Pier 48 would be developed in four phases as market conditions support that development. Initially, the Port would enter into an umbrella master lease with Seawall Lot 337 Associates, in which the Port receives \$2,400,000 in base rent allocated among eight Seawall Lot 337 parcels plus 66 percent of gross lease revenues net of allowed expenses. The Port would enter into individual ground leases for the Seawall Lot 337 parcels prior to each phase of vertical development based on fair market value.
- Seawall Lot 337 Associates would fund the initial entitlement costs, including planning, environmental review, and land use approvals, in the first phase of the project as well as horizontal infrastructure development costs as needed, to be reimbursed by the Port. In exchange for funding the initial entitlement costs, Seawall Lot 337 Associates would be required to take the two parcels (lead parcels) for the first phase of development as reimbursement.

- Seawall Lot 337 Associates would be reimbursed for any unreimbursed horizontal infrastructure development costs and receive a return on their equity investment in equal to the greater of (a) 20 percent of their unreimbursed equity investment, or (b) 1.5 times the highest balance of their unreimbursed equity investment. Sources of funds to reimburse Seawall Lot 337 Associates include (1) Community Facilities District (CFD) bond proceeds and special taxes paid by future tenants and owners at the site, (2) Port Infrastructure Financing District (IFD) tax increment revenues, and (3) development rights payments for 10 Seawall Lot 337 land parcels. Neither General Port revenues nor the City's General Fund revenues would be used to reimburse Seawall Lot 337 Associates for their equity investment in entitlement and horizontal infrastructure development costs.
- The total estimated costs of the entitlement and horizontal infrastructure development for all phases of the proposed Mission Rock Project are approximately \$154,149,548.
- The vertical development would be paid for through private investment.

Fiscal Feasibility

- The proposed Mission Rock project would (1) yield total annual estimated tax and fee revenues to the City of \$21,496,000 and total one-time taxes and fee revenues of \$60,170,000, (2) generate an estimated 11,020 permanent jobs and 10,130 temporary construction-related jobs, (3) provide an estimated \$1.5 billion in construction expenditures, (4) be financed by \$200,620,247 in Port funds from CFD bonds, tax increment from the establishment of a Port IFD, and development rights payments and \$1.3 billion in private investment, and (5) would fund ongoing maintenance and operational expenses through the creation of a maintenance CFD.
- Financing for the parking structure has yet to be determined. This represents a feasibility gap of approximately \$6,164,578. While SFMTA is considering financing the construction of the parking structure, no agreement has been reached to date. The proposed term sheet includes other financing options, such as offering the development of the parking structure to a private developer.
- The proposed Mission Rock project is fiscally feasible under Chapter 29 of the City's Administrative Code. However, financing for the parking structure currently represents a feasibility gap of \$6,164,578.

Recommendations

1. The Board of Supervisors should amend the proposed resolution to request the Port to include the following recommendations in Mission Rock project transaction documents, including ground leases and the development and disposition agreement (DDA), and report back to the Board of Supervisors on the inclusion of these recommendations at the time of the Board of Supervisors hearing on these documents, as follows:
 - a. Seawall Lot 337 Associates and the Port should establish fair market value and Seawall Lot 337 Associates should accept the two lead parcels as reimbursement towards their equity investment in entitlement costs, based on that fair market valuation, within 90 days of the DDA effective date in order to minimize the amount of the equity investment subject to the 20 percent developer return on equity;

- b. Mission Rock project’s final transaction documents should specify that “unreimbursed” horizontal infrastructure development costs refer only to Seawall Lot 337 Associates unreimbursed equity investment in entitlement and horizontal infrastructure development costs and not project-based debt; and
 - c. The Port should explore and utilize all available public and project financing mechanisms deemed fiscally advantageous and prudent rather than having Seawall Lot 337 Associates fund all of the entitlement and horizontal infrastructure development costs.
2. The Board of Supervisors should amend the proposed resolution to require the Port to report back to the Board of Supervisors on the financing secured for the parking structure as soon as the feasibility gap has been reconciled and prior to the master lease between the Port and Sewall Lot 337 Associates being finalized.
 - Approve the proposed resolution as amended.

MANDATE STATEMENT

Chapter 29 of the City’s Administrative Code requires Board of Supervisors’ approval of certain projects to determine the project’s fiscal feasibility¹ prior to submitting the project to the Planning Department for environmental review if (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA), (b) total project costs are estimated to exceed \$25,000,000, and (c) construction costs are estimated to exceed \$1,000,000.

Chapter 29 specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including the (1) direct and indirect financial benefits to the City, (2) construction costs, (3) available funding, (4) long term operating and maintenance costs, and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of “fiscal feasibility” to mean only that the project merits further evaluation and environmental review and does not include a determination that the project should be approved.

BACKGROUND

Proposed Mission Rock Project Site

The proposed Mission Rock project, which is the subject of the proposed resolution, comprises two pieces of Port property, Seawall Lot 337 and Pier 48. Seawall Lot 337 is an approximately 16-acre site located south of Mission Creek/China Basin Channel in the Mission Bay. Seawall Lot 337 is currently leased to China Basin Ballpark Company², LLC and is used primarily for AT&T Park parking and special events. Under the existing lease, the Port receives base rent of

¹ Chapter 29 excludes various types of projects from the fiscal feasibility requirement, including (a) any utilities improvement project by the Public Utilities Commission, (b) projects with more than 75 percent of funding from the San Francisco Transportation Authority, and (c) projects approved by the voters of San Francisco.

² China Basin Ballpark, LLC is a subsidiary of San Francisco Baseball Associates, LLC (San Francisco Giants). Seawall Lot 337 Associates, the Developer of the proposed project, which is the subject of this resolution, is also a subsidiary of the San Francisco Giants.

\$2,400,000 and 66 percent of gross lease revenues net of allowed expenses. Pier 48 is a pile-supported 212,500 square foot facility.

Pier 48 is the southernmost pier structure in the Port's San Francisco Embarcadero Waterfront Historic District, which was placed on the National Register of Historic Places on May 12, 2006. The Bay Conservation and Development Commission's (BCDC) and Metropolitan Transportation Commission's joint Bay Area Seaport Plan currently designates Pier 48 as a future site of neo-bulk cargo³ shipping and six acres of Seawall Lot 337 adjacent to Pier 48 as backland area for potential cargo operations.

One third of Pier 48 is currently leased to China Basin Ballpark, LLC for AT&T Park parking and special events under the same lease as Seawall Lot 337. The Port also leases a portion of the Pier 48 facility to the Department of Elections and other smaller leases to private businesses. Table 1 below summarizes the \$4,801,497 in rental revenues that the Port received from leases at Pier 48 and Seawall Lot 337 in FY 2011-12 as well as pertinent lease information.

Table 1: Summary of Current Rent Received by Port under Existing Leases

Lessee	Term	Square Feet	Annual Revenue
Pier 48			
Department of Elections	1/1/2012 – 12/31/2015	86,954	\$887,661
Sprint (Cell tower)	7/1/2012 – 6/30/2017	n/a	63,346
China Basin Ballpark	4/1/2012 – 3/31/2017	169,793	See below
Crosslink	1/1/2008 - 6/30/2020	6,974	17,331
One Big Man, One Big Truck Moving Company	Month-to month	4,200	12,096
Subtotal		267,921	\$980,434
Seawall Lot 337			
CBS Outdoor (Billboard)	Month-to-month	n/a	\$36,000
China Basin Ballpark	4/1/2012 – 3/31/2017	586,447	3,785,063
Subtotal		586,447	\$3,821,063
Total		854,368	\$4,801,497

Selection of Seawall Lot 337 Associates for Development of Seawall Lot 337 and Pier 48

In October 2007, the Port initiated a two-phase developer solicitation process for Seawall Lot 337 and Pier 48: an initial Request for Qualification (RFQ) process followed by a second invitation-based Request for Proposal (RFP) process. The Port received four development concepts from four development teams in response to the RFQ, of which two were invited to respond to an RFP on April 22, 2008. The two development teams invited were: (1) Boston Properties, Kenwood Investments, Wilson Meany Sullivan and (2) Cordish Company, Farallon Asset Management, San Francisco Giants.

³ Neo-bulk cargo is uniformly packaged goods consisting entirely of a single commodity, such as cars, lumber, or scrap metal, which can be counted as they are loaded and unloaded.

On August 19, 2008, the two development teams informed the Port of their intention to combine into a single development entity, Seawall Lot 337 Associates, LLC (Seawall Lot 337 Associates). On January 15, 2009, the Port received an RFP submittal from Seawall Lot 337 Associates comprised of the following partners: (1) San Francisco Giants, (2) Wilson Meany Sullivan, (3) Kenwood Investments, (4) Cordish Company, (5) Stockbridge Capital, and (6) Farallon Asset Management.

The RFP submittal was evaluated based on the below criteria:

1. Quality of the Design and Development Submittal, including:
 - a. Response to RFP development objectives;
 - b. Character and quality of the development (e.g. street network, location of buildings and open space, connectivity to the surrounding area, massing and treatment of buildings, quality of open space, clarity in sustainability proposals);
 - c. Quality of Transportation Demand Management Plan;
 - d. Evaluation of development program against public trust principles.
2. Strength of Financial Proposal based on proposed economic return to the Port, determined by base rent and percentage rent or other forms of participation proposed by the Respondent.
3. Financial capacity of the Respondent and economic viability of proposal.
4. Experience, organization and reputation of the Respondent's team on complex projects.

The Port decided to assess the consistency of the RFP response received with each of the RFP criteria noted above qualitatively rather than using a numeric scoring system.

The Port convened a Seawall Lot 337 Advisory Panel⁴ who was responsible for evaluating and making recommendations to the Port Commission regarding the responsiveness of the Seawall Lot 337 Associates' proposal to the Land Use, Open Space, Transportation, Neighborhood Character, Historic Resources & City Form, and Sustainability objectives. Port staff evaluated Seawall Lot 337 Associates' financial proposal and qualifications as well as responsiveness to the RFP's Economic Objectives, with input from the SWL 337 Advisory Panel. Port staff was also assisted by consultants who reviewed and provided technical assessments of various elements of the RFP submittal. The consultants are listed below, along with the area of analysis which was assessed.

- Economic Analysis: CBRE Consulting/Conley Consulting Group
- Physical Planning and Urban Design: BMS Design Group
- Transportation Demand Management Analysis: Nelson/Nygaard Consulting Associates

⁴ The Seawall 337 Advisory Panel, assembled by the Port's Executive Director was made up of seven members with experience in real estate economics, land use planning, environmental issues, architecture/urban design as well as neighborhood and city-wide interests.

- Transportation and Parking: San Francisco Municipal Transportation Agency
- Sustainability: San Francisco Department of the Environment

Port staff concluded that Seawall Lot 337 Associates has the qualifications, experience, and financial qualifications to undertake the Seawall Lot 337 and Pier 48 project (Mission Rock project). However, Port staff also concluded that the RFP submittal did not meet all of the Port's annual rent and other financial criteria. Despite this, Port staff recommended that the Port enter into negotiations with Seawall Lot 337 Associates on an Exclusive Negotiating Agreement (ENA) to assess the feasibility of the project, which was authorized by the Port Commission on May 12, 2009 (Resolution 09-26) to further explore the feasibility of the Mission Rock project.

The Port Commission approved the execution of the ENA on May 25, 2010 (Resolution No. 10-32). The ENA committed the Port to negotiate exclusively with Seawall Lot 337 Associates on the proposed Mission Rock project. However, approval of the ENA does not constitute approval of final leases, a lease disposition and development agreement (DDA), or related documents. No such action is planned until the proposed Mission Rock project has successfully gone through California Environmental Quality Act (CEQA) review.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) find that the proposed Mission Rock project is fiscally feasible; and (2) endorse the proposed term sheet between the Port and Seawall Lot 337 Associates. As noted above, under the Administrative Code, the Board of Supervisors must find the development to be fiscally feasible prior to the Port submitting the project to the Planning Department for environmental review. Additionally, the Budget and Legislative Analyst recommended in a 2004 Management Audit of the Port that the Port should submit term sheets, for projects with development costs greater than \$10 million, to the Board of Supervisors for endorsement. The finding that the proposed Mission Rock project, consisting of Seawall Lot 337 and Pier 48, is fiscally feasible and endorsement of the proposed term sheet between the Port and Seawall Lot 337 Associates does not commit the Board of Supervisors to future approval of environmental findings under the California Environmental Quality Act (CEQA) or approval of the master lease or any subsequent parcel leases between the Port and Seawall Lot 337 Associates or any other parties.

TERM SHEET

The overall approach to the proposed Mission Rock project is a four-phase parcelization strategy, where 11 individual development parcels within Seawall Lot 337 (Parcels A – K) and Pier 48 would be developed in four phases as market conditions support that development. An umbrella master lease between the Port, as lessor, and Seawall Lot 337 Associates, as lessee, would first be entered into and individual parcel leases would be entered into prior to each phase of vertical development.⁵ Each phase is expected to encompass three to four parcels at a time.

⁵ Vertical development encompasses all development of buildings, including any residential, office, or parking structures constructed.

The Port would release parcels for development under new ground leases, based on fair market value, which would be determined by a third party consultant through an appraisal process. Seawall Lot 337 Associates itself, or an affiliate, may acquire development rights⁶ to parcels by exercising Seawall Lot 337 Associates’ option. The Port would offer development rights for some parcels through a public, competitive disposition process as an alternate means to determine fair market value if Seawall Lot 337 Associates or an affiliate does not exercise its option and in certain other circumstances.

Under the proposed term sheet, Seawall Lot 337 Associates or an affiliate would construct a mixed use development balancing residential, office, retail, exhibition, and parking uses distributed over a network of newly constructed city blocks. In addition, Seawall Lot 337 Associates, or an affiliate, would develop three parks and open spaces totaling eight acres. Figure 1 and Table 2 below summarize the proposed uses.

Figure 1: Proposed Mission Rock Project



⁶ Development rights refer to vertical development only.

Table 2: Proposed Mission Rock Development Uses

Parcel	Proposed Use							Maximum Height (feet)	Total Square Feet
	Commercial	Residential	Residential (Units)	Retail	Parking	Parking (Spaces)	Pier Use		
A	0	296,000	304	25,000	80,500	163		320	401,500
B	230,000	0	0	25,000	60,000	128		160	315,000
C	260,000	0	0	20,000	60,000	128		280	340,000
D	50,000	0	0	7,500	850,000	2,297		100	907,500
E	140,000	0	0	10,000	0	0		120	150,000
F	0	344,000	353	12,400	0	0		380	356,400
G		0	0	17,500	47,000	100		160	64,500
H	243,000	0	0	12,000	0	0		160	255,000
I	185,000	0	0	12,000	0	0		190	197,000
J	0	180,000	185	10,000	0	0		190	190,000
K	0	100,000	103	10,000	0	0		160	110,000
Pier 48							212,500	38	212,500
Total	1,108,000	920,000	945	161,400	1,097,500	2,816	212,500		3,499,400

Seawall Lot 337 Associates Would Fund Entitlement Costs

Seawall Lot 337 Associates would fund the initial entitlement costs, including planning, environmental review, and land use approvals, in the first phase of the project. In exchange, Seawall Lot 337 Associates would be required to take the first two parcels (lead parcels) for the first phase of development as reimbursement for the initial entitlement costs to be incurred by Seawall Lot 337 Associates, as discussed further below.

Zoning Changes and General Plan Amendment Would be Necessary

Seawall Lot 337 is currently zoned MB- OS (Mission Bay – Open Space) and Pier 48 is zoned M-2 (Industrial, Heavy). The proposed Mission Rock project would not be permitted within the existing MB-OS District due to the planned mixed uses and therefore would need to be rezoned in order to proceed. The Port plans to seek rezoning of Seawall 337 as a special use district, which would allow for the planned mix uses by rezoning individual parcel uses for commercial, residential, or parking purposes. In addition, the special use district would establish height and bulk limits for Seawall Lot 337. The rezoning would require both a Planning Code text amendment and a Zoning Map amendment, which would be subject to approval by the Board of Supervisor following Planning Commission approval. In addition, the Port may seek rezoning of Pier 48 to restrict long-term use to uses compatible with the rest of the proposed Mission Rock project. Finally, the rezoning would necessitate an amendment to the Port's Waterfront Land Use Plan, subject to Port Commission approval.

According to the Planning Department's Preliminary Project Assessment of the proposed Mission Rock project, it would also likely be necessary to amend the City's General Plan as well. The City's General Plan amendments may be initiated by the Planning Commission or Seawall Lot Associates during the entitlement phase.

Other Regulatory Approvals and Amendments Would Be Necessary

State Law Lifts Public Trust Use Restrictions at Seawall Lot 337

Most Port land is subject to public trust use restrictions allowing use of Port property exclusively for the promotion of maritime commerce, navigation, fisheries, environmental and public recreation. State Senate Bill (SB) 815, signed into law on October 13, 2007, lifts these public trust use restrictions from Seawall Lot 337 and other specified Port seawall lot sites until January 1, 2094 to enable greater economic development and revenue generation, provided that new revenue from the leasing of Seawall Lot 337 be deposited in the Port's Harbor Fund and used to fund the preservation of the pieces of Port property placed, or eligible for placement, on the National Register of Historic Places and the construction and maintenance of waterfront public open space recognized in Bay Conservation and Development Commission (BCDC) San Francisco Bay Special Area Plan and the joint BCDC/Metropolitan Transportation Commission San Francisco Bay Area Seaport Plan. Any lease entered into at Seawall Lot 337 must be approved by the State Lands Commission based on the lease (a) being rented at fair market value, (b) retaining public trust uses, such as public parks and walkways, restaurants, hotels, waterfront visitor-serving retail services, and (c) being in the best interest of the State.

Amendment of the Bay Area Seaport Plan is Required

The BCDC Bay Area Seaport Plan currently designates Pier 48 as a future site of neo-bulk cargo shipping and six acres of Seawall Lot 337 adjacent to Pier 48 as backland area for potential cargo operations. Therefore, before going forward with the proposed Mission Rock project, BCDC would need to approve an amendment to the Bay Area Seaport Plan to allow for the proposed uses. BCDC's Special Area Plan also restricts replacement landfill and water-dependent uses at Pier 48. Planned seismic upgrades may therefore necessitate that the Special Area Plan be amended. In addition, any development within 100 feet of the shoreline would be subject to BCDC approval.

According to Mr. Jonathan Stern, Associate Deputy Director of Waterfront Development Projects at the Port, additional statutory, regulatory, or plan amendments may be necessary and would be sought if that is found to be the case.

Public Financing Mechanisms Under Consideration

Port Infrastructure Financing District

State law authorizes the establishment of a Port Infrastructure Financing District (IFD) to finance public improvement projects along the San Francisco waterfront. The Port IFD may finance the same types of improvement projects that are financed by non-Port IFDs (open space, parks, and street improvements), as well as projects specific to the Port, including removal of bay fill, storm water management facilities, shoreline restoration, and maritime facility improvements. Increased property tax revenues resulting from certain Port development projects (tax increment) may be redirected from the City's General Fund to the Port IFD in order to finance public improvements, subject to Board of Supervisors approval.

A Port IFD may be divided into individual project areas. Eight project areas are currently included in the proposed Port IFD, previously approved by the Board of Supervisors, including Pier 48. Seawall Lot 337 is not currently included as a project area. However, according to Mr. Stern, the Port plans to seek Board of Supervisors approval of an amendment to add Seawall Lot 337 to the proposed project areas in order to receive tax increment within the area to enable funding of the proposed Mission Rock project. The tax increment could be used to either fund the proposed Mission Rock project on a pay-as-you-go basis or IFD bonds could be issued using the tax increment to pay debt service.

Community Facilities District

A Community Facilities District (CFD) could be formed over the entire proposed Mission Rock project site, which would allow special taxes to be levied against the leasehold and fee interests on taxable parcels, with improvement areas annexed to the CFD at each phase. These special taxes could be used to finance the proposed Mission Rock project or CFD bonds could be issued using the special taxes as security.

Maintenance Community Facilities District

A maintenance CFD could be established over the entire proposed Mission Rock project site, with areas annexed to the maintenance CFD as each phase is completed. Maintenance special taxes levied against each taxable parcel would provide pay-as-you-go funds for operating and maintenance costs of public facilities, which would be specified in the lease disposition and development agreement (DDA) when completed.

Seawall Lot 337 Associates Would Enter Into a Master Lease with the Port for Seawall Lot 337 Once Fully Entitled and Individual Parcel Leases at Each Phase of Development

Once the proposed Mission Rock project is fully entitled, the Port and Seawall Lot 337 Associates would enter into a master lease for Seawall Lot 337, where the Port receives \$2,400,000 in base rent allocated among eight parcels (the two lead parcels, the parking structure parcel, and Pier 48 are excluded from the master lease) plus 66 percent of gross lease revenues net of allowed expenses, with revenues matching existing revenues under leases for Pier 48 and

Seawall Lot 337. The master lease would not expire until all parcels on Seawall Lot 337 have been leased for development.

The Port believes that it may be able to obtain State approval for a trust swap that would allow the Port to sell up to two of the parcels free of the public trust. If so, the Port would deposit the proceeds of sale into a development rights account to be used to pay any accrued developer return on equity and to reimburse Seawall Lot 337 Associates for unreimbursed horizontal infrastructure development⁷ costs.

The Port and Seawall Lot 337 Associates will begin negotiations of the master lease and the DDA after the proposed term sheet, which is not contractually binding, is approved. The Port will present the DDA, which sets out the terms of the development project but is not subject to Board of Supervisors approval, at the time that they submit the master lease to the Board of Supervisors for approval. Table 3 below summarizes the proposed term sheet between the Port and Seawall Lot 337 Associates.

Table 3: Summary of Proposed Term Sheet

Term Sheet Provision	Proposed Terms
Total Estimated Project Cost	\$1.5 billion
Project Description	<ul style="list-style-type: none"> • Horizontal and vertical development of Seawall Lot 337 with commercial, residential, open space, and retail uses. • Rehabilitation and reuse of Pier 48, with improvements to and preservation of aprons for public access and maritime operations.
Phasing	<ul style="list-style-type: none"> • Development would be completed in four phases, with public benefits (parks and parking structure) distributed among phases. • The Port and Seawall Lot 337 Associates would cooperatively decide on timing of each phase of vertical development.
Project Debt	<ul style="list-style-type: none"> • Financing mechanisms have not been finalized but there are three under consideration: <ul style="list-style-type: none"> • Community Facilities District (CFD) Bonds • Infrastructure Financing District (IFD) Bonds
Port's Capital	<ul style="list-style-type: none"> • Development Rights Payments • Special Taxes from CFD formation • Tax Increment from the establishment of an Infrastructure Financing District

⁷ Horizontal infrastructure development encompasses all public improvements, including the installation of streets, sidewalks, parks / open space, public access areas, water, sewer and electrical utilities, and other infrastructure.

Table 3: Summary of Proposed Term Sheet (continued)

Term Sheet Provision	Proposed Terms
Seawall Lot 337 Associates Equity	<ul style="list-style-type: none"> Seawall Lot 337 Associates equity contribution is to procure all entitlements and pay related costs and pay for horizontal infrastructure development costs, as necessary, to be reimbursed by the City.
Master Lease Term	The term of the master lease would end when all of the parcels have been released for development.
Master Lease Base Rent	<ul style="list-style-type: none"> \$2,400,000 annually and 66 percent of gross lease revenues As parking activities are removed from the parcels that are leased to initiate development, the rent terms would be reduced in proportion to the decrease in parking spaces.
Term of Parcel Ground Leases	<ul style="list-style-type: none"> 75 years Rent payments would be the greater of base rent and percentage rent, as described below.
Parcel Lease Reserve Rent ⁸	<ul style="list-style-type: none"> Serves as a floor for the annual base rent the Port expects to receive under individual parcel leases after deducting development rights payments. The Port would not be required to enter into an individual parcel lease less than reserve rent⁹ for that parcel. \$3,500,000 in aggregate annual rent to be received under eight parcel leases (excepting lead parcels, parking structure, and Pier 48), allocated among the eight parcels and taking into account their projected use and floor area ratio. If the Port agrees to enter into a parcel lease with prepaid rent or with a greater proportion of the rent as percentage rent, the reserve rent would be adjusted.
Parcel Lease Base Rent	<ul style="list-style-type: none"> Initial annual base rent for each parcel would be determined in relation to the amount of each parcel's development rights payment and to-be-determined fair market value with the goal of the sum of base rent and development rights payment being equal to the fair market value.

The Attachment to this report contains further details of the proposed term sheet.

⁸ The parcel lease reserve rent is the minimum annual base rent in aggregate for the eight parcels, which would be under the master lease, divided among the eight parcels.

Entitlement and Horizontal Development Sources and Uses of Funds

The total estimated costs of the entitlement and horizontal infrastructure development for all phases of the proposed Mission Rock Project are approximately \$154,149,548. The estimated sources of funds and total project costs for the proposed Mission Rock project are shown in Table 4 below.

Table 4: Estimated Sources and Uses of Funds for Infrastructure

Uses of Funds	
Entitlement Costs	(\$20,000,000)
Horizontal Development	(134,149,548)
Total Uses	(\$154,149,548)
Sources of Funds	
CFD Bonds	\$139,991,412
IFD Tax Increment	9,158,136
Prepayment of 2 Lead Parcels' Lease	24,637,628
Sale of Development Rights to Remaining 8 Parcels	26,833,070
Total Sources	\$200,620,246
Balance	
Total Developer Return on Equity	\$46,470,698

Seawall Lot 337 Associates equity would pay for all entitlement costs and horizontal infrastructure development costs as needed in all phases of the project, currently estimated to total \$154,149,548 with the understanding that the Port would reimburse those costs plus pay a developer return on equity on those costs (see below). Sources of funds to reimburse Seawall Lot 337 Associates include (1) CFD bond proceeds and special taxes paid by future tenants and owners at the site, (2) IFD tax increment revenues, and (3) development rights payments for 10 Seawall Lot 337 land parcels. Neither General Port revenues nor the City's General Fund revenues would be used to reimburse Seawall Lot 337 Associates for their equity investment in entitlement and horizontal infrastructure development costs.

CFD Bond Proceeds

The Port currently anticipates issuing \$139,991,412 in CFD bonds once development begins. However, another form of debt may substitute for the CFD bond issuance. Other forms of debt currently being considered are IFD bonds.

IFD Pay-As-You-Go

The Port currently anticipates utilizing \$9,158,136 in tax increment from the Port IFD as a funding source for the Mission Rock project.

Development Rights Payments

The Port currently anticipates receiving development rights payments of (1) \$24,637,628 in fair market value for the two lead parcels, and (2) \$26,833,070 in fair market value sale of development rights proceeds for eight Seawall Lot 337 land parcels, for a total of \$51,470,698. The two lead parcels and the other eight Seawall Lot 337 land parcels would not be transferred to the developer (Seawall Lot 337 Associates) and to other developer affiliates until the land parcels are fully entitled. Development rights payments would be used to fund entitlement costs, horizontal infrastructure development costs, and developer return on equity as shown above in Table 4.

Seawall Lot 337 Associates' Return on Equity

Under the proposed term sheet, Seawall Lot 337 Associates would pay for all project entitlement and horizontal infrastructure development costs as needed (equity investment), subject to reimbursement by the Port. Seawall Lot 337 Associates would receive a return on their equity investment, equal to the greater of (a) 20 percent of their unreimbursed equity investment, or (b) 1.5 times the highest balance of their unreimbursed equity investment, as discussed further below.

As shown in Table 4 above, a report prepared for the Port by Seifel Consulting and the Conley Consulting Group (Seifel report) estimated that Seawall Lot 337 Associates would receive a return of \$46,470,698 on their equity investment.

Reimbursement of Seawall Lot 337 Associates' Equity Investment in Entitlement Costs

Under the proposed term sheet Seawall Lot 337 Associates would pay for all project entitlement costs (equity investment in entitlement costs), estimated by Seawall Lot 337 Associates to be approximately \$20,000,000. Seawall Lot 337 Associates would receive a return on their equity investment equal to the greater of (a) 20 percent cumulative annual return on unreimbursed costs, or (b) 1.5 times the highest balance of unreimbursed entitlement costs.

Seawall Lot 337 Associates would be reimbursed by the Port for the entitlement costs as follows:

- The Port would enter into a 75-year ground lease with Seawall Lot 337 Associates for the two lead parcels. The value of the ground lease, if all future lease payments are prepaid at the time that the lease is executed is estimated to be \$24,637,628¹⁰, exceeding Seawall Lot 337 Associates' estimated costs of \$20,000,000.
- However, if the costs of Seawall Lot 337 Associates' entitlements are more than the estimated \$20,000,000 or the value of the ground lease is less than the estimated \$20,000,000, the Port would have six months to find the remaining funding with no further returns accruing. If the Port is not able to fully reimburse Seawall Lot 337 Associates after six months, Seawall Lot 337 Associates' would accrue the return on equity described above, with the return on equity capped at two times the shortfall.

According to the Seifel report, Seawall Lot 337 Associates' the 20 percent return on equity investment in entitlement costs is justified because the entitlement stage of a development

¹⁰ Based on the report prepared for the Port by Seifel Consulting, Inc. and the Conley Consulting Group (page 27).

project is the most risky and least desirable by investors. According to the Seifel report, the Seawall Lot 337 Associates' equity investment in entitlement costs is the "most likely, and perhaps only, source of funding for the entitlement phase, as is often the case with unentitled sites".

The proposed term sheet does not provide a cap on the amount of the equity investment in entitlement costs that are reimbursable by the Port. However, the ENA does specify that the Port must approve Seawall Lot 337 Associates' entitlement budget and that any revision of that budget would be subject to review and approval by the Port. If entitlement costs are significantly more than the estimated \$20,000,000, the Port's costs for the proposed development could be significantly higher than the current estimate of \$154.1 million, noted in Table 4 above.

In addition, while the proposed term sheet sets a "goal" of establishing fair market value for the two lead parcels within 90 days of the DDA effective date, the term sheet does not require a set time limit to establish fair market value establishment or transfer the lead parcels to Seawall Lot 337 Associates as reimbursement for their equity investment. In order to limit the Port's liability to reimburse Seawall Lot 337 Associates equity investment in entitlement costs, the proposed term sheet should be amended to require Seawall Lot 337 Associates and the Port to establish fair market value and require Seawall Lot 337 Associates to accept the two lead parcels as reimbursement for their equity investment in entitlement costs within 90 days of the DDA effective date below.

Reimbursement of Seawall Lot 337 Associates' Equity Investment in Horizontal Development

The estimated costs of pre-development and infrastructure for the horizontal infrastructure development (streets, parks, open space) over four phases are \$134,149,548, as shown in Table 5.

Table 5: Estimated Horizontal Development Costs

Pre-development and Infrastructure Costs	
Phase 1 (Parcels A, B, and C, plus D Parking)	\$27,687,740
Phase 2 (Parcels G and K, Park)	38,227,462
Phase 3 (Parcels E and F)	21,364,776
Phase 4 (Parcels H, I, and J, Pier 48)	<u>46,869,570</u>
Total	\$134,149,548

Seawall Lot 337 Associates' costs estimates of \$134,149,548 for horizontal infrastructure development were prepared by Hathaway Dinwiddie Construction Company and reviewed in the Seifel report.

Under the proposed term sheet, the Port would reimburse Seawall Lot 337 Associates for the horizontal infrastructure development costs¹¹, guaranteeing Seawall Lot 337 Associates a return on equity¹² investment in horizontal infrastructure development that is the greater of 20 percent

¹¹ The proposed term sheet states that the DDA will include detailed definitions and specify conditions and limitations that will apply to the horizontal infrastructure development costs.

¹² The developer return on equity would be subject to cost caps established by guaranteed maximum price contracts where feasible by conditions established in the DDA.

cumulative annual return on unreimbursed costs or 1.5 times the highest outstanding unreimbursed balance for that phase of development.

Before a parcel is released in any phase of development, Seawall Lot 337 Associates would provide a phase budget containing a detailed line item estimate of all applicable horizontal infrastructure development costs as well as an accounting of any previous phases' horizontal infrastructure development costs and developer return on equity. Port approval of the phase budget would be required prior to any parcel being offered for vertical development. A third party audit of all horizontal infrastructure development costs for each phase and the entire Mission Rock project would also be conducted.

Developer Return on Equity for Entitlement and Horizontal Infrastructure Development Costs

Under the proposed term sheet, Seawall Lot 337 Associates would receive a return on equity for horizontal development of 20 percent. According to the Seifel report, "Once entitlements are secured for development of specific parcels, there are far more sources of institutional investment interested in funding the infrastructure... phase of a project...Most investors cited required return thresholds of 15 to 20 percent with two quotes between 25 and 30 percent."

If the Port or Seawall Lot 337 Associates were to finance a portion of infrastructure development with project-based debt¹³ rather than equity, the debt would not be subject to equity returns. According to the Seifel report, private debt could be available for these infrastructure repairs. Therefore, the proposed term sheet should indicate that the Port will explore and utilize all available public and private financing mechanisms deemed fiscally advantageous and prudent, as alternatives to Seawall Lot 337 Associates fully financing entitlement and horizontal infrastructure development through equity investment.

The proposed term sheet defines the basis of Seawall Lot 337 Associates' return on equity as the "unreimbursed" horizontal infrastructure development costs. However, the proposed term sheet does not clarify that the term "unreimbursed" refers only to Seawall Lot 337 Associates' unreimbursed equity investment (or capital outlay) in the horizontal infrastructure development costs and not to other financing mechanisms. Therefore, the proposed term sheet should be amended to specify that "unreimbursed" horizontal infrastructure development costs refer to Seawall Lot 337 Associates outlay of capital only.

Fiscal Impact to the City

As noted above, under the proposed term sheet, Seawall Lot 337 Associates would pay for entitlement and horizontal infrastructure development costs subject to reimbursement by the Port and a return on their equity investment. Sources of reimbursement would be (1) prepayment of the ground lease between the Port and Seawall Lot 337 Associates for the two lead parcels, (2) selling development rights to the eight other Seawall Lot 337 parcels, (3) issuing CFD bonds, and (4) IFD tax increment on a pay-as-you-basis. General Port revenues would not be used to reimburse Seawall Lot 337 Associates.

The vertical development would be paid for through private investment.

¹³ Project-based debt is debt secured by CFD special taxes, IFD property tax increment, land or leaseholds related to the Mission Rock project.

The Port would also receive rent revenues from (1) the master lease between Seawall Lot 337 Associates and the Port for 8 parcels; (2) subsequent ground leases between Seawall Lot 337 Associates' affiliates and the Port for these 8 parcels (which would be removed from the master lease as each of the parcels entered into development under one of the four planned development phases); and (3) Pier 48.

Master Lease Between the Port and Seawall Lot 337 Associates

Under the proposed term sheet, the Port would receive \$2,400,000 in base rent allocated among eight parcels (the two lead parcels, the parking structure parcel, and Pier 48 are excluded from the master lease) and 66 percent of gross lease revenues after allowed expenses, with revenues matching existing revenues under leases for Pier 48 and Seawall Lot 337. The master lease would not expire until all parcels on Seawall Lot 337 have begun development. As parking activities are removed from the parcels that are leased to initiate development, the rent terms would be reduced in proportion to the decrease in parking spaces.

Parcel Leases between the Port and Seawall Lot 337 Associates or Seawall Lot 337 Associates' Affiliates

As parcels are removed from the master lease for development, the Port would enter into ground leases for the other parcels with Seawall Lot 337 Associates' affiliates.

Reserve and Base Rent

Under the proposed term sheet, the Port would establish a minimum reserve of \$3.5 million in annual base rent for the eight parcels (not including the two lead parcels, the parcel set aside for the parking garage, and Pier 48). The \$3.5 million reserve rent would be apportioned among the eight parcels, and would serve as the floor for the base rent included in future ground leases between the Port and the respective Seawall Lot 337 Associates' affiliates. Actual base rent in the future ground leases would be based on the fair market value for the lease.

According to the Seifel report, Seawall Lot 337 Associates projects that initial annual base rent will be \$4.5 million for the eight Seawall Lot 337 parcels, or \$1.0 million more than the reserve rent of \$3.5 million.

The base rent would be adjusted every 10th year of the 75-year leases between the Port and the leaseholder to equal 85 percent of the average sum of base rent and percentage rent over the prior three years.

Percentage Rent

Seawall Lot 337 Associates' affiliates would pay the Port the greater of percentage rent or base rent similar to other Port development leases, as follows:

- Retail leases would pay the Port percentage rent of 15 percent of gross rental revenues, beginning in the 16th year of the lease.
- Rental housing leases would pay the Port percentage rent based on adjusted gross income or net operating income, at the Seawall Lot 337 Associates' affiliate's discretion.
- Commercial and office leases would pay the Port percentage rent based on adjusted gross income or net operating income, at the Seawall Lot 337 Associates' affiliate's discretion.

Seawall Lot 337 Associates' Participation in Ground Lease Rent

Under the proposed term sheet, Seawall Lot 337 Associates would receive 20 percent of rent exceeding \$4.5 million per year for 45 years, beginning in the year in which total rent first exceeds \$4.5 million. The \$4.5 million threshold does not increase during the 45-year term.

Port's Participation in Capital Events

Under the proposed term sheet, the Port would participate in revenue from the transfer of leases as follows:

- If Seawall Lot 337 Associates' affiliates transfer any of the eight parcels (other than the two lead parcels) to a new leaseholder, the Port would receive all lease transfer proceeds if the building permits have not yet been issued, and 1.5 percent of net proceeds if building permits have been issued.
- If Seawall Lot 337 Associates' affiliates transfer one or both of the two lead parcels, the Port would receive (1) 50 percent of net revenues to be used exclusively for the costs of horizontal infrastructure development if the transfer occurs before the vertical development permit is issued or within three years of the initial lease; and (2) 1.5 percent of net proceeds if the transfer occurs 10 years or more after the certificate of occupancy for the development, or if more than one transfer has occurred since the certificate of occupancy.

Revenue to the Port

The Port received \$4,801,497 in rental revenues under the seven existing leases at Seawall Lot 337 and Pier 48 in FY 2011-12. Under the proposed term sheet and as noted above, the Port will receive base rent and percentage rent from ground leases for the eight land parcels and one parking facility in Seawall Lot 337 and Pier 48. The Seifel report estimates that the Port would receive between \$1.403 and 1.675 billion in rent over the 75-year terms of the new ground leases.

FISCAL FEASIBILITY ANALYSIS

As discussed in the Mandate Statement Section above, Chapter 29 of the City's Administrative Code requires that certain projects be submitted to the Board of Supervisors for approval of the project's fiscal feasibility prior to submitting the project to the Planning Department for environmental review if: (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA); (b) total project costs are estimated to exceed \$25,000,000; and, (c) construction costs are estimated to exceed \$1,000,000.

Chapter 29 of the City's Administrative Code specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including: (1) direct and indirect financial benefits to the City; (2) construction costs; (3) available funding; (4) long term operating and maintenance costs; and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review.

1) Direct and Indirect Financial Benefits to the City

The proposed Mission Rock project would provide: (1) direct financial benefits to the City through increased ongoing tax revenues and one-time fees; and (b) indirect financial benefits from creation of an estimated 11,020 new jobs.

Direct Benefits

The Port's consultant, Economic & Planning Systems, Inc., provided estimates of tax revenues to the City, which are reasonable. As shown in Table 6 below, the estimated annual revenues to the City resulting from the proposed Mission Rock project are \$21,496,000.

Table 6: Estimated Annual Tax Revenues to the City

Annual Revenue to General Fund	
Property Taxes	\$1,537,000
Sales Tax	633,000
Gross Receipts Tax	6,169,000
Parking Tax (General Fund 20%)	423,000
Property Transfer Tax	1,958,000
Subtotal General Fund	\$10,720,000
Annual Dedicated and Restricted Revenue	
Parking Tax (MTA 80%)	\$1,691,000
Public Safety Sales Tax	316,000
Transportation Authority Sales Tax	316,000
Possessory Interest Taxes*	8,453,000
Subtotal Dedicated and Restricted Revenue	\$10,776,000
Total Revenues	\$21,496,000

*- Until horizontal infrastructure development costs are fully paid, the full \$0.65 per possessory interest tax dollar generated from the Mission Rock project site would be used to pay debt service and, on a pay-as-you-go basis, fund infrastructure costs through an IFD.

Economic & Planning Systems, Inc. also provided estimates of one-time tax and fee revenues to the City, which are reasonable. As shown in Table 6 below, the estimated annual revenues to the City resulting from the proposed Mission Rock project are approximately \$60,170,000.

Table 7: Estimated One-Time Tax and Fee Revenues to the City

Development Impact Fees	
Jobs Housing Linkage	\$32,729,000
Affordable Housing	0
Child Care	1,424,000
Transit Impact Development Fees	18,364,000
Subtotal Development Impact Fees	\$52,517,000
One-Time Tax Revenues	
Sales Taxes During Construction	\$3,933,000
Gross Receipts Tax During Construction	3,720,000
Subtotal One-Time Tax Revenues	\$7,653,000
Total One-Time Fees and Tax Revenues	\$60,170,000

Indirect Benefits

Economic & Planning Systems, Inc. estimated an additional 10,130 temporary construction-related jobs to be created by the proposed Mission Rock project, as shown below in Table 8 below. This includes direct (jobs on site), indirect (jobs at San Francisco firms serving the construction industry), and induced (through expenditures in the City by households of companies benefiting from direct and indirect employment related to the Mission Rock project) employment.

Table 8: Summary of Estimated Temporary Construction-Related Jobs

Employment Type	Job-Years
Direct	6,370
Indirect	1,490
Induced	2,270
Total Temporary Employment	10,130

Economic & Planning Systems, Inc. estimated an additional 11,020 new permanent jobs to be created by the proposed Mission Rock project, as shown below in Table 9 below. These new permanent jobs are a mix of office, retail, and light manufacturing employment areas.

Table 9: Summary of Estimated Permanent Jobs

Employment Type	Annual Average
Direct Office	5,700
Direct Retail	570
Direct Manufacturing	200
Indirect	1,390
Induced	3,160
Total Permanent Employment	11,020

2) Construction Costs

As shown in Table 10 below, the proposed Mission Rock Project is estimated to cost approximately \$1.45 billion across all stages of development, with the Port's responsibility to fund entitlement and horizontal infrastructure development costs of an estimated \$154,149,548 and private developers to fund vertical building construction costs of an estimated \$1.3 billion.

Table 10: Summary of Estimated Construction Costs

Development Stage	Estimated Cost
Entitlement	\$20,000,000
Horizontal Infrastructure	134,149,548
Subtotal	\$154,149,548
Vertical/Building Construction	1,300,000,000
Total	\$1,454,149,548

Proposed Parking Structure Financing Not Yet Known

Not included in Table 10 above is the financing for the parking structure, which has yet to be determined. While the San Francisco Municipal Transportation Agency (SFMTA) has agreed to explore the feasibility of financing and operating the parking structure, Ms. Sonali Bose, Chief Financial Officer for SFMTA, stated that additional analysis is needed in two key areas before SFMTA would be willing to move forward on such financing.

First, according to Ms. Bose of SFMTA will evaluate (1) the minimum number of parking spaces feasible in Mission Bay, (2) the impact of additional automobile trips on transit and other non-auto modes in the entire waterfront as part of the Waterfront Transportation Assessment underway¹⁴, and (3) the number of spaces in the garage and the impact of the increased automobile trips on transit, particularly in light of additional parking required for the potential

¹⁴ SFMTA is leading the development of the Waterfront Transportation Assessment, which, before summer 2013, will inventory vetted, feasible local and regional transit capacity and reliability enhancements, pedestrian and bicycle safety measures, and traffic and parking strategies that are intended to guide planning for future growth and traffic congestion, increased use of non-auto modes, financial sustainability of these investments and strategies, and better informed future Project-required environmental review, including the proposed Mission Rock project.

Golden Gate Warriors arena. Second, according to Ms. Bose, while SFMTA has agreed to explore the feasibility of financing the parking structure, SFMTA would need to ensure the garage revenues adequately cover the financing and operating costs so that SFMTA will not be required to provide operating and capital subsidies for the garage.

SFMTA is interested in operating the parking structure regardless of the decision of whether or not to finance its construction to ensure this garage operates in concert with other public garages particularly in terms of demand management and pricing programs. If SMTA opts to not finance the parking structure, a formal operating relationship between SFMTA and the entity financing the construction would need to be negotiated so that it can be built feasibly and efficiently within the proposed development plan.

In addition to the possibility of SFMTA financing and operating the parking structure, offering the development of the parking structure to Seawall Lot 337 Associates' affiliates or another private developer is also an option. The structure of that financing has yet to be determined. One such financing possibility is for the Port to forgo a development rights payment and rent until construction debt for the parking structure has been fully paid and Seawall Lot 337 Associates or another private developer has begun to receive a reasonable rate of return for the investment. The proposed term sheet states that no public financing would be provided other than CFD bond financing.

3) Available Funding

All of the initial entitlement and horizontal infrastructure development costs would be borne by Seawall Lot 337 Associates, except for when available public financing mechanisms could be used to decrease Port costs for the project. The Port would reimburse Seawall Lot 337 Associates for these costs through public financing measures and IFD tax increment available on a pay-as-you-go basis.

4) Ongoing Maintenance and Operating Costs

The size and magnitude of the proposed Mission Rock project would result in the need for increased Police and Fire Department services as well as any required maintenance of the parks and open spaces. Economic & Planning Systems, Inc. estimates the increased Police services to be \$719,630¹⁵ annually and the increased Fire services to be \$1,500,000¹⁶ annually.

In addition, the proposed Mission Rock project would result in increased demand for transportation-related services, which would be provided by SFMTA and Caltrain. Seawall Lot 337 Associates would implement a transportation demand plan, a strategy intended to manage the transportation demands created by the proposed Mission Rock project. Included in the transportation demand plan would be the exploring the feasibility of construction, operation, and maintenance of a transportation loop near the proposed Mission Rock project site as well as other

¹⁵ This \$719,630 estimate is based on the estimated need for five full-time Police officers at an annual cost per officer of \$143,926.

¹⁶ A new Fire station is currently planned to open south of the Mission Rock project site, which would be sufficient to handle the increased need for Fire services. The Mission Rock project's share of costs of that Fire station is approximately \$1,500,000.

strategies to address future transportation needs, with the goal being to minimize dependence on vehicle travel and optimizing alternative modes of transportation, such as public transportation.

The costs for implementation of the transportation demand plan would be funded through public tax revenues and fees. Additional funding sources would be further evaluated as part of a transportation assessment conducted by SFMTA and the CEQA process.

Economic & Planning Systems, Inc. states that funds related to the proposed Mission Rock project would pay for street and sidewalk maintenance services, such as street sweeping and litter removal, typically the responsibility of the Department of Public Works. These services may be contracted-out to the Department of Public Works (DPW) or through a private entity and are estimated to cost approximately \$14,000 annually. Any additional costs, such as street resurfacing or other major infrastructure renewals would be funded through Port IFD funds as approved under the Port IFD financing plan.

Maintenance of the parks and open spaces would be funded through maintenance special taxes imposed on the ground lease tenants through the maintenance CFD.

5) Debt Load

The public financing mechanisms to fund the horizontal infrastructure development have not been finalized to date. However, there are two public financing mechanisms currently under consideration.

IFD Financing: The proposed Mission Rock project would utilize property tax increment received by the Port from a currently proposed Port IFD, which would provide funding for the horizontal infrastructure development costs. As currently proposed, the Port would utilize these funds on a pay-as-you-go basis rather than through the issuance of IFD bonds. However, the option to issue IFD bonds as financing for the proposed Mission Rock project is still an option under consideration.

CFD Bonds: The Port may issue CFD bonds to reimburse horizontal infrastructure development, with debt service to be paid by IFD revenues. The CFD bonds would be secured by special taxes paid by parcel lessees and would not obligate the City's General Fund or the Port's Harbor Fund.

CONCLUSION

Term Sheet Endorsement

The Budget and Legislative Analyst's 2004 Management Audit of the Port recommended that the Port submit development project negotiation term sheets to the Board of Supervisors for endorsement, allowing the Board of Supervisors to consider the financial goals of the project prior to approval of the lease between the Port and a potential project developer. However, with endorsement of the proposed term sheet, the final master lease and eleven parcel leases between the Port and Seawall Lot 337 Associates' affiliates would still be subject to future Board of Supervisors approval.

The proposed term sheet provides for Seawall Lot 337 Associates to finance entitlement and horizontal infrastructure development at the Mission Rock site comprising Seawall Lot 337 and

Pier 48, which the Port does not have sufficient funds to finance at the onset of development. In exchange for initial financing of up to \$154,149,548 for entitlement and horizontal infrastructure development at the Mission Rock site, Seawall Lot 337 Associates would receive approximately \$46,470,698 in developer return on equity. The Port's contribution to the project is currently estimated to total \$200,620,246.

The developer return on equity could be reduced by including additional requirements in the proposed term sheet such as:

- a. Requiring Seawall Lot 337 Associates and the Port to establish fair market value and Seawall Lot 337 Associates to accept the two lead parcels as reimbursement for their equity investment in entitlement costs within 90 days of the DDA effective date in order to minimize the amount of the equity investment subject to the 20 percent developer return on equity
- b. Specify that "unreimbursed" horizontal infrastructure development costs refer only to Seawall Lot 337 Associates unreimbursed equity investment in horizontal infrastructure development costs and not project-based debt;
- c. Requiring the Port to explore and utilize all available financing mechanisms deemed fiscally advantageous rather than having Seawall Lot 337 Associates fund all of the horizontal infrastructure development costs.

Based on the preliminary pro forma financial analysis prepared by the Port and Seawall Lot 337 Associates and provisions in the proposed term sheet, the Port would receive rent revenues with a net present value between \$122,000,000 and \$140,000,000 over the 75-year terms of the parcel leases.

Finding of Fiscal Feasibility

The proposed Mission Rock project would (1) yield total annual estimated tax and fee revenues to the City of \$21,496,000 and total one-time taxes and fee revenues of \$60,170,000, (2) generate an estimated 11,020 permanent jobs and 10,130 temporary construction-related jobs, (3) provide an estimated \$1.5 billion in construction expenditures, (4) be financed by \$200,620,247 in Port funds from CFD bonds, tax increment from the establishment of a Port IFD, and development rights payments and \$1.3 billion in private investment, and (5) ongoing maintenance and operational expenses would be funded through the creation of a maintenance CFD.

Financing for the parking structure has yet to be determined. This represents a feasibility gap of approximately \$6,164,578. While SFMTA is considering financing the construction of the parking structure, no agreement has been reached to date. The proposed term sheet includes other financing options, such as offering the development of the parking structure to a private developer.

Given the uncertainty, the Port should be required to report back to the Board of Supervisors on the financing secured for the parking structure as soon as the feasibility gap has been reconciled and prior to the master lease being finalized.

Based on these criteria, the Budget and Legislative Analyst finds that the proposed Mission Rock project is fiscally feasible under Chapter 29 of the City's Administrative Code. However,

financing for the parking structure currently represents a feasibility gap of \$6,164,578. As noted above, in accordance with Administrative Code Chapter 29, the finding of “fiscal feasibility” means only that the project merits further evaluation and environmental review. If the proposed resolution is approved by the Board of Supervisors, the City will be authorized to commence environmental review of the project under CEQA.

RECOMMENDATIONS

1. The Board of Supervisors should amend the proposed resolution to request the Port to include the following recommendations in Mission Rock project transaction documents, including ground leases and the development and disposition agreement (DDA), and report back to the Board of Supervisors on the inclusion of these recommendations at the time of the Board of Supervisors hearing on these documents, as follows:
 - a. Seawall Lot 337 Associates and the Port should establish fair market value and Seawall Lot 337 Associates should accept the two lead parcels as reimbursement towards their equity investment in entitlement costs, based on that fair market valuation, within 90 days of the DDA effective date in order to minimize the amount of the equity investment subject to the 20 percent developer return on equity;
 - b. Mission Rock project’s final transaction documents should specify that “unreimbursed” horizontal infrastructure development costs refer only to Seawall Lot 337 Associates unreimbursed equity investment in entitlement and horizontal infrastructure development costs and not project-based debt; and
 - c. The Port should explore and utilize all available public and project financing mechanisms deemed fiscally advantageous and prudent rather than having Seawall Lot 337 Associates fund all of the entitlement and horizontal infrastructure development costs.
2. The Board of Supervisors should amend the proposed resolution to require the Port to report back to the Board of Supervisors on the financing secured for the parking structure as soon as the feasibility gap has been reconciled and prior to the master lease between the Port and Sewall Lot 337 Associates being finalized.
3. Approve the proposed resolution as amended.

Term Sheet Provision	Proposed Terms
Lessor	<ul style="list-style-type: none"> • Port of San Francisco
Lessee/Developer	<ul style="list-style-type: none"> • Seawall Lot 337 Associates or an affiliated entity
Premises	<ul style="list-style-type: none"> • Seawall Lot 337 • Pier 48
Total Project Cost	<ul style="list-style-type: none"> • Approximately \$1.5 billion
Project Description	<ul style="list-style-type: none"> • Horizontal and vertical development of Seawall Lot 337 with commercial, residential, open space, and retail uses. • Rehabilitation and reuse of Pier 48, with improvements to and preservation of aprons for public access and maritime operations.
Phasing	<ul style="list-style-type: none"> • Development would be completed in four phases, with public benefits (parks and parking structure) distributed among phases. • The Port and Seawall Lot 337 Associates would cooperatively decide on timing of each phase of vertical development.
Transaction Documents	<ul style="list-style-type: none"> • Disposition and Development Agreement (DDA) – Sets the terms and conditions for the disposition and development of the 11 parcels. • Master Lease – Lease of 8 parcels (excepting Pier 48, two lead parcels, and parking structure if parcel leases are entered into concurrently for those 4 parcels as anticipated) • Parcel Leases – Individual 75-year leases entered into for each individual parcel at the onset of development (excluding Pier 48, which would be a 30-year lease).
Project Debt	<ul style="list-style-type: none"> • Financing mechanisms have not been finalized but there are three under consideration: <ul style="list-style-type: none"> • Community Facilities District (CFD) Bonds • Infrastructure Financing District (IFD) Bonds
Port's Capital	<ul style="list-style-type: none"> • Development Rights Payments • Special Taxes from Community Facilities District formation • Tax Increment from the establishment of an Infrastructure Financing District
Seawall Lot 337 Associates Equity	<ul style="list-style-type: none"> • Seawall Lot 337 Associates equity contribution is to procure all entitlements and pay related costs and pay for horizontal infrastructure development costs, as necessary, to be reimbursed by the City.
Master Lease Term	<ul style="list-style-type: none"> • The term of the master lease would end when all of the parcels have been released for development.
Master Lease Base Rent	<ul style="list-style-type: none"> • \$2,400,000 annually. • As parking activities are removed from the parcels that are leased to initiate development, the rent terms would be reduced in proportion to the decrease in parking spaces.
Master Lease Percentage Rent	<ul style="list-style-type: none"> • 66 percent of gross lease revenues after allowed expenses.

Term Sheet Provision	Proposed Terms
Statutory, Regulatory, and Plan Amendments	<ul style="list-style-type: none"> • Rezoning would necessitate an amendment to the City’s General Plan. • Rezoning would necessitate an amendment to the Port’s Waterfront Land Use Plan, subject to Port Commission approval. • Bay Conservation and Development Commission (BCDC) would need to approve an amendment to the Bay Area Seaport Plan to allow for the proposed uses
Zoning	<ul style="list-style-type: none"> • Seawall Lot 337 Associates would seek rezoning of Seawall Lot 337 from its current exclusive open space zoning to a flexible zoning allowing individual parcels to be developed for commercial or residential uses as well as open space, subject to approval by the Board of Supervisors. • Seawall Lot Associates may also seek Pier 48 be rezoned to restrict long-term use to be compatible with the rest of the Mission Rock Project.
Term of Parcel Leases	<ul style="list-style-type: none"> • 75 years • Rent payments would be the greater of base rent and percentage rent, as described below.
Parcel Lease Reserve Rent	<ul style="list-style-type: none"> • Serves as a floor for the annual base rent the Port expects to receive under individual parcel leases after deducting development rights payments. The Port would not be required to enter into an individual parcel lease less than reserve rent for that parcel. • \$3,500,000 in aggregate annual rent to be received under eight parcel leases (not including lead parcels, parking structure, and Pier 48), allocated among the eight parcels and taking into account their projected use and floor area ratio. • If the Port agrees to enter into a parcel lease with prepaid rent or with a greater proportion of the rent as percentage rent, the reserve rent would be adjusted.
Parcel Lease Base Rent	<ul style="list-style-type: none"> • Initial annual base rent for each parcel would be determined in relation to the amount of each parcel’s development rights payment and to-be-determined fair market value with the goal of the sum of base rent and development rights payment being equal to the fair market value.
Parcel Lease Base Rent Escalation	<ul style="list-style-type: none"> • In every 10th year, annual base rent would increase to 85 percent of the average of the sum of annual base rent plus percentage rent paid to the Port under each individual parcel lease over the previous three years.
Parcel Lease Percentage Rent	<ul style="list-style-type: none"> • Percentage rent would be equal to base rent in the year in which the building rents are projected to reach stabilization and the percentage increase would be set at the percentage equivalent of the base rent’s proportion of building rents at stabilization. • Building rents at stabilization may be adjusted gross income (AGI) or net operating income (NOI), based on the vertical developer’s selection.
Lead Parcel Leases	<ul style="list-style-type: none"> • The two lead parcels would be transferred to qualified third party affiliates of Seawall Lot 337 Associates for vertical development under 75-year parcel leases which would likely be fully prepaid as reimbursement for entitlement costs.

Term Sheet Provision	Proposed Terms
Parcels Offered Through a Request for Proposal (RFP) Process	<ul style="list-style-type: none"> • The Port may offer parcel leases by RFP to establish fair market value. • The Port may offer a trust swap parcel by RFP unless Seawall Lot 337 Associates offers to pay a premium of five percent above fair market value. • If Seawall Lot 337 Associates fails to close escrow after exercising an option or defaults on horizontal development construction payment obligations during construction, the Port will have the right to offer the parcel lease by RFP.
Percentage Rent for Parcels Which Were Subject to Competitive Solicitation	<ul style="list-style-type: none"> • Retail: In year 16 of the parcel lease, percentage rent would be 15 percent of gross rental revenues • Rental Housing: Parameters to be determined based on NOI or AGI of rental revenues • Commercial/Office: Parameters to be determined and based on NOI or AGI of rental income.
Seawall Lot 337 Associates' Developer Return	<ul style="list-style-type: none"> • <u>Entitlement Costs</u>: Seawall Lot 337 Associates' developer return in exchange for funding entitlement costs development rights is the two lead parcels consisting of 75-year prepaid parcel leases. If the two lead parcels fair market value is less than the entitlement costs, the remaining developer return will remain static for six months to allow the Port time to find the remaining funding. If the remaining developer return is not paid in full after six months, Seawall Lot 337 Associates' developer return would be the greater of: (a) one half of the amount of the remaining balance and (b) an amount equivalent to a 20 percent cumulative annual return on the remaining developer return capped at the amount of the remaining developer return at the time the parcels are transferred. • <u>Horizontal infrastructure development costs</u>: Seawall Lot 337 Associates' developer return in exchange for funding horizontal infrastructure development costs is the greater of: (a) a 20 percent cumulative annual return on the unreimbursed horizontal infrastructure development costs and (b) 1.5 times the highest balance of outstanding horizontal infrastructure development costs. Developer return on the unpaid balance is capped at 2 times the unpaid balance. • Seawall Lot Associates would receive 20 percent of total rent amounts above \$4,500,000 received by the Port for 45 years.
Horizontal Infrastructure Development Costs	<ul style="list-style-type: none"> • In exchange for funding horizontal infrastructure development costs, Seawall Lot 337 Associates would receive acquisition payments sufficient to reimburse horizontal infrastructure development costs and pay Developer Return, as described above. • A phase budget including an estimate of horizontal development costs would be provided prior to each phase's development and subject to Port approval. Specific procedures for the Port's review of the phase budgets have yet to be determined. • There will be a third-party audit of horizontal development costs for each phase.

Term Sheet Provision	Proposed Terms
Development Rights Payments	<ul style="list-style-type: none"> • Determined in individual phases in aggregate and allocated across parcels in phase budget approval process. • Will take into consideration (a) amount of horizontal development costs and accrual of developer return for that phase, (b) any outstanding horizontal development costs and developer return from previous phases, and (c) pay-as-you-go special taxes, net available tax increment, and net proceeds from CFD bonds projected to be available during that phase. • Development rights payments and proceeds from any trust swaps would be deposited into a development rights account to pay any accrued developer return and to reimburse Seawall Lot 337 Associates for unreimbursed horizontal infrastructure development costs.
Parking Structure	<ul style="list-style-type: none"> • Would have approximately 2,300 parking spaces and would be developed in an early phase. • SFMTA may finance and operate the parking structure. • The Port does not expect to provide any public financing for the parking structure other than CFD bond financing.
Term of Pier 48 Lease	<ul style="list-style-type: none"> • Initial term would be 30 years, with options to extend the term to a total of 66 years that may be exercised only after policies and procedures to address climate change and sea level rise have been developed.
Base Rent of Pier 48 Lease	<ul style="list-style-type: none"> • \$1,800,000 annually, payable in monthly increments, with the possibility of reduced base rent if the tenant performs eligible capital improvements¹.
Pier 48 Lease Base Rent Escalation	<ul style="list-style-type: none"> • Periodic increases to base rent at a rate to be determined. • When initial 30-year term expires, the property will be reassessed to determine current fair market value
Participation Rent of Pier 48 Lease	<ul style="list-style-type: none"> • A percentage of gross proceeds from restaurant and retail sales.
Participation in refinancing proceeds	<ul style="list-style-type: none"> • The Port would receive 1.5 percent of the net proceeds of the refinancing, excluding any loan proceeds used for capital improvements on the parcel.

¹ Eligible capital improvements include (1) core and shell improvements including roof repair, (2) apron repair, (3) utility upgrades, (4) substructure repair, and (5) seismic upgrades.

Term Sheet Provision	Proposed Terms
Participation in transfer	<ul style="list-style-type: none"> • Vertical Developer’s transfer of option parcel: <ul style="list-style-type: none"> • If transfer closes before the date the first vertical development permits are issued, Port would receive 100 percent of the net proceeds. • If transfer closes on or after vertical permits are issued, the Port would receive 1.5 percent of net proceeds. • Vertical Developer’s transfer of lead parcels: <ul style="list-style-type: none"> • If the fair market value of the lead parcels is less than the amount of the entitlement costs when the lead parcel is delivered, the Port will receive \$0 from the net proceeds. • If the transfer closes before the earlier of (a) the first vertical development permit is issued and (b) three years after the date the Port officially offers a parcel lease for that lead parcel, the Port will receive 50 percent of the net proceeds. • If the first transfer closes less than 10 years after the date the Port first issues a certificate of occupancy for the building, the Port will receive \$0 from the net proceeds but will receive 1.5 percent of proceeds for any subsequent sales occurring within that time. • If the transfer closes more than 10 years after the date the Port first issues a certificate of occupancy for the building, the Port would receive 1.5 percent of net proceeds. • Vertical Developer’s sale of parcel if sold through a trust swap: <ul style="list-style-type: none"> • The Port would receive a contractual transfer fee on each subsequent sale of the entire parcel. • If the parcel has been subdivided, the Port would receive one percent of the sale of each residential condominium, and 1.5 percent of commercial condominiums or parcels and multi-family rental buildings.
Transportation Demand Management Plan	<ul style="list-style-type: none"> • Seawall Lot 337 Associates would implement a transportation demand management plan to provide a comprehensive strategy to manage the transportation demands created by the Mission Rock project, with the goal being to minimize dependence on car as transportation and the optimization of other more sustainable transportation. • The feasibility of constructing an additional public transportation “loop” will be included.
Affordable Housing	<ul style="list-style-type: none"> • New rental housing will meet City inclusionary housing requirements. • 15 percent of the unit will be affordable housing at 55 percent of area median income as determined by the US Department of Housing and Urban Development.
Open Spaces, Parks, and Recreation	<ul style="list-style-type: none"> • Three Parks totaling 8 acres will be developed, managed and programmed by Seawall Lot 337 Associates and owned by the Port.

Item 6
File 13-0072

(Continued from March 6, 2013)

Department:
San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a new eight-year Airport Advertising Lease between the City, on behalf of the Airport and Clear Channel Outdoor Inc. dba Clear Channel Airports (Clear Channel), with a Minimum Annual Guarantee (MAG) of \$10,000,000.

Key Points

- Clear Channel currently has an existing 12-year lease to provide advertising services at 286 locations in the Airport. Under the existing lease, Clear Channel pays the Airport (a) 70% of gross revenues or (b) a MAG, which is adjusted each year, whichever is higher. Over the 12-year term of the existing lease, Clear Channel will pay the Airport a total of \$72,233,621. The Airport extended the existing lease, which expired on March 31, 2013, on a month-to-month basis, pending the outcome of the proposed agreement.
- In July of 2012, the Airport issued a Request for Proposal (RFP) to provide advertising services at up to 300 locations in the Airport. On September 5, 2012, the Airport received three proposals from (a) JC Decaux N.A., Inc., (b) Titan Outdoor, LLC and (c) Clear Channel Outdoor, Inc. An evaluation panel determined that Clear Channel was the highest ranking responder.

Policy Consideration

- JC Decaux Airports, Inc. filed a written protest of the award of the subject lease agreement, which the Airport Commission rejected on October 30, 2012. JC Decaux filed another written protest with the City Attorney's Office and the President of the Board of Supervisors. The Board of Supervisors is not responsible for considering bid protests on the subject lease.

Fiscal Impacts

- Under the proposed lease, Clear Channel would pay the Airport rent equal to a MAG of \$10,000,000 or \$833,333 per month, or a total MAG of \$80,000,000 over the eight-year term. Each year, the MAG would be adjusted by the Consumer Price Index. However, the proposed lease has no provisions for Clear Channel to pay percentage of gross revenue rent to the Airport.
- Under the existing Clear Channel lease, the percentage of gross revenues rent exceeded the MAG rent in five of the last 11 years, or over 45% of the time. As a result, the Airport realized additional rent revenues of \$5,571,141 which exceeded the MAG rent. These additional rent revenues resulted in \$835,671 contribution to the City's General Fund. Gross advertising revenues realized by Clear Channel increased from \$8,137,767 in FY 2005-06 to \$13,000,000 in FY 2012-13, an increase of \$4,862,233 or approximately 60% over eight years, which is the same term of the proposed new advertising lease.
- Based on a survey of 28 other U.S. airport advertising leases, the City's existing advertising leases, and other San Francisco Airport leases, all such agreements require that revenues be paid based on a percentage of gross revenues or the MAG, whichever is higher. Therefore, the proposed lease with Clear Channel would be unlike any of these other agreements. In addition, (a) 15 of the 28 surveyed airports contract with Clear Channel, and (b) 19 of the 28 surveyed airports, or 68%, received advertising revenues in 2012 based on a percentage of gross advertising sales, which were higher than the MAG.

- Approval of this lease would therefore preclude the Airport from benefitting from increased advertising sales made by Clear Channel and therefore preclude the Airport and the City's General Fund from receiving higher potential revenues in the future.
- In the professional judgment of the Budget and Legislative Analyst, the elimination of the requirement to pay percentage rent to the Airport, if such percentage rent exceeds the Minimum Annual Guarantee, is not in the best interests of the City.

Recommendation

- Disapprove the proposed resolution.

MANDATE STATEMENT AND BACKGROUND

Mandate Statement

Charter Section 9.118(c) requires that any lease having anticipated revenue of \$1,000,000 or more be subject to approval of the Board of Supervisors.

Background

On February 16, 2001, based on the results of a Request for Proposal (RFP) process in which the Airport received only one proposal, the Board of Supervisors approved a lease agreement between the Airport and Clear Channel Outdoor, Inc. (Clear Channel)¹ for the five-year term from April 1, 2001 through March 31, 2006, including three one-year options to extend the term through March 31, 2009 at the discretion of the Airport Commission (File 00-2145). Under the original lease agreement, Clear Channel paid the Airport annual rent equal to the greater of (a) 70% of Clear Channel's annual gross advertising revenues, or (b) a Minimum Annual Guarantee (MAG) of \$4,050,000 beginning in 2001, with annual adjustments thereafter, for the right to advertise on 85 Airport locations.

On August 23, 2002, the Board of Supervisors approved Amendments 1 and 2 (File 02-1230), which among other provisions, (a) provided an additional five-year extension of the lease, from April 1, 2006 through March 31, 2011 under the Concession Support Program², (b) revised the MAG annual adjustment calculations and schedule, and (c) added 240 advertising locations, for a total of 325 Airport advertising locations. According to Ms. Gigi Ricasa, Senior Property

¹ The original lease agreement was between the Airport and Transportation Media, Inc., which was subsequently sold to Clear Channel.

² Under the Airport's Concession Support Program, the Airport suspended the Minimum Annual Guarantee for 43 Airport concession lessees that experienced declines in business due to reduced levels of air travel from the events of September 11, 2001. Under this Program, 42 lessees were also granted five-year extensions to their leases in order to allow more time for these lessees to recoup their initial capital investments.

Manager for the Airport, based on provisions in the existing lease, in January of 2011, Clear Channel surrendered 39 advertising locations in the rental car center, parking garages, and various arrival corridors because Clear Channel was having difficulty selling advertising on these spaces and there were restrictions due to Airport operations. Clear Channel surrendered the 39 advertising locations in exchange for fewer, but higher-profile advertising locations in the terminal lobbies, and the International Terminal boarding areas, resulting in a revised total of 286 advertising locations in the Airport, or approximately 11,700 square feet of advertising space. Although the Airport reduced the number of advertising locations from 325 to 286, or 39 fewer advertising locations, because the new locations were higher-profile locations, the required MAG annual payments to the Airport were not adjusted. In FY 2012-13, Clear Channel is required to pay the Airport a MAG of \$7,937,218.

On December 21, 2010, the Airport Commission approved the first option to extend the advertising lease agreement with Clear Channel by one year from April 1, 2011 through March 31, 2012. On July 19, 2011, the Airport Commission approved the second option to extend the advertising lease agreement with Clear Channel by one additional year from April 1, 2012 through March 31, 2013. In accordance with the existing lease provisions, the Airport has extended the existing lease with Clear Channel from April 1, 2013 on a month-to-month basis, pending the outcome of the proposed new advertising agreement. Although the original lease agreement included three one-year options to extend the lease at the discretion of the Airport Commission, the Airport decided to issue a Request for Proposal (RFP) for a new advertising lease agreement, instead of exercising the last one-year option. The existing lease has been in effect for a total of 12 years. In July of 2012, the Airport issued a RFP for advertising in the Airport's terminals, including the lobby, concourses and boarding areas on the departure and arrival levels, and specified areas in the parking connectors (tunnels that connect the Airport terminal buildings to the parking garages), Air Train bridges and stations, and the Rental Car Center, for a total of up to 300 locations, or 14 more than the existing 286 advertising locations. On September 5, 2012, the Airport received three proposals from (a) JC Decaux N.A., Inc., (b) Titan Outdoor, LLC and (c) Clear Channel Outdoor, Inc. Both JC Decaux N.A., Inc. and Titan Outdoor, LLC proposed MAGs of \$8,500,000 and Clear Channel Outdoor, Inc. proposed a MAG of \$10,000,000. A three-person evaluation panel, consisting of an Airport staff marketing manager, private architect/designer and a San Francisco State University marketing professor, reviewed the proposals and determined that Clear Channel was the highest ranking responder.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a new eight-year Airport Advertising Lease between the City, on behalf of the Airport and Clear Channel Outdoor Inc. dba Clear Channel Airports, with no options to extend, and a Minimum Annual Guarantee of \$10,000,000 payable by Clear Channel to the Airport.

Although the Airport anticipates that the proposed new eight-year advertising lease would commence upon approval by the Board of Supervisors and extend through approximately May 31, 2021, under the proposed lease, Clear Channel must first refurbish, redecorate and modernize the interiors and exteriors of the advertising spaces at Clear Channel's expense, prior

to commencement of the operating term of the lease. Completion of such capital improvements could extend for up to 180 days, or six months. However, during this initial refurbishment period, Clear Channel would be responsible for paying the Airport advertising revenues equal to \$833,333 per month, or \$10,000,000 annually.

In addition, at the mid-term of the proposed lease, or after the fourth anniversary in 2017, Clear Channel would again be responsible for refurbishing, redecorating and modernizing the interior and exterior advertising spaces at Clear Channel's expense. Although the proposed lease does not specify a required dollar amount that Clear Channel must invest in order to complete either the initial or mid-term capital improvements, the lease specifies that the amount of such capital improvements be sufficient to conform to the Airport's design standards, as approved by the Airport's Design Review Committee³.

Although the RFP allowed for up to 300 advertising locations, under the proposed lease, Clear Channel would be responsible for installing, managing, operating and maintaining a total of 179 commercial advertising displays in specified locations in the Airport, as approved by the Airport Director, at Clear Channel's sole expense. In accordance with the proposed lease, Clear Channel must (a) deposit an amount equal to one-half of the current MAG, as adjusted, or \$5,000,000 in the first year, and (b) use reasonable commercial efforts to occupy at least 75% of all Airport advertising spaces and charge an average minimum rate equal to or exceeding \$2,500 per month for each advertising display.

As shown below and on the following pages, Clear Channel plans to use various types of media advertising, including digital displays, dioramas, column facades, wall wraps and other type of advertising displays. All advertising content must be in compliance with the requirements of the Airport's Advertising Standards Policy, as shown in Attachment I to this report. The proposed lease specifically states that tobacco or alcoholic beverage advertising would not be allowed at the Airport.

³ The Airport's Design Review Committee is comprised of three members appointed by the Airport Director, which currently includes the Airport's staff architect, one private design consultant and one private architect. The Airport's Design Review Committee is responsible for reviewing all tenant facilities that are in public view.





Under the proposed lease, Clear Channel would be required to pay the Airport rent equal to a Minimum Annual Guarantee (MAG) of \$10,000,000 or \$833,333 per month or a total MAG of \$80,000,000 over the eight-year term. Each year, the MAG would be adjusted by the Consumer Price Index⁴ on the anniversary date of the commencement of the lease. However, the proposed lease provides that in no year, may the adjustment result in a lower MAG than the prior year, unless the total number of square feet of advertising is reduced by greater than 10%.

⁴ The Consumer Price Index would be the Department of Labor's, Bureau of Labor Statistics for All Urban Consumers-Not Seasonally Adjusted-San Francisco/Oakland/San Jose, California.

Given the current and future renovation and construction projects at the Airport, the proposed lease also provides that the Airport Director may require Clear Channel to add, eliminate or relocate advertising installations and equipment at Clear Channel's sole expense, based on the structural and operational needs of the Airport. However, if such changes directed by the Airport are greater than 10% of the total advertising display square footage, the MAG would be adjusted to reflect such pro rata changes in square footage advertising space.

As noted above, Clear Channel currently advertises on 286 locations, comprising approximately 11,700 square feet of advertising space. Under the proposed lease, Clear Channel would advertise on a total of 179 locations, comprising approximately 8,100 square feet of advertising space. Therefore, the proposed agreement provides for 107 (286 less 179) fewer locations and 3,600 less square feet of advertising space in the Airport. However, Ms. Ricasa notes that the actual square footage of advertising space under the proposed lease may change depending on the specific type of advertising displays approved and installed in each location.

POLICY CONSIDERATIONS

On October 17, 2012, JC Decaux Airports, Inc. filed a written protest of the award of the subject lease agreement between the Airport and Clear Channel. Mr. David Serrano Sewell, Deputy City Attorney advises that JC Decaux's two main contentions were that (a) the methodology used by the Airport to allocate points for the MAG proposals did not conform to the RFP, and (b) Clear Channel's MAG offer of \$10,000,000 was commercially unreasonable and should be rejected as a financially irresponsible offer. On October 30, 2012, the Airport Commission rejected this protest and approved a resolution (Resolution No. 12-0231) awarding the subject Airport Advertising lease to Clear Channel Outdoor Inc. dba Clear Channel Airports.

On February 8, 2013, JC Decaux filed another written protest with the City Attorney's Office and the President of the Board of Supervisors challenging the award of the subject lease agreement between the Airport and Clear Channel. According to Mr. Jon Givner of the City Attorney's Office, under Charter Section 9.118, the Board of Supervisors has the authority to approve or disapprove the subject lease, but cannot amend the resolution to award the lease to JC Decaux, as JC Decaux has requested in its protest. Mr. Givner further advises that the Board of Supervisors is not responsible for considering bid protests on the subject lease.

FISCAL IMPACTS

Table 1 below identifies the MAG, gross revenues received by Clear Channel, the calculated 70% of gross revenues and the total annual payments made by Clear Channel to the Airport for each of the past 12 years under the existing advertising agreement.

Table 1: Clear Channel Annual Payments to the Airport under the Existing Advertising Agreement

Lease Year	Period	Minimum Annual Guarantee (MAG)	Gross Revenues	70% of Gross Revenues	Total Annual Rent Payments to Airport
Lease Year 1	4/1/2001 - 9/10/2001	\$4,050,000	\$301,533	\$211,073	\$1,800,000 ⁵
Lease Year 1	9/11/2001 – 3/31/2002	No MAG ⁶	813,231	569,262	569,262*
Lease Year 2	4/1/2002 – 3/31/2003	4,100,000	2,705,591	1,893,914	4,100,000
Lease Year 3	4/1/2003 – 3/31/2004	4,300,000	3,758,400	2,630,880	4,300,000
Lease Year 4	4/1/2004 – 3/31/2005	4,800,000	6,427,376	4,499,163	4,800,000
Lease Year 5	4/1/2005 – 3/31/2006	5,700,000	8,137,767	5,696,437	5,700,000
Option Year 1	4/1/2006 – 3/31/2007	5,850,000	9,751,660	6,826,162	6,826,162*
Option Year 2	4/1/2007 – 3/31/2008	6,009,000	9,250,167	6,475,117	6,475,117*
Option Year 3	4/1/2008 – 3/31/2009	6,176,000	9,055,968	6,339,178	6,339,178*
Option Year 4	4/1/2009 – 3/31/2010	6,351,000	7,577,241	5,304,069	6,351,000
Option Year 5	4/1/2010 – 3/31/2011	6,535,000	8,344,321	5,841,025	6,535,000
Extension Year 1	4/1/2011 – 3/31/2012	6,535,000	13,339,861	9,337,902	9,337,902*
Extension Year 2	4/1/2012 – 3/31/2013	7,937,218	13,000,000 ⁷	9,100,000	9,100,000*
Total			\$92,463,116		\$72,233,621

*Percentage of Gross Revenues Rent exceeded the Minimum Annual Guarantee.

As shown in the Table above, under the existing 12-year lease, based on \$92,463,116 of gross revenues realized by Clear Channel, Clear Channel will pay the Airport a total of \$72,233,621, with such annual rent revenues paid by Clear Channel to the Airport generally increasing each year. In addition, as shown in the Table above, beginning in Lease Year 2, (which excludes the first year due to the suspension of the MAG), the percentage of gross revenues rent exceeded the Minimum Annual Guarantee rent in five of the 11 years, or over 45% of the time. As a result, the Airport realized additional rent revenues of \$5,571,141 compared to the MAG.

Given that the City's General Fund receives 15% of such Airport concession and lease revenues, the additional percentage of gross rental revenues resulted in \$835,671 of additional revenues for the City's General Fund.

However, under the proposed lease, Clear Channel would not pay either a percentage of gross revenues or a MAG, whichever is higher. Instead, under the proposed lease, Clear Channel would only pay the Airport a MAG of \$10,000,000, which would be adjusted annually by a COLA. Ms. Ricasa advises that the Airport cannot estimate future annual COLAs, and is therefore conservatively projecting that Clear Channel would pay the Airport a total MAG rent of \$80,000,000 over the eight-year term of the subject advertising lease.

According to Ms. Ricasa, the recent RFP included only a MAG rent in order to increase competition for the Airport's subject advertising lease and to communicate the Airport's intent to

⁵ The annual MAG in Lease Year 1 was \$4,050,000. There are 162 days between April 1, 2001 and September 10, 2001, such that 162 days of \$4,050,000 is \$1,797,534, which the Airport rounded up to \$1,800,000.

⁶ The MAG was suspended due to Amendments No. 1 and 2 resulting from events from September 11, 2001.

⁷ Projected 2012-2013 gross revenues based on actuals received to date.

not expand to additional advertising locations. Ms. Ricasa advises the Airport wants to minimize visual clutter and advertising at multiple locations in the Airport in order to enhance the Airport customer's experience. In contrast, Ms. Ricasa advises that the Airport felt that a percentage rent structure would incentivize the lessee to pursue additional advertising locations in order to obtain higher revenues.

However, the Budget and Legislative Analyst notes that given that the proposed lease would extend for eight years, and the rates that Clear Channel will charge to advertising customers will likely increase significantly over the 8-year period, the likely gross revenues to be realized by Clear Channel from advertising at the Airport will also likely increase significantly over the 8-year lease term. As shown in Table 1 above, gross advertising revenues realized by Clear Channel, which have totaled \$92,463,116 over the 12 year term of the existing lease, have increased from \$8,137,767 in FY 2005-06 to \$13,000,000 in FY 2012-13, an increase of \$4,862,233 or nearly 60% over eight years, which is the same term of the proposed new advertising lease.

Even if additional advertising locations are not added, Clear Channel will likely realize significant additional gross advertising revenues over the 8-year term of the proposed lease. Under the proposed lease, such additional advertising revenues would not be shared with the Airport, because a percentage of gross revenue rent is not included in the proposed lease.

The Airport provided a memorandum to the Budget and Legislative Analyst dated February 28, 2013, shown as Attachment II to this report, to further explain why the Airport included a MAG-only rent structure, and why the Airport did not also include a percentage of gross revenue rent, whichever is higher, as is contained in the existing lease with Clear Channel.

In response to the Airport's memorandum, citing that auditing Clear Channel's gross receipts has been a problem, the Budget and Legislative Analyst believes the Airport should require the advertising contractor to devise a system which enables the Airport to accurately and easily audit the gross advertising receipts that are attributable to San Francisco's Airport, in order to calculate a percentage of gross revenues. It should be noted that the existing lease with Clear Channel does provide for a percentage of gross revenue rent. In fact, not only have audits been conducted of such gross receipts, but also as noted above, the percentage of gross revenue rent paid to the Airport by Clear Channel exceeded the Minimum Annual Guarantee rent in five of the last 11 years, or over 45% of the time, which resulted in an additional \$5,571,141 of revenue to the Airport and an additional \$835,671 to the City's General Fund.

The Airport's February 28, 2013 memorandum also pointed out that the proposed MAG of \$10,000,000 is significantly larger than the \$4,050,000 that Clear Channel submitted as their MAG in 2001. What the Airport did not state in their memorandum is that in Fiscal Year 2011-2012, Clear Channel paid the Airport rent of \$9,337,902, based on the required percentage of gross revenues provision.

In addition, although the Airport states in their memorandum that proposers will "tend to submit a lower MAG when a percentage rent is included", the Airport has provided no documentation to substantiate that statement. In fact, if that were valid, the Budget and Legislative Analyst

questions why the Airport has awarded hundreds of leases in the past and presently has numerous leases which require having a provision to pay the Airport rent equal to the MAG or the percentage of gross revenues, whichever is higher. The Airport has never previously advised the Board of Supervisors that the Airport was receiving lower MAG bids from these other leases as a result of also requiring a percentage of gross revenue rent. In fact, out of the hundreds of leases awarded by the Airport, the Airport could not identify one other lease which required a MAG rent payment that also did not require a percentage of gross revenue rent payment, whichever is higher.

Our recommendation to require a percentage of gross revenues payable to the Airport addresses the increased gross revenues that Clear Channel would potentially receive in the future, without requiring any sharing of such increased revenues with the Airport, because the MAG will only protect the Airport from downturns in the economy, but not from increases in the economy.

Follow-up

On March 6, 2013, the Budget and Finance Committee continued the proposed resolution to the Call of the Chair and requested that the Budget and Legislative Analyst obtain additional information regarding whether both a percentage of gross revenues and a Minimum Annual Guarantee (MAG) are included in (a) other City advertising agreements and (b) other U. S. airports' advertising agreements.

Other City Advertising Agreements

The other two City departments that have major advertising agreements are the San Francisco Municipal Transportation Agency (SFMTA) and the Department of Public Works (DPW).

- The SFMTA has three advertising agreements: (a) on transit shelters with Clear Channel, (b) on SFMTA vehicles with Titan, and (c) through the Bay Area Rapid Transit System (BART) at shared BART/SFMTA stations with Titan. All three of these advertising agreements require both a MAG and a percentage of gross revenues, whichever is higher. In 2012, Clear Channel paid SFMTA \$9,076,000 based on the MAG for transit shelters, Titan paid SFMTA \$4,758,319 based on the percentage of gross revenues for most months and the MAG for a few months and BART paid SFMTA \$1,260,422 based on the MAG.
- DPW has two advertising agreements with (a) Clear Channel for news racks and (b) JC Decaux for toilets and kiosks. According to Mr. Douglas Legg of DPW, DPW does not receive any revenues under the Clear Channel news rack agreement because the agreement allows Clear Channel to advertise in exchange for installing and maintaining the news racks. The JC Decaux advertising agreement for toilets and kiosks requires both a MAG and a percentage of gross revenue provision and DPW received \$653,476 of revenues in 2012 based on the percentage of gross revenues.

Other U.S. Airports

Based on the Budget and Legislative Analyst's survey of 28 U. S. airports, the results of which are shown in Attachment III to this report, all 28 airports⁸ reported requiring both a MAG and a percentage of gross revenue provision, whichever is higher, in their contracted advertising agreements. In fact, none of the airports reported requiring only a MAG, as is being proposed by San Francisco's Airport.

As shown in Attachment III to this report, 15 of the 28 airports surveyed, or 54%, contract with Clear Channel to provide their contracted advertising services, such that Clear Channel will be responsible for paying advertising revenues to these airports based on both a MAG and a percentage of gross revenues, whichever is higher. The contracts with Clear Channel include the following airports:

Albuquerque (ABQ)
Atlanta (ATL)
Chicago (ORD)
Chicago (MDW)
Dallas/Ft Worth (DFW)
Dayton (DAY)
Denver (DIA)
Ft Lauderdale (FLL)
Indianapolis (IND)
Oakland (OAK)
Palm Beach (PBI)
San Jose (SJC)
Sarasota (SRQ)
Seattle-Tacoma (SEA)
Tampa (TPA)

Ten airports or 36% of the 28 surveyed airports reported having advertising contracts with JC Decaux. The contracts with JC Decaux include the following airports:

Houston (IAH)
Houston (HOU)
Los Angeles (LAX)
Minneapolis-St Paul (MSP)
Newark (EWR)
New York (LGA)
New York (JFK)
Orlando (MCO)
San Diego (SAN)
Washington National & Dulles (DCA & IAD)

⁸ Phoenix Airport reported currently receiving revenues based on percent of gross sales only, however, also reported that a new advertising agreement was recently awarded which will commence on June 1, 2013 and will contain both a MAG and percentage of gross revenues.

The remaining three airports contract with two other advertising vendors (Aliance Airport at Phoenix and Portland Airports and Miami Airport Concession LLC at the Miami Airport).

As shown in Attachment III, based on the reported 2012 revenues received at each of these 28 airports, 19 airports or 68% were paid advertising revenues in 2012 based on the percentage of gross advertising sales, which were therefore higher than their MAG. Only nine of the 28 surveyed airports, or 32%, were paid advertising revenues in 2012 based on their MAG.

Airport's Response

On April 23, 2013, Mr. John Martin, Airport Director sent an email to members of the Budget and Finance Sub-Committee and the Budget and Legislative Analyst addressing the request for approval of the proposed advertising agreement. This email and accompanying analysis addressed the Airport's reduction of the number of advertising locations, specific limitations on San Francisco's advertising, such as prohibition of alcohol and tobacco advertising, the Airport's MAG of \$10 million per year or a total of \$80 million over the proposed eight-year agreement and projected revenues based on number of locations and passenger traffic, in comparison with other US airports. However, the Airport's email and analysis did not address the primary question of why the San Francisco Airport did not include both a MAG and a percentage of gross revenues in the proposed advertising agreement.

As noted above, all 28 other surveyed US airports require both a MAG and percentage of gross revenues in their advertising agreements, whichever is higher, and all other major City advertising agreements require both a MAG and a percentage of gross revenues, whichever is higher. In addition, the Airport could not identify one other San Francisco Airport lease that specifically contains only a MAG, which does not also require an annual percentage of gross revenue rental payments, whichever is higher⁹.

Therefore, the Budget and Legislative Analyst continues to question why the San Francisco Airport should be the only airport out of the 28 surveyed airports in the United States which would be paid advertising revenues based solely on a MAG, instead of being paid rent on the basis of the MAG or the percentage of gross revenues, whichever is higher.

⁹ The Airport noted that it has one lease for cellular service equipment site leases which has flat rental rates.

In summary:

- Under the existing Clear Channel lease, the percentage of gross revenues rent exceeded the MAG rent in five of the last 11 years, or over 45% of the time. As a result, the Airport realized additional rent revenues of \$5,571,141 which exceeded the MAG rent, which contributed an additional \$835,671 to the City's General Fund. It should be noted that gross advertising revenues realized by Clear Channel increased from \$8,137,767 in FY 2005-06 to \$13,000,000 in FY 2012-13, an increase of \$4,862,233 or approximately 60% over eight years, which is the same term of the proposed new advertising lease.
- However, under the proposed lease, there are no provisions for Clear Channel to pay percentage of gross revenue rent to the Airport. Under the proposed lease, Clear Channel would only be required to pay the Airport a MAG of \$10,000,000, which would be adjusted annually by a COLA. In fact, as noted above, in Fiscal Years 2011-2012 and 2012-2013, Clear Channel was required to pay the Airport percentage rent of \$9,100,000 to \$9,337,902 based on the percentage of gross revenues rental provision required under the existing lease with Clear Channel.
- Based on a survey of 28 other U.S. airport advertising leases, the City's existing advertising leases, and other San Francisco Airport leases, all such agreements require that revenues be paid based on a percentage of gross revenues or the MAG, whichever is higher. Therefore, the proposed lease with Clear Channel would be unlike any of these other agreements both locally and nationwide. In addition, (a) 15 of the 28 surveyed airports contract with Clear Channel, and (b) 19 of the 28 surveyed airports, or 68%, received advertising revenues in 2012 based on a percentage of gross advertising sales, which were therefore higher than the MAG.
- Approval of this lease would preclude the Airport from benefitting from increased advertising sales made by Clear Channel and therefore preclude the Airport and the City's General Fund from participating in higher percentage rents in the future. As previously noted, under the existing lease with Clear Channel because of the required percentage of gross revenues rental provision, the City's General Fund has realized an additional \$835,671.
- Even if additional advertising locations are not added, Clear Channel will likely realize significant additional gross advertising revenues over the 8-year term of the proposed lease. Under the proposed lease, such additional advertising revenues would not be shared with the Airport or the City's General Fund, because the payment of a percentage of gross revenue rent would not be required.
- In the professional judgment of the Budget and Legislative Analyst, the elimination of the requirement to pay percentage rent to the Airport, if such percentage rent exceeds the Minimum Annual Guarantee, is not in the best interests of the City.

RECOMMENDATION

Disapprove the proposed resolution.

AIRPORT ADVERTISING STANDARDS

The following is the Airport Advertising Standards Policy, approved by the Airport Commission on June 6, 2000. Tenant must abide by the Airport Advertising Standards Policy, as amended from time to time.

1. Three weeks prior to posting, all proposed and advertising graphic designs shall be submitted to the Director or his designee for review and approval. The designs must be submitted in sufficient detail to determine the content and final general appearance of the advertisement.
2. Any advertisement that does not comply with the standards as set forth by the Airport in #4, shall be rejected.
3. The subject matter of all advertising shall be limited to those advertisements which propose a commercial transaction. ("Commercial Transaction" does not include political or religious views.)
4. Advertisements may not be displayed which:
 - a. Advertise alcohol or tobacco products
 - b. Relate to an illegal activity
 - c. Depict violence or contain words or images that arouse anger, alarm or resentment in others
 - d. Advertise services in direct competition with the Airport's business objectives
 - e. Contain obscene matter as that term is defined in California Penal Code § 311(a) or contain statements or words of an obscene, indecent or immoral character, or any picture or illustration of the human figure in such detail as to offend public morals or decency.
 - f. Are false, misleading or deceptive
 - g. Relate to gambling
 - h. Contain material that is offensive to the ordinary person.



February 28, 2013

Mr. Harvey Rose
 Budget Analyst Office
 1390 Market Street, Suite 1025
 San Francisco, CA 94102

Dear Mr. Rose:

The Airport made the business and policy decision to pursue a MAG-only rent structure under the RFP for the Advertising Lease in order to achieve the highest possible MAG. The following explains why we took this approach:

- San Francisco is a high value market which commands higher revenue for nationwide contracts. However, advertisers allocate revenue based on the enplanements at various airports. Therefore, we are credited with less advertising sales than the true value of having the advertising at SFO. Large brands will buy a multi-airport campaign in order to get advertising at SFO, not at the smaller airports.
- Because of SFO's high-value market, we believe a MAG-only proposal fosters greater competition in the submission of MAG amounts and in the number of proposals. Previously, when the RFP for the current lease was conducted, which included the greater of MAG or percentage, only one proposal was received with a MAG of \$4,050,000 million. This time, under the MAG-only approach, we received three proposals and the highest MAG offered was \$10 million which is \$1.5 million more than the other two proposals and \$3 million more than the minimum bid amount. We received the highest possible revenue with MAG-only rent instead of a MAG or percentage rent. Proposers will tend to submit a lower MAG when a percentage rent is included.
- The percentage rent structure incentivizes a tenant to seek additional new locations. This is validated by the Airport's experience in managing the current lease. The Airport purposefully reduced the number of advertising locations in the RFP, and the winning proposer sought 179 locations, further reducing visual clutter and providing the best passenger experience. We do not want to encourage more locations.
- By offering a MAG-only lease that encouraged MAG amount competition, the high MAG locks in an amount that the Airport can count on for the term of the contract, regardless of marketing trends. Social Media and other non-traditional advertising platforms are moving advertising dollars away from standard wall graphics. In addition, unstable economic conditions often affect advertising dollars first. In the event of an economic downturn, we prefer to have a higher MAG achieved through a MAG-only RFP, rather than having a lower MAG under the MAG or percentage rent structure RFP.

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

EDWIN M. LEE
 MAYOR

LARRY MAZZOLA
 PRESIDENT

LINDA S. CRAYTON
 VICE PRESIDENT

ELEANOR JOHNS

RICHARD J. GUGGENHIME

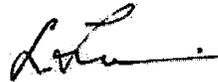
PETER A. STERN

JOHN L. MARTIN
 AIRPORT DIRECTOR

- The potential for increasing the revenue generated by percentage rent, as was realized over the last five years, is not feasible given the reduction in locations. As noted, the winning proposal reduces the number of locations to 179, a reduction from the current lease of 278 locations. Additional locations will not be added. After careful analysis with the Design Review Committee and Marketing, Museum and Operations staff, we believe these locations provide the appropriate balance between revenue generating opportunities while still maintaining the highest standards in providing for a positive passenger experience.
- MAG-only rent is not unique to SFO. Other airports and their MAG-only rents for their advertising leases are: Seattle (\$5 million); Washington National (\$3.75 million); Phoenix (\$2.7 million); and San Diego (\$1.8 million). In comparison, the MAG-only submission of \$10 million at SFO illustrates the high value of the SFO market and why allocation of nation-wide advertising contracts based on enplanements penalizes SFO.
- MAG rent avoids the very difficult process of auditing nationwide advertising campaigns due to the nature of these contracts. Besides the biased nature of the allocation method; other complications such as duration of campaigns at each airport make auditing problematic.

Please let me know if I can provide any additional information.

Sincerely,



Leo Fermin
Deputy Airport Director
Business and Finance

Airport	Advertising Contractor	Minimum Annual Guarantee	Percentage of Gross	2012 Advertising Revenue Paid to Airport	Minimum Annual Guarantee (MAG) or Percentage of Gross (%) Paid in 2012
Albuquerque (ABQ)	Clear Channel	\$283,308	45%-50%	\$284,889	%
Atlanta (ATL)	Clear Channel	\$6,077,500	65.00%	\$8,450,000	%
Chicago (ORD)	Clear Channel	*	60.00%	\$16,505,844	%
Chicago (MDW)	Clear Channel	*	60.00%	\$728,413	%
Dallas/Ft Worth (DFW)	Clear Channel	5,160,000	61.50%	\$7,605,920	%
Dayton (DAY)	Clear Channel	210,000	37.0-50.0%	\$210,000	MAG
Denver (DIA)	Clear Channel	2,310,621	61.00%	\$6,640,624	%
Ft Lauderdale (FLL)	Clear Channel	1,833,333	60.00%	\$1,833,333	MAG
Houston (IAH)	JC Decaux	7,940,477	15% - 70%	\$12,177,938	%
Houston (HOU)	JC Decaux	1,068,591	15% - 70%	\$1,778,404	%
Indianapolis (IND)	Clear Channel	582,000	44%-52%	\$796,500	%
Los Angeles (LAX)	JC Decaux	14,000,000	75.00%	\$27,000,000	%
Miami (MIA)	Miami Airport	4,500,000	65.00%	\$11,744,076	%
Minneapolis-St Paul (MSP)	Concession LLC	2,002,374	65.00%	\$2,002,374	MAG
Newark (EWR)	JC Decaux	**	50% - 70%	\$17,623,938	%
New York (LGA)	JC Decaux	**	50%-70%	\$10,074,457	%
New York (JFK)	JC Decaux	**	50% - 70%	\$39,095,404	%
Oakland (OAK)	Clear Channel	850,000	60.00%	\$850,000	MAG
Orlando (MCO)	JC Decaux	2,545,032	65.00%	2,897,059	%
Palm Beach (PBI)	Clear Channel	350,000	50-60%	350,000	MAG
Phoenix (PHX)	Alliance Airport	***	50% - 65%	2,717,000	%
Portland (PDX)	Alliance Airport	388,572	60.00%	648,303	%
San Diego (SAN)	JC Decaux	1,750,000	65.25%	1,750,000	MAG
San Jose (SJC)	Clear Channel	4,222,324	50% - 65%	4,222,324	MAG
Sarasota (SRQ)	Clear Channel	57,300	36.00%	\$64,855	%
Seattle-Tacoma (SEA)	Clear Channel	5,000,000	65.00%	\$5,000,000	MAG
Tampa (TPA)	Clear Channel	975,000	50.00%	975,000	MAG
Washington National & Dulles (DCA & IAD)	JC Decaux	7,500,000	50% - 65%	10,835,495	%

* Under the advertising agreement with Clear Channel, the Minimum Annual Guarantee for both Chicago's O'Hare and Midway Airports is \$8,600,000.

** Under the advertising agreement with JC Decaux, the Minimum Annual Guarantee for all three New York airports is \$45,000,000.

*** Under the existing agreement, Alliance Airport Advertising pays the Phoenix Airport between 50%-65% of gross sales. Under the new advertising agreement, effective on June 1, 2013, Alliance Airport Advertising will pay the Phoenix Airport a MAG of \$3,100,000 or percentage of gross sales, whichever is greater.

Item 7 Files 13-0277	Department: San Francisco International Airport (Airport) Office of Contract Administration, Purchaser
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the Office of Contract Administration and Purchaser to enter into a sole source agreement between the City, on behalf of the Airport, and the Engineering Arresting Systems Corporation (ESCO) for a not-to exceed \$40,000,000 to purchase an Engineered Material Arresting System (EMAS) for the San Francisco International Airport Runway Safety Area Program. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Federal Aviation Administration (FAA) requires airports to have a runway safety area extending 1,000 feet beyond the end of each runway, where possible. The San Francisco International Airport (Airport), which was built prior to this FAA requirement, is unable to develop 1,000 feet of runway safety areas beyond the end of two of the Airport's four runways due to space constraints. • In 2005, the FAA prepared a Runway Safety Area Improvement Plan, which mandated that all commercial airports that do not have a runway safety area of 1,000 feet beyond the end of each airport runway install an engineered material arresting system by December 31, 2015. The FAA has only approved the Engineering Arresting Systems Corporation's (ESCO) engineered material arresting system, which is a proprietary design. • On January 26, 2012, the Board of Supervisors approved a waiver of the competitive procurement requirements under the City's Administrative Code such that ESCO was awarded a sole source agreement to design the FAA-approved engineered material arresting system (File 11-1288). <p style="text-align: center;">Fiscal Impacts</p> <ul style="list-style-type: none"> • The proposed resolution would authorize the Purchaser, on behalf of the Airport, to enter into a sole source agreement with ESCO to purchase ESCO's Engineered Material Arresting System for a not-to-exceed \$40,000,000, which includes base costs of \$35,244,976 and contingency costs of \$4,755,024 or 13.5%, to allow for potential airfield design changes, if necessary. • In addition, the Airport will incur estimated contractor installation expenses of \$6,735,241, Builders Risk Insurance of \$9,405, as well as ongoing maintenance and repair costs, which have not yet been determined. <p style="text-align: center;">Policy Considerations</p> <ul style="list-style-type: none"> • The proposed agreement contains modified indemnification provisions, similar to the previously-approved design agreement and limited warranty provisions for damages. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

Charter Section 9.118(b) requires that the Board of Supervisors approve any agreement which extends for a term of more than ten years or in which City's expenditures exceed \$10,000,000.

Administrative Code Section 21.03 provides that the Purchaser shall purchase all commodities and services required by City departments. Administrative Code Section 21.5(b) provides that commodities or services available only from a sole source shall be procured in accordance with specified Purchaser regulations.

Background

According to the Code of Federal Regulations (14 CFR 139) and the Federal Aviation Administration (FAA) Airport Design Advisory Circular 150-5300-13, the FAA has required airports to have a runway safety area extending 1,000 feet long and 500 feet wide beyond the end of each runway where possible since 1989. Of the San Francisco International Airport's (Airport) four runways, the Airport is able to modify its two longer runways, Runway 10L-28R and Runway 10R-28L, to achieve 1,000 feet of runway safety area in compliance with these FAA regulations. However, the Airport, which was constructed before this FAA requirement, cannot develop 1,000 feet of runway safety area beyond the end of two of the Airport's four runways, Runway 1L-19R and Runway 1R-19L, due to space constraints caused by the San Francisco Bay in the northeast direction and the 101 Freeway in the southwest direction.

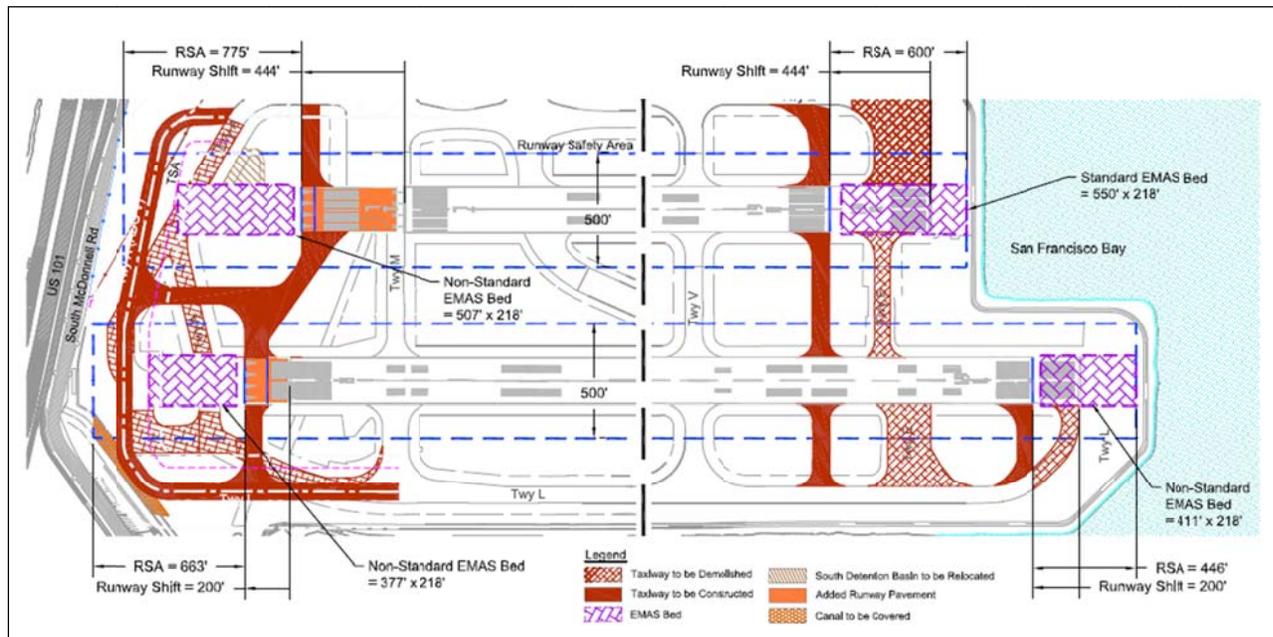
In 2005, the FAA prepared a runway safety area Improvement Plan, which was codified in Public Law 119-105, to mandate that all commercial airports that do not have a runway safety area extending 1,000 feet beyond the end of each runway must install an engineered material arresting system by December 31, 2015.

The FAA then worked with the private firm, Engineering Arresting Systems Corporation (ESCO) to develop and design engineered material arresting systems, using crushable concrete placed in beds at the end of a runway, for use in airports with less than 1,000 feet of clearance beyond the runway. These beds of crushable concrete break down on impact and cause aircraft to decelerate more quickly than would otherwise occur with aircraft brakes alone. ESCO's engineered material arresting system, which is a propriety design, is the only such system which has been approved by the FAA for use in airports.

Because ESCO's engineered material arresting system is the only system approved by the FAA, on January 26, 2012, the Board of Supervisors approved an ordinance (File 11-1288) waiving the competitive procurement requirements under the City's Administrative Code to allow the Airport to enter into a sole source agreement with ESCO to design the FAA-approved engineered material arresting system at the Airport for a not-to-exceed \$420,000 for two of the Airport runways, 1L-19R and 1R-19L, in order to comply with FAA regulations.

The diagram, shown below, depicts Runways 1L-19R and 1R-19L and the proposed location of the engineered material arresting system beds.

Diagram of Runways 1L-19R and 1R-19L and the Proposed EMAS (Engineered Material Arresting System) Beds



DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Office of Contract Administration and the Purchaser to enter into a second sole source agreement, on behalf of the Airport, with ESCO for a not-to-exceed \$40,000,000 to purchase an Engineered Material Arresting System (EMAS) for the Airport. Since the proposed resolution authorizes the purchase of a commodity, in accordance with Administrative Code Section 21.03, the Purchaser is technically authorized to purchase the subject EMAS on behalf of the Airport. On January 22, 2013, the Office of Contract Administration and the Purchaser approved a sole source waiver for ESCO as the only FAA certified firm that can meet the EMAS requirements.

The subject agreement is anticipated to commence in late May 2013 and extend through June 2016, or approximately three years.

FISCAL IMPACTS

As noted above, as previously approved by the Board of Supervisors, the Airport entered into a sole source agreement with ESCO for ESCO to design the subject Engineered Material Arresting System for a not-to-exceed \$420,000. The design agreement with ESCO is being funded with General Airport Revenue Bonds. Mr. Jim Chiu, Manager of Civil Engineering at the Airport advises that the Airport has already paid ESCO \$370,000 and estimates that the design work will be completed by the end of April, 2013.

The proposed resolution would authorize the Office of Contract Administration and the Purchaser, on behalf of the Airport, to enter into a second sole source agreement with ESCO to

purchase ESCO's Engineered Material Arresting System (EMAS) for a not-to-exceed \$40,000,000. According to Mr. Chiu, the proposed EMAS is a customized cellular cement block system which will include 23,372 EMAS blocks that will be manufactured by ESCO and then shipped from their facility in New Jersey with the necessary component parts and supplies to be installed in compliance with ESCO's design criteria at each end of the two Airport runways. The subject ESCO agreement is for a not-to-exceed \$35,244,976.

Mr. Chiu advises that the additional \$4,755,024 (\$40,000,000 less \$35,244,976) or 13.5% of the agreement's not-to-exceed costs of \$35,244,976 are to cover potential contingencies for change orders, if needed. Mr. Chiu acknowledges that while a 10% contingency is standard for construction contracts, because the EMAS blocks have not been previously installed at the Airport, the Airport wants to include an additional contingency allowance for potential airfield design changes, if necessary.

The Table below identifies the \$35,244,976 subject agreement, contingency costs of \$4,755,024 and total authorized costs of up to \$40,000,000.

Table: Proposed ESCO Agreement Costs

Items	Price per Item	Total Costs
23,372 Jet Blast Resistant EMAS Blocks	\$1,243	\$29,051,396
Installation Materials	130	3,038,360
Shipping		2,874,756
Warehouse Storage		280,464
Subtotal		\$35,244,976
Contingency (13.5%)		4,755,024
Total		\$40,000,000

Mr. Chiu advises that the Airport will use a Federal Airport Improvement Program (AIP) grant of \$18,000,000, which was approved on September 20, 2012, and an another Federal AIP grant of \$5,614,134, anticipated to be received in May 2013, for a total of \$23,614,134 to partially fund the subject up to \$40,000,000 agreement. The balance of \$16,385,866 will be funded with General Airport Revenue Bonds, which were previously approved by the Board of Supervisors on October 2, 2012

In addition, Mr. Chiu advises that installation of the EMAS blocks, which is estimated to cost \$6,735,241, will be completed by a contractor, who would be selected by the Airport based on a competitive bid process, and funded with Federal AIP grant funds anticipated to be received in 2014.

According to Mr. Chiu, the subject EMAS is anticipated to be installed between May and September of 2014, such that the EMAS would be operational for aircraft by October of 2014.

Mr. Chiu notes that the individual runways will need to be temporarily closed during construction. The expected life of the subject EMAS blocks is approximately 20 years. However, Mr. Chiu notes that the future maintenance requirements and costs are still being reviewed by the Airport and are not yet known.

POLICY CONSIDERATIONS

To design the EMAS, ESCO used information provided by the Airport, such as the types of aircraft, number of landings, and other related information. Because ESCO was not able to independently verify some of this information, ESCO would not sign the City's standard indemnification provisions contained in City agreements, as part of the previously approved design agreement. According to Ms. Kathryn Luhe, Deputy City Attorney, the modified indemnification provision limits ESCO's liability for any problems which may result from the design and purchase of the engineered material arresting system if problems were the result of the Airport's having provided inaccurate information to ESCO. Apart from that, the indemnification provision does, however, provide that ESCO will indemnify the City against all claims of loss, expenses and liability directly arising from ESCO's negligence, recklessness or willful misconduct. According to Ms. Luhe, this modified indemnification provision is reasonable based on the unique situation and is necessary to enter into the agreement with ESCO.

The proposed purchase agreement also includes limited warranty provisions, in which the warranty will not cover damage to the EMAS blocks caused by aircraft, heavy-weighted vehicles, wildlife, storms and water. According to Mr. Chiu, ESCO will not warrant damages caused by aircraft or heavy-weighted vehicles because the light density concrete used in the EMAS blocks is designed to fail under pressure of an aircraft, or other heavy vehicles such as pick-up trucks, fueling trucks or other vehicles that exceed the material's weight limits. In addition, Mr. Chiu notes that ESCO will not warrant against wildlife, storms and water damage because the caulking used to seal the EMAS blocks on the runways is an attractive food source for birds and other wildlife, and that if the caulking is compromised, high winds and water could infiltrate between the blocks and cause damage.

In addition, the proposed purchase agreement includes a City Builders Risk Insurance provision, at an estimated cost of \$9,405 to the Airport, to provide protection to the City in the event that the EMAS blocks are damaged prior to their installation at the Airport. As noted above, the EMAS blocks will be fabricated by ESCO in New Jersey and then shipped via rail to San Francisco. Under the proposed purchase agreement, the Airport will assume ownership and therefore liability for the EMAS blocks as soon as they are fabricated and readied for shipment. Mr. Chiu notes that this type of risk is normally addressed through the manufacturer's risk insurance program; however, ESCO is unwilling to provide their insurance to cover the constructed EMAS blocks.

RECOMMENDATION

Approve the proposed resolution.

Items 8 & 9
Files 13-0370 and 13-0376

Department:
 Controller's Office of Public Finance (OPF)

EXECUTIVE SUMMARY

Legislative Objective

File 13-0376: The proposed resolution would authorize (a) the issuance of Equipment Lease Revenue Bonds, Series 2013A, in an amount not-to-exceed \$12,500,000 to fund the purchase of 165 pieces of various equipment for 16 City departments, and (b) related financing documents.

File 13-0370: The proposed ordinance would (a) appropriate \$2,056,612 of Equipment Lease Revenue Bonds, Series 2013A, proceeds and (b) de-appropriate \$171,628 from the Equipment Lease Program to fund related financial costs for issuing Equipment Lease Revenue Bonds, Series 2013A, for Citywide Lease Equipment financing in FY2012-13.

Key Points

- In June of 1990, the voters of San Francisco approved Proposition C which permits the City to issue Equipment Lease Revenue Bonds to acquire equipment for City Departments, subject to a maximum of \$20,000,000 of such bonds being outstanding at any one time. Proposition C also provided for a five percent annual increase in the maximum amount of outstanding bonds, such that the current maximum amount of outstanding bonds allowable is \$58,505,214.
- Ms. Nadia Sesay, Office of Public Finance, anticipates issuing \$11,875,000 in Equipment Revenue Bonds or \$625,000 less than the proposed not-to-exceed amount of \$12,500,000 in order to allow for interest rate fluctuations which may occur in the financial markets. The anticipated issuance of \$11,875,000 includes (a) \$10,271,760 in equipment purchases as previously approved by the Board of Supervisors in the FY 2012-2013 budget, and (b) \$1,603,240 in financing costs.
- The Board of Supervisors appropriated a total of \$10,443,388 in the FY 2012-13 budget for the equipment purchases which is \$171,628 greater than the total \$10,271,760 equipment costs that have been revised due to updated equipment quotations and decreased requests from certain departments; therefore the proposed supplemental appropriation would de-appropriate \$171,628 from the FY 2012-13 budget.
- The FY 2012-13 previously approved budget appropriation of \$10,443,388 did not include the estimated \$2,228,240 of needed financing and issuance costs for the subject Equipment Lease Revenue Bonds; therefore, the proposed supplemental appropriation would appropriate \$2,228,240 for such financing and issuance costs.

Fiscal Impact

- The debt service on the proposed Equipment Lease Revenue Bonds, which is estimated to average \$2,042,413 per year over six years, from October 1, 2013 through April 1, 2019, or a total of \$12,254,478, including \$11,875,000 in principal and \$379,478 in interest. Such debt service would be paid by the 16 City General Fund departments who acquire the equipment. All debt service expenditures would be subject to annual appropriation approval by the Board of Supervisors in future year budgets.
- Under the proposed ordinance, the supplemental appropriation would (a) appropriate \$2,056,612 of proceeds from the subject 2013 Equipment Lease Revenue Bonds sale, and (b) de-appropriate \$171,628 from the Equipment Lease Program previously appropriated in the FY 2012-13 budget for the needed financing and issuance costs of \$2,228,240 for the FY 2012-13 Equipment Lease Revenue Bonds.

Recommendation

- Approve the proposed resolution and ordinance.

MANDATE STATEMENT**Mandate Statement**

In June of 1990, San Francisco voters approved Proposition C, a Charter Amendment which authorized the Board of Supervisors to approve lease-financing of equipment purchases for the City through a non-profit corporation, the San Francisco Finance Corporation. The equipment leased by the City is purchased by the San Francisco Finance Corporation from the proceeds of Equipment Lease Revenue Bonds. Proposition C also imposed a maximum amount of \$20,000,000 in such outstanding bonds at any one time. However, Proposition C provided for a five percent annual increase in the maximum amount of outstanding bonds, such that as of July 1, 2012, the maximum amount of outstanding bonds allowable is \$58,505,214.

Charter Section 9.105 also provides that amendments to the appropriation ordinance, as finally adopted, are to be adopted in the same manner as other ordinances, subject to the Controller certifying the availability of funds.

Background

According to Ms. Nadia Sesay, Director of the Office of Public Finance, since FY 1990-1991 the San Francisco Finance Corporation has issued Equipment Lease Revenue Bonds each year, on behalf of the City, for the procurement of equipment on an annual basis for the City's Lease Equipment Program, with four exceptions.¹

According to Ms. Sesay, the City benefits from debt financing the purchase of equipment because debt financing allows the cost of purchasing the equipment to be spread over the useful life of the assets.

The City, through the San Francisco Finance Corporation, has previously issued \$182,100,000 in Equipment Lease Revenue Bonds and has repaid \$157,990,000 of the outstanding debt, such that the current outstanding bond amount is \$24,110,000 (\$182,100,000 less \$157,990,000), or \$34,395,214 less than the maximum allowable amount of outstanding bonds of \$58,505,214.

DETAILS OF PROPOSED LEGISLATION

File 13-0376: The proposed resolution would authorize (a) the issuance of Equipment Lease Revenue Bonds, Series 2013A, in an amount not-to-exceed \$12,500,000 to fund the purchase of 165 pieces of various equipment for 16 City departments for FY 2012-13, and (b) related financing documents.

The proposed resolution:

- Approves the form and authorizes the execution of the Equipment Lease Supplement, by and between the City and the Finance Corporation, and the related Certificate of Approval;

¹According to Ms. Sesay, bonds were not issued in FY 1996-1997, FY 2000-2001, FY 2004-2005, and FY 2008-2009 because either (a) budget constraints caused the Mayor to cancel the issuance, or (b) sufficient budgeted funds were available to purchase the equipment on a cash basis.

- Authorizes the Mayor, upon consultation with the City Attorney, to approve and make changes to the Equipment Lease Supplement and the related Certificate of Approval, if such changes (a) do not materially increase the obligations of the City and (b) do not result in total project costs to exceed \$12,500,000 with a maximum interest rate not-to-exceed 10 percent annually and terminating no later than April 1, 2019;
- Approves the issuance of commercial paper by the San Francisco Finance Corporation to fund all or a portion of the initial costs of the acquisition and installation of the equipment to be financed or refinanced with the proceeds from the 2013 Equipment Lease Revenue Bonds;
- Approves the issuance of the 2013 Equipment Lease Revenue Bonds in an amount not-to-exceed \$12,500,000 by the San Francisco Finance Corporation;
- Approves the Official Statement in both the Preliminary and Final Form; authorizes the Director of Public Finance, upon consultation with the City Attorney, to revise the Official Statement if necessary and approve its distribution; and authorizes the Controller to execute the final Official Statement;
- Approves the Continuing Disclosure Certificate, which provides certain financial information and operating data relating to the City;
- Authorizes the reimbursement from the proceeds of the 2013 Equipment Lease Revenue Bonds or other indebtedness for certain expenditures paid by the General Fund in connection with the equipment to be financed or refinanced with the proceeds from the 2013 Equipment Lease Revenue Bonds in compliance with U.S. Treasury Regulation Section 1.150-2;
- Accepts the title to the equipment, including any additions to the equipment, to be financed or refinanced with the proceeds from the 2013 Equipment Lease Revenue Bonds; and
- Authorizes the purchase of the equipment by the San Francisco Finance Corporation.

Although the proposed resolution would authorize the issuance of a not-to-exceed \$12,500,000 in Equipment Lease Revenue Bonds, Ms. Sesay estimates issuing \$11,875,000 in Equipment Lease Revenue Bonds, or \$625,000 less than the authorized not-to-exceed \$12,500,000. The maximum \$12,500,000 amount would allow for interest rate fluctuations in market conditions until the time of the bond issuance. Ms. Sesay anticipates issuing the proposed bonds on, or about, May 14, 2013.

Table 1 below, provided by Ms. Sesay, identifies the dollar value of equipment to be purchased by each of 16 City departments, under the proposed issuance of \$11,875,000 in Equipment Lease Revenue Bonds, including (a) \$10,271,760 in equipment, and (b) \$1,603,240 in financing costs.

Table 1: Uses of Bond Proceeds

Equipment	
Adult Probation	\$175,517
City Attorney	125,369
District Attorney	168,565
Emergency Communication	29,606
Fire	3,846,238
General Service	145,620
Human Services	432,887
Juvenile Probation	100,295
Police	889,700
Public Defender	125,369
Public Health	899,820
Public Works	1,723,332
Recreation and Park	1,432,718
Elections	89,227
Sheriff	32,550
Technology	54,947
Subtotal	\$10,271,760
Financing Costs	
Debt Service Reserve Fund	\$1,187,500
Capitalized Interest	57,228
Underwriter's Discount	59,375
Cost of Issuance	299,137
Subtotal	\$1,603,240
Total	\$11,875,000

The Attachment provided by Ms. Sesay, identifies the 165 specific pieces of equipment and the costs of each piece of equipment to be purchased by each of the 16 City departments to be financed by the proposed 2013 Equipment Lease Revenue Bonds. According to Ms. Angela Whittaker, Compliance and Administrative Officer, Controller's Office of Public Finance, City departments will take delivery of most of this equipment by June 2014.

File 13-0370: The proposed ordinance would (a) appropriate \$2,056,612 of proceeds from the subject Equipment Lease Revenue Bonds, Series 2013A sale and (b) de-appropriate \$171,628 from the Equipment Lease Program previously appropriated in the FY 2012-13 budget due to updated equipment quotations and decreased requests from certain departments, for total lease revenue bond issuance and related financing costs of \$2,228,240 for the FY 2012-13 equipment lease program, as shown in Table 2 below.

Table 2: Appropriation and De-Appropriation Sources and Uses

Sources	
<i>Appropriation</i>	
Proceeds of Sale of 2013A Equipment Lease Revenue Bonds	\$2,056,612
<i>De-Appropriation</i>	
Decrease in FY 2012-13 budget due to revised quotes and equipment requests	(\$171,628)
Total Sources	\$2,228,240
Uses	
<i>Appropriation</i>	
Debt Service Reserve Fund	\$1,187,500
Interest Fund (Capitalized Interest)	57,228
Underwriter's Discount	59,375
Cost of Issuance	299,137
Reserve Pending Sale	625,000
Total Uses	\$2,228,240

According to Ms. Sesay, funds to procure equipment for each City department is appropriated as part of the City's annual budget process, such that the Board of Supervisors appropriated a total of \$10,443,388 in the FY 2012-13 budget for the subject Lease Equipment Program. However, the FY 2012-13 previously approved appropriation of \$10,443,388 is \$171,628 greater than the total \$10,271,760 equipment costs, as shown above in Table 1. Therefore, as shown above in Table 2 above, the proposed supplemental appropriation would de-appropriate \$171,628 from the FY 2012-13 budget.

In addition, the FY 2012-13 previously approved budget appropriation of \$10,443,388 did not include the estimated \$2,228,240 of needed financing and issuance costs for the subject Equipment Lease Revenue Bonds. Therefore, the proposed supplemental appropriation would appropriate \$2,228,240 for such financing and issuance costs, as shown above in Table 2.

FISCAL IMPACTS

File 13-0376: Ms. Sesay estimates that the anticipated 2013 Equipment Lease Revenue Bonds totaling \$11,875,000 will be sold at an estimated annual interest rate of 2.62% with a term of six years, from 2013 to 2019. As noted above, the 2013 Equipment Lease Revenue Bonds are anticipated to be sold on or about May 14, 2013. City lease payments are scheduled to begin October 1, 2013 and would be payable through and including April 1, 2019.

Total debt service for the \$11,875,000 in proposed Equipment Lease Revenue Bonds over the six-year term is estimated to cost \$12,254,478, including \$11,875,000 in principal and \$379,478 in interest, with average annual debt service of \$2,042,413 over the six-year period. All of the equipment shown in the Attachment was previously approved by the Board of Supervisors in

the FY 2012-2013 budget. Debt service costs are subject to Board of Supervisors appropriation approval annually in future year budgets of the City through FY 2018-2019.

File 13-0370: The proposed ordinance would (a) appropriate \$2,056,612 of proceeds from the proposed 2013 Equipment Lease Revenue Bonds sale, and (b) de-appropriate \$171,628 from the Equipment Lease Program previously appropriated in the FY 2012-13 budget for the needed financing and issuance costs of \$2,228,240 for the FY 2012-13 Equipment Lease Revenue Bonds, as shown in Table 2 above.

According to Ms. Sesay, the de-appropriation of \$171,628 is an across the board decrease from the \$10,443,388 amount previously approved in the FY 2012-13 budget and is a result of lower costs than anticipated due to updated equipment quotations and decreased requests from certain departments. As shown in Table 3 below, the revised amount required for the procurement of the equipment in the Equipment Lease Program is \$10,271,000 (See Table 1 above, \$10,443,388 less \$171,628).

**Table 3: FY 2012-13 Equipment Lease Program and
Equipment Lease Revenue Bonds Issuance**

Equipment	
Amount Appropriated in the FY 2013-12 Budget	\$10,443,388
Decrease due revised equipment request	(\$171,628)
Subtotal Revised Equipment Cost	\$10,271,760
Financing Costs	
Debt Service Reserve Fund	1,187,500
Capitalized Interest	57,228
Costs of Issuance	358,512
Subtotal Financing Costs	\$1,603,240
Total Expected Bond Issuance	\$11,875,000
Controller' Reserve	\$625,000
Total	\$12,500,000

As shown in Table 3 above, under the proposed ordinance, \$625,000 would be placed on Controller's Reserve pending the sale of the Equipment Lease Revenue Bonds, in case the financing costs exceed the estimated amount of \$1,603,240 for the \$11,875,000 bond issuance under the proposed resolution (File 13-0376). According to Ms. Sesay, the \$625,000 placed on Controller's Reserve is not expected be used in the issuance of the Equipment Lease Revenue Bonds, such that following the sale of the bonds, the Controller will execute a technical adjustment to decrease the appropriation to reflect the actual amount required.

RECOMMENDATION

Approve the proposed resolution and ordinance.

City and County of San Francisco Finance Corporation
Lease Revenue Bonds, Series 2013A
Equipment Purchase

Dept.	Equipment	Units	Unit Cost	Total Cost	Dept. Total	Equip. Budget #	Estimated Delivery Date
ADM	E150 Wgn	2	28,508.27	57,016.53		AD1301	11/01/13
ADM	Colorado	1	22,041.01	22,041.01		AD1302	10/01/13
ADM	Prius	1	25,073.82	25,073.82		AD1303	11/01/13
ADM	Colorado	1	20,408.34	20,408.34		AD1304	10/01/13
ADM	FORD F-150	1	21,080.90	21,080.90	145,620.59	AD1306	11/01/13
APD	Chevy Caprices	7	25,073.82	175,516.74	175,516.74	AP1301	06/30/13
CAT	Prius	5	25,073.82	125,369.10	125,369.10	CT1301	05/01/13
DAT	Police Pursuit Vehicle - Caprice	5	29,380.58	146,902.90		DA1302	06/15/13
DAT	Vehicle (Insight)	1	21,662.48	21,662.48	168,565.38	DA1303	05/01/13
DPH	Prius (Formerly City vehicle for Mosaic program)	1	25,073.82	25,073.82		MH1301	06/13/12
DPH	Thompson retractor liver transplant	1	94,178.00	94,178.00		GH1316	05/01/13
DPH	Multi-headed conference scope	1	48,120.84	48,120.84		GH1317	05/01/13
DPH	E150 Wgn	1	24,441.25	24,441.25		GH1318	05/01/13
DPH	E350 Wgn	1	25,765.04	25,765.04		GH1319	05/01/13
DPH	Explorer	1	27,473.37	27,473.37		GH1320	05/01/13
DPH	E150 Wgn	1	24,441.25	24,441.25		LH1305	06/13/13
DPH	Prius	1	25,073.82	25,073.82		LH1306	06/13/13
DPH	E150 Wgn	1	24,441.25	24,441.25		MH1302	06/13/13
DPH	E350 Wgn	1	25,765.04	25,765.04		MH1303	06/13/12
DPH	Vehicle (Insight)	4	21,662.48	86,649.94		MH1304	06/13/13
DPH	Prius	1	25,073.82	25,073.82		MH1305	06/13/13
DPH	E150 Wgn	2	24,441.25	48,882.49		CH1301	06/01/13
DPH	Prius	1	25,073.82	25,073.82		CH1302	06/01/13
DPH	Colorado	3	20,408.34	61,225.03		CH1303	06/01/13
DPH	Vehicle (Insight)	2	21,662.48	43,324.97		CH1304	06/01/13
DPH	Prius	4	25,073.82	100,295.28		CH1305	06/01/13
DPH	Colorado	7	20,408.34	142,858.40		CH1306	06/01/13
DPH	Vehicle (Insight)	1	21,662.48	21,662.48	899,819.89	CH1307	06/01/13
DPW	Back-hoe ROPS FOPS	1	124,775.00	124,775.00		PW1303	06/28/13
DPW	Pothole Truck crew Cag Heated Bed 5 YDS	1	174,142.50	174,142.50		PW1304	02/26/14
DPW	3/4 Ton Pick Up Truck	1	38,669.40	38,669.40		PW1305	05/15/13
DPW	Green Machine Sweeper Large	1	117,730.10	117,730.10		PW1306	06/02/14
DPW	3/4 Ton Pick Up Truck	1	38,669.40	38,669.40		PW1307	05/15/13
DPW	10 Wheel Dump Truck 12 YD Bed	3	146,475.00	439,425.00		PW1308	06/28/13
DPW	Concrete mixture Truck	1	184,450.00	184,450.00		PW1309	01/24/14
DPW	Steamfitter Shop 1 Ton Pickup Utility Bed	1	35,805.00	35,805.00		PW1310	07/31/13
DPW	Ford 1/2 Ton Pickup	1	46,391.56	46,391.56		PW1311	10/11/13
DPW	1 Ton Flat Bed 12" Wtr. Unit lift gate Aux Fuel Tanks	1	48,825.00	48,825.00		PW1312	07/31/13
DPW	3/4 Ton Pick Up Truck	2	38,669.40	77,338.80		PW1313	05/15/13
DPW	GMC Flat Bed Truk-Side Gates-Lift Gate	1	60,760.00	60,760.00		PW1314	08/30/13
DPW	Caterpillar Whl loader 2 YD	1	336,350.00	336,350.00	1,723,331.76	PW1315	09/29/13
DSS	Ford Transit Connect Wagons	9	39,740.56	357,665.04		SS1302	01/01/14
DSS	Toyota Prius Hybrid	3	25,073.82	75,221.46	432,886.50	SS1303	11/01/13
ECD	Ford Utilitiy Police Interceptor	1	29,605.79	29,605.79	29,605.79	EC1301	06/30/13
FIR	Aerial Ladder Truck	2	920,829.00	1,841,658.00		FD1302	03/15/14

FIR	Fire Engine	4	501,145.00	2,004,580.00	3,846,238.00	FD1303	01/05/14
JUV	Prius	4	25,073.82	100,295.28	100,295.28	JU1302	07/15/13
PDR	Toyota Prius	5	25,073.82	125,369.10	125,369.10	PU1301	05/01/13
POL	Marked Police Vehicles	15	54,250.00	813,750.00		PD1302	06/01/13
POL	Prisoner Transport Vans	2	37,975.00	75,950.00	889,700.00	PD1303	09/13/13
REC	TOYOTA PRIUS	1	25,073.82	25,073.82		RP1307	06/15/13
REC	TOYOTA PRIUS	1	25,073.82	25,073.82		RP1308	06/15/13
REC	TOYOTA PRIUS	1	25,073.82	25,073.82		RP1309	06/15/13
REC	CHEVY COLORADO	1	21,985.24	21,985.24		RP1310	06/15/13
REC	CHEVY COLORADO	1	20,732.37	20,732.37		RP1311	06/15/13
REC	TORO GREENS MOWER GR3150	1	38,096.92	38,096.92		RP1312	06/15/13
REC	TORO WORKMAN HDX, 4WD	1	29,715.28	29,715.28		RP1313	06/15/13
REC	TORO WORKMAN HDX, 4WD	1	23,464.34	23,464.34		RP1314	06/15/13
REC	TORO INFIELD PRO 5040	1	22,408.30	22,408.30		RP1315	06/15/13
REC	FORD F-350	1	35,214.98	35,214.98		RP1316	06/15/13
REC	FORD F-250	1	36,747.14	36,747.14		RP1317	06/15/13
REC	TORO 3420 TRIFLEX HYBRID	1	47,049.07	47,049.07		RP1318	06/15/13
REC	TORO WORKMAN HDX, 4WD	1	23,464.34	23,464.34		RP1319	06/15/13
REC	TORO 3420 TRIFLEX HYBRID	1	47,049.07	47,049.07		RP1320	06/15/13
REC	TORO WORKMAN HDX, 4WD	1	30,315.46	30,315.46		RP1321	06/15/13
REC	TORO GROUNDSMASTER 3280D	1	23,529.99	23,529.99		RP1322	06/15/13
REC	FORD F-150 XL	1	25,997.55	25,997.55		RP1323	06/15/13
REC	TORO WORKMAN HDX, 4WD	1	26,778.83	26,778.83		RP1324	06/15/13
REC	TORO WORKMAN HDX, 4WD	1	23,464.34	23,464.34		RP1325	06/15/13
REC	FORD F-250	1	37,029.52	37,029.52		RP1326	06/15/13
REC	TORO WORKMAN	1	29,943.97	29,943.97		RP1327	06/15/13
REC	CHEVY COLORADO	1	21,989.99	21,989.99		RP1328	06/15/13
REC	FORD F-250	1	36,747.14	36,747.14		RP1329	06/15/13
REC	TORO WORKMAN	1	29,943.97	29,943.97		RP1330	06/15/13
REC	TORO WORKMAN	1	23,464.34	23,464.34		RP1331	06/15/13
REC	MULTI PRO 5800	1	54,665.19	54,665.19		RP1332	06/15/13
REC	FORD F-250	1	36,747.14	36,747.14		RP1333	06/15/13
REC	FORD F-250, 4WD	1	32,563.76	32,563.76		RP1334	06/15/13
REC	55' AERIAL LIFT	1	265,825.00	265,825.00		RP1335	06/15/13
REC	CHEVY COLORADO	1	23,501.82	23,501.82		RP1336	06/15/13
REC	FORD F-250, 4WD	1	40,490.78	40,490.78		RP1337	06/15/13
REC	FORD E-350, CNG	1	44,453.68	44,453.68		RP1338	06/15/13
REC	CHEVY COLORADO	1	25,655.30	25,655.30		RP1339	06/15/13
REC	CHEVY COLORADO	1	22,557.93	22,557.93		RP1340	06/15/13
REC	FORD F-150	1	29,300.01	29,300.01		RP1341	06/15/13
REC	FORD F-250, 4WD	1	31,343.74	31,343.74		RP1342	06/15/13
REC	FORD F-150	1	29,300.01	29,300.01		RP1343	06/15/13
REC	FORD E-350, CNG	1	44,453.68	44,453.68		RP1344	06/15/13
REC	CHEVY COLORADO	1	21,506.03	21,506.03	1,432,717.67	RP1345	06/15/13
REG	E150 Wgn	1	24,441.25	24,441.25		RE1304	06/01/13
REG	Vehicle (Insight)	1	21,662.48	21,662.48		RE1305	06/01/13
REG	FORD F-150	1	43,123.42	43,123.42	89,227.15	RE1306	06/01/13
SHF	Ford Police Interceptor Vehicle	1	32,550.00	32,550.00	32,550.00	SH1303	06/01/13
TIS	Prius	1	27,473.37	27,473.37		TI1322	09/01/13
TIS	Prius	1	27,473.37	27,473.37	54,946.74	TI1323	09/01/13
		165		10,271,759.70	10,271,759.70		